

**LAKESIDE WATER DISTRICT**  
**FINANCIAL STATEMENTS**  
**JUNE 30, 2015**



Leaf & Cole, LLP  
*Certified Public Accountants*

**LAKESIDE WATER DISTRICT  
FINANCIAL STATEMENTS  
JUNE 30, 2015**

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Leaf & Cole, LLP  
Certified Public Accountants  
A Partnership of Professional Corporations

## Independent Auditor's Report

To the Board of Directors  
Lakeside Water District  
10375 Vine Street  
Lakeside, California 92040

### Report on Financial Statements

We have audited the accompanying financial statements of Lakeside Water District, which comprise the statement of net position as of June 30, 2015, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lakeside Water District, as of June 30, 2015, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

**Change in Accounting Principle**

As described in Note 10 to the financial statements, the Lakeside Water District changed its method of accounting and financial reporting for pensions in order to conform with "Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions." Our opinion is not modified with respect to this matter.

**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of funding progress for the retiree health plan, the schedule of proportionate share of the net pension liability and the schedule of plan contributions, as identified in the accompanying table of contents be presented to supplement the financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted on inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Leaf & Cole LLP

San Diego, California  
December 8, 2015

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the financial performance of the Lakeside Water District ("District") provides an overview of the District's financial activities for the year ended June 30, 2015. Please read it in conjunction with the District's financial statements which begin on page 7.

### **Financial Statements**

This discussion and analysis provides an introduction and a brief description of the District's financial statements, including the relationship of the statements to each other and the significant differences in the information they provide. The District's financial statements include four components:

- Statement of Net Position
- Statement of Revenues, Expenses and Changes in Net Position
- Statement of Cash Flows
- Notes to the Financial Statements

The statement of net position includes all of the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources with the difference reported as net position. Net position may be displayed in three categories:

- Net Investment in Capital Assets
- Restricted Net Position
- Unrestricted Net Position

The statement of net position provides the basis for computing rate of return, evaluating the capital structure of the District and assessing its liquidity and financial flexibility.

The statement of revenues, expenses and changes in net position presents information which shows how the District's net position changed during the year. All of the current year's revenues and expenses are recorded when the underlying transaction occurs, regardless of the timing of the related cash flows. The statement of revenues, expenses and changes in net position measures the success of the District's operations over the past year and determines whether the District has recovered its costs through user fees and other charges.

The statement of cash flows provides information regarding the District's cash receipts and cash disbursements during the year. This statement reports cash activity in four categories:

- Operating
- Capital and related financing
- Noncapital financing
- Investing

This statement differs from the statement of revenues, expenses and changes in net position, because the statement accounts only for transactions that result in cash receipts or cash disbursements.

The notes to the financial statements provide a description of the accounting policies used to prepare the financial statements and present material disclosures required by generally accepted accounting principles that are not otherwise present in the financial statements.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Financial Highlights

- The District's net position increased by \$1,168,307 to \$29,707,676 for the year ended June 30, 2015, after adjusting for the effects of the implementation of GASB 68, (See Note 10).
- The District's revenues totaled \$8,096,713 for the year ended June 30, 2015, a decrease of \$684,783. The decrease in water sales as a result of state mandates accounts for the majority of the decrease.
- The District's expenses totaled \$6,928,406 for the year ended June 30, 2015, a decrease of \$897,337. The decrease in water purchases from the San Diego County Water Authority accounts for the majority of the decrease.

### Financial Analysis of the District

#### Net Position

The following is a summary of the District's statements of net position at June 30:

	<u>2015</u>	<u>2014</u> <sup>(1)</sup>	<u>Change</u>
<u>Assets:</u>			
Current and other assets	\$ 20,719,536	\$ 21,510,055	\$ (790,519)
Capital assets, net	11,437,961	10,583,909	854,052
Total Assets	<u>32,157,497</u>	<u>32,093,964</u>	<u>63,533</u>
<u>Deferred Outflows of Resources</u>	<u>132,180</u>	<u>-</u>	<u>132,180</u>
<u>Liabilities:</u>			
Current liabilities	681,470	1,350,051	(668,581)
Noncurrent liabilities	1,451,346	225,905	1,225,441
Total Liabilities	<u>2,132,816</u>	<u>1,575,956</u>	<u>556,860</u>
<u>Deferred Inflows of Resources</u>	<u>449,185</u>	<u>-</u>	<u>449,185</u>
<u>Net Position:</u>			
Net investment in capital assets	11,437,961	10,583,909	854,052
Unrestricted	18,269,715	19,934,099	(1,664,384)
Total Net Position	<u>\$ 29,707,676</u>	<u>\$ 30,518,008</u>	<u>\$ (810,332)</u>

- <sup>(1)</sup> 2014 figures have not been restated as the deferred outflows of resources and the deferred inflows of resources resulting from the implementation of GASB Statement No. 68, "Accounting and Financial Reporting for Pensions" were not available for the year ended June 30, 2014.

Net position increased by \$1,168,307 from fiscal year 2014 to 2015 after adjusting for the effects of the implementation of GASB 68 (See Note 10). Net investment in capital assets, increased \$854,052 in fiscal year 2015. This increase is due to amounts invested in capital assets exceeding depreciation expense in the current year.

Unrestricted net position increased \$314,255 after adjusting for the effects of the implementation of GASB 68 (See Note 10), as a result of the change in net position exceeding the net amount invested in capital assets.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Revenues, Expenses and Changes in Net Assets

The following is a summary of the District's revenues, expenses and changes in net position for the years ended June 30:

	<u>2015</u>	<u>2014</u> <sup>(1)</sup>	<u>Change</u>
<u>Revenues:</u>			
Operating revenues	\$ 6,805,007	\$ 7,708,049	\$ (903,042)
Nonoperating revenues	849,692	813,549	36,143
Capital contributions	442,014	259,898	182,116
Total Revenues	<u>8,096,713</u>	<u>8,781,496</u>	<u>(684,783)</u>
<u>Expenses:</u>			
Depreciation expense	498,256	475,910	22,346
Other operating expenses	6,430,150	7,349,833	(919,683)
Total Expenses	<u>6,928,406</u>	<u>7,825,743</u>	<u>(897,337)</u>
Change in Net Position	1,168,307	955,753	212,554
Net Position at Beginning of Year	<u>28,539,369</u>	<u>29,562,255</u>	<u>(1,022,886)</u>
Net Position at End of Year	<u>\$ 29,707,676</u>	<u>\$ 30,518,008</u>	<u>\$ (810,332)</u>

<sup>(1)</sup> 2014 figures have not been restated as the deferred outflows of resources and the deferred inflows of resources resulting from the implementation of GASB Statement No. 68, "Accounting and Financial Reporting for Pensions" were not available for the year ended June 30, 2014.

A closer examination of the source of changes in net position reveals that the District's operating revenues decreased by \$903,042 in fiscal year 2015 as a result of state mandates for Californians to use less water. Nonoperating revenues increased by \$36,143 in fiscal year 2015. Operating expenses, exclusive of depreciation, decreased \$919,683 in fiscal year 2015 due to a decrease in water purchased from the San Diego County Water Authority.

### Capital Assets

Capital assets consist of the following at June 30:

	<u>2015</u>	<u>2014</u> <sup>(1)</sup>	<u>Change</u>
<u>Capital Assets Not Being Depreciated:</u>			
Land	\$ 138,659	\$ 138,659	\$ -
Construction in progress	857,345	600,116	257,229
Total Capital Assets Not Being Depreciated	<u>\$ 996,004</u>	<u>\$ 738,775</u>	<u>\$ 257,229</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS

	<u>2015</u>	<u>2014</u> <sup>(1)</sup>	<u>Change</u>
<b><u>Capital Assets Being Depreciated:</u></b>			
Pumping plant and distributions	\$ 19,101,296	\$ 18,126,643	\$ 974,653
Building and land improvements	612,015	610,415	1,600
Water development and treatment plant	2,109,903	2,109,903	-
Equipment	406,111	402,098	4,013
Autos and trucks	304,504	291,515	12,989
Office equipment	148,940	86,188	62,752
Total Capital Assets Being Depreciated	22,682,769	21,626,762	1,056,007
Less: Accumulated Depreciation	(12,240,812)	(11,781,628)	(459,184)
Net Capital Assets Being Depreciated	10,441,957	9,845,134	596,823
<b>Net Capital Assets</b>	<b>\$ 11,437,961</b>	<b>\$ 10,583,909</b>	<b>\$ 854,052</b>

<sup>(1)</sup> 2014 figures have not been restated as the deferred outflows of resources and the deferred inflows of resources resulting from the implementation of GASB Statement No. 68, "Accounting and Financial Reporting for Pensions" were not available for the year ended June 30, 2014.

Capital assets, net of accumulated depreciation, increased \$854,052 for the year ended June 30, 2015. Capital asset additions consisted of the Vista Camino Pipeline Replacement, the Eucalyptus Hills and Valle Vista Pipeline Replacement.

### **Economic Factors and Future Rates and Budgets**

Imported water expense has continued to increase and another large increase is anticipated during the year ended June 30, 2016 as a result of costs related to the Carlsbad Desalination Plant. The average cost per acre foot of water has increased from \$1,226 in 2013, to \$1,314 in 2014, and \$1,437 in 2015. Imported water cost is estimated to be \$1,529 per acre foot in 2016. To minimize the impact of the rising cost of imported water, the District has utilized local well production for about 13% to 21% of its water needs. Well water is produced at an estimated cost of \$278 per acre foot on average. Well production is estimated to have saved the District \$944,340 in 2015 and \$572,000 in 2014.

Metropolitan Water District of Southern California and The San Diego County Water Authority (SDCWA) had mandated water use restrictions as of July 2009 resulting in water sales reductions and a potential revenue loss. These restrictions were lifted effective May 2011, leading to increased water sales during the fiscal years ended June 30, 2013 and 2014. Future water restrictions are possible for 2016 as the region is currently experiencing its third consecutive year with below normal rainfall. If water use restrictions are placed on the District, sales revenue could be reduced.

Beginning July 1, 2014, the District's contributions on behalf of the employee's annual required contributions to the California Public Employees Retirement System were reduced from 2% to zero.

### **Contacting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the financial resources it manages. If you have any questions about this report or need additional financial information, contact the Lakeside Water District's office at 10375 Vine Street, Lakeside, California, 92040, (619) 443-3805.



**LAKESIDE WATER DISTRICT  
STATEMENT OF NET POSITION  
JUNE 30, 2015**

**ASSETS**

**Current Assets:** (Notes 1, 2, 3 and 5)

Cash and cash equivalents	\$ 1,069,500
Investments	18,255,812
Accounts receivable, net	981,573
Accrued interest receivable	45,913
Taxes receivable	5,658
Inventory	120,282
Prepaid expenses	27,615
Due from Padre Dam Water District	44,800
Total Current Assets	20,551,153

**Noncurrent Assets:**

**Capital Assets:** (Notes 1 and 4)

Nondepreciable	996,004
Depreciable, net of accumulated depreciation	10,441,957
Total Capital Assets	11,437,961

**Other Noncurrent Assets:** (Notes 1 and 6)

Net OPEB asset	168,383
Total Other Noncurrent Assets	168,383

Total Noncurrent Assets	11,606,344
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<b>TOTAL ASSETS</b>	<b>\$ 32,157,497</b>
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**DEFERRED OUTFLOWS OF RESOURCES:** (Notes 1,7 and 10)

Deferred outflows related contributions	105,043
Deferred outflows related to pensions	27,137
Total Deferred Outflows of Resources	132,180

(Continued)

The accompanying notes are an integral part of the financial statements.

**LAKESIDE WATER DISTRICT**  
**STATEMENT OF NET POSITION (CONTINUED)**  
**JUNE 30, 2015**

**LIABILITIES**

**Current Liabilities:** (Notes 1 and 5)

Accounts payable	\$ 585,891
Prepaid rent	3,989
Compensated absences	91,590
Total Current Liabilities	681,470

**Noncurrent Liabilities:** (Notes 1, 5 and 7)

Net pension liability	1,185,881
Compensated absences	35,824
Customer deposits	229,641
Total Noncurrent Liabilities	1,451,346

Total Liabilities	2,132,816
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**Commitments and Contingencies** (Notes 8, 9 and 10)

**DEFERRED INFLOWS OF RESOURCES:** (Notes 1, 7, and 10)

Deferred inflows related to pensions	449,185
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**NET POSITION:** (Note 10)

Net investment in capital assets	11,437,961
Unrestricted	18,269,715
Total Net Position	\$ 29,707,676

The accompanying notes are an integral part of the financial statements.

**LAKESIDE WATER DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2015**

**Operating Revenues:**

Water sales	\$ 6,431,301
Infrastructure access fee	266,306
Installation and service fees	93,093
Other operating revenues	14,307
Total Operating Revenues	6,805,007

**Operating Expenses:**

Source of supply	4,384,621
Transmission and distribution	823,377
General and administrative	654,563
Depreciation	498,256
Pumping	301,411
Customer accounts	134,546
Water treatment	131,632
Total Operating Expenses	6,928,406

Operating Loss	(123,399)
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**Nonoperating Revenues (Expenses):**

Taxes and assessments	433,139
Investment income	234,987
Rent income	181,566
Total Nonoperating Revenues (Expenses)	849,692

Income Before Capital Contributions	726,293
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Capital Contributions	442,014
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Change in Net Position	1,168,307
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Net Position at Beginning of Year, as Restated (Note 10)	28,539,369
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<b>NET POSITION AT END OF YEAR</b>	<b>\$ 29,707,676</b>
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The accompanying notes are an integral part of the financial statements.

**LAKESIDE WATER DISTRICT  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2015**

**Cash Flow From Operating Activities:**

Receipts from customers	\$ 7,273,084
Payments to suppliers	(5,997,308)
Payment to employees	(1,155,924)
Other operating revenues	14,307
Net Cash Provided by Operating Activities	134,159

**Cash Flow From Noncapital Financing Activities:**

Cash received from rent	180,561
Proceeds from taxes, assessments, and annexation fees	433,556
Due from Padre Dam Water District	44,800
Net Cash Provided by Noncapital Financing Activities	658,917

**Cash Flows From Capital and Related Financing Activities:**

Acquisition and construction of capital assets	(1,106,864)
Proceeds from capital contributions	196,570
Net Cash Used in Capital and Related Financing Activities	(910,294)

**Cash Flows From Investing Activities:**

Proceeds from sale and maturities of investments	9,300,750
Purchase of investments	(8,828,464)
Investment income	254,035
Net Cash Provided by Investing Activities	726,321

Net Increase in Cash and Cash Equivalents	609,103
Cash and Cash Equivalents at Beginning of Year	460,397
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 1,069,500</b>

(Continued)

The accompanying notes are an integral part of the financial statements.

**LAKESIDE WATER DISTRICT  
STATEMENT OF CASH FLOWS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2015**

**Reconciliation of Operating Loss to Net Cash**

**Provided by Operating Activities:**

Operating loss	\$ (123,399)
<b>Adjustments to reconcile operating loss to net cash provided by operating activities:</b>	
Depreciation	498,256
<b>(Increase) Decrease in:</b>	
Accounts receivable, net	402,984
Inventory	(7,074)
Prepaid expenses	(565)
Deferred outflows related to contributions	(12,145)
Deferred outflows related to pensions	(27,137)
Net OPEB asset	16,529
<b>(Decrease) Increase in:</b>	
Accounts payable	(705,796)
Net pension liability	(434,459)
Compensated absences	(1,620)
Customer deposits	79,400
Deferred inflows related to pensions	449,185
Net Cash Provided by Operating Activities	<u>\$ 134,159</u>

**Supplemental Disclosures of Cash Flow Information:**

Net unrealized loss on investments	\$ 29,290
Loss on disposal of capital assets	<u>\$ -</u>

The accompanying notes are an integral part of the financial statements.

**LAKESIDE WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**Note 1 - Organization and Significant Accounting Policies:**

**Organization**

Lakeside Water District (the “District”) was established in 1924 pursuant to the irrigation section of the California Water Code for the purpose of supplying water services to properties in the District. Effective November 16, 2006, the Riverview Water District was merged with the District.

The criteria used in determining the scope of the reporting entity are based on the provisions of GASB Cod. Sec. 2100 “Defining the Financial Reporting Entity”. The District is the primary government unit. Component units are those entities, which are financially accountable to the primary government, either because the District appoints a voting majority of the component unit’s board, or because the component unit will provide a financial benefit or impose a financial burden on the District. The District has no component units.

**Significant Accounting Policies**

A summary of the District’s significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

**Method of Accounting**

The District utilizes accounting principles appropriate for an enterprise fund to record its activities. Accordingly, the statements of net position and the statements of revenues, expenses and changes in net position have been prepared using the economic resources measurement focus and the accrual basis of accounting.

The District has not elected to apply the option allowed in GASB Cod. Sec. P80.103, “Proprietary Fund Accounting and Financial Reporting” and as a consequence will continue to apply GASB statements and interpretations.

**Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Revenue Recognition**

The District recognizes revenues from water sales, infrastructure access fees, installation and service fees, and other operating revenues when they are earned. Operating activities generally result from providing services and producing and delivering goods. As such, the District considers fees received from water sales, infrastructure access fees, and installation and service fees to be operating revenues.

**LAKESIDE WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**Note 1 - Organization and Significant Accounting Policies: (Continued)**

**Significant Accounting Policies (Continued)**

**Investments**

Investments are stated at their fair value which represents the quoted or stated market value. Investments that are not traded on a market, such as investments in external pools, are valued based on the stated fair value as represented by the external pool.

**Allowance for Doubtful Accounts**

Bad debts are recognized on the allowance method based on historical experience and management's evaluation of outstanding accounts receivables. The allowance for doubtful accounts totaled \$52,300 at June 30, 2015.

**Taxes and Assessments**

Property taxes and assessments are billed by the County of San Diego to property owners. The District's property tax calendar for the fiscal year ended June 30, 2015, was as follows:

Lien Date:	January 1
Levy Date:	July 1
Due Date:	First Installment - November 1 Second Installment - February 1
Delinquent Date:	First Installment - December 10 Second Installment - April 10

The County collects the taxes from the property owners and remits the funds to the District periodically during the year. The District has an arrangement with the County whereby the County remits taxes which are delinquent as of each June 30 to the District in exchange for the right to retain the delinquent taxes, penalties, and interest when these amounts are subsequently collected.

**Inventory**

Inventory consists primarily of materials used in the construction and maintenance of capital assets and is valued at the lower of cost or market using the first-in, first-out (FIFO) method.

**Capital Assets**

Capital assets purchased or acquired with a cost exceeding \$1,000 and an estimated useful life more than one year are reported at historical cost. Contributed assets are recorded at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation is calculated on the straight-line method over the following estimated useful lives:

**LAKESIDE WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**Note 1 - Organization and Significant Accounting Policies: (Continued)**

**Significant Accounting Policies (Continued)**

**Capital Assets (Continued)**

Pumping plant and distribution	10 - 60 years
Building and land improvements	10 - 50 years
Water development and treatment plant	25 - 40 years
Equipment	5 - 10 years
Auto and trucks	5 - 10 years
Office equipment	3 - 10 years

Depreciation aggregated \$498,256 for the year ended June 30, 2015.

**Compensated Absences**

Accumulated and unpaid vacation and sick leave totaling \$127,414 is accrued when incurred and included in current and noncurrent liabilities at June 30, 2015.

**Deferred Outflows of Resources and Deferred Inflows of Resources**

Deferred outflows of resources and deferred inflows of resources are defined as a consumption of net assets by the government that is applicable to a future period and an acquisition of net assets by the government that is applicable to a future reporting period respectively. Deferred outflows of resources and deferred inflows of resources are more fully described in Note 7.

**Risk Management**

The District is a member of the Association of California Water Agencies Joint Powers Insurance Authority (Authority). The Authority is a risk-pooling self-insurance authority, created under provisions of California Government Code Sections 6500 et. seq. The purpose of the Authority is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage.

At June 30, 2015, the District participated in the self-insurance programs of the Authority as follows:

Property Loss - Insured up to \$150,000,000 per occurrence (total insurable value \$1,408,448 with \$1,000 deductible for buildings, personal property, fixed equipment and mobile equipment and \$500 for licensed vehicles. The Authority is self-insured up to \$100,000 per occurrence and excess insurance coverage has been purchased.

General and Auto Liability - Insured up to \$60,000,000 per occurrence; the Authority is self-insured up to \$2,000,000 and excess insurance coverage has been purchased. The general and auto liability program has no deductible.

Public Officials' Liability - Insured up to \$60,000,000 per occurrence; the Authority is self-insured up to \$2,000,000 and excess insurance coverage has been purchased.



**LAKESIDE WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**Note 1 - Organization and Significant Accounting Policies: (Continued)**

**Significant Accounting Policies (Continued)**

**Risk Management (Continued)**

Fidelity Bond - Insured up to \$100,000 per occurrence with a \$1,000 deductible.

Workers' Compensation - Insured up to the statutory limits; the Authority is self-insured up to \$2 million and excess insurance coverage has been purchased. Employer's liability is insured up to \$4,000,000; the Authority is self-insured up to \$2 million and excess insurance coverage has been purchased.

The District pays annual premiums for this coverage. They are subject to retrospective adjustments based on claims experienced. The nature and amounts of the adjustments cannot be estimated and are charged to expense as invoiced. The District's insurance expense was \$8,617 for the year ended June 30, 2015, net of a refund from the District in the amount of \$20,422. There were no instances in the past three years where a settlement exceeded the District's coverage.

**Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. CalPERS audited financial statements are publicly available reports that can be obtained at CalPERS website.

**Economic Dependency**

The District purchases approximately 77% of its water from the San Diego County Water Authority. Interruption of this source would impact the District negatively.

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, the District considers all investment instruments purchased with a maturity of three months or less to be cash.

**Subsequent Events**

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through December 8, 2015, the date the financial statements were available to be issued.

**LAKESIDE WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**Note 2 - Cash and Investments:**

**Investment Authorized by the California Government Code and the District's Investment Policy**

The table below identifies the investment types that are authorized for the District by the California Government Code. The table also identifies certain provisions of the California Government Code that address interest rate risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the District rather than the general provision of the California Government Code or the District's investment policy:

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Quality Requirements</u>
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
State Obligations	5 years	None	None
California Local Agency Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Bankers Acceptances *	180 days	40%	None
Commercial Paper *	270 days	25%	A1
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements *	1 year	None	None
Reverse Repurchase Agreements *	92 days	20%	None
Medium-Term Notes *	5 years	30%	A Rating
Mutual Funds	N/A	20%	Multiple
Money Market Mutual Funds	N/A	20%	Multiple
Collateralized Bank Deposits	5 years	None	None
Mortgage Pass-Through Securities *	5 years	20%	AA Rating
Time Deposits	5 years	None	None
California Local Agency Investment Fund (LAIF)	5 years	None	None
County Pooled Investment Funds	N/A	None	None

\* Requires consent of the Board of Directors before investing District funds.

The District's investment policy is more restrictive than the California Government Code. The District limits the percentage of its portfolio that can be invested in bankers acceptances, commercial paper, mutual funds, and money market mutual funds.

**LAKESIDE WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**Note 2 - Cash and Investments: (Continued)**

Cash and investments held by the District were comprised of the following at June 30, 2015:

	<u>Maturity in Years</u>		
	<u>One Year or Less</u>	<u>1 - 5 Years</u>	<u>Total</u>
Cash on hand	\$ 13,999	\$ -	\$ 13,999
California Local Agency Investment Fund (LAIF)	199,385	-	199,385
Deposits with financial institutions	856,116	-	856,116
U.S. Agency Securities	-	5,976,871	5,976,871
Certificates of Deposits	<u>2,790,902</u>	<u>9,488,039</u>	<u>12,278,941</u>
Total Cash and Investments	<u>\$ 3,860,402</u>	<u>\$ 15,464,910</u>	<u>\$ 19,325,312</u>

Financial Statement Classification:

Cash and cash equivalents	\$ 1,069,500
Investments	<u>18,255,812</u>
Total Cash and Investments	<u>\$ 19,325,312</u>

**Disclosures Relating to Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The district manages its exposure to interest rate risk by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided in the previous table that shows the distribution of the District's investments by maturity as of June 30, 2015.

**Disclosures Relating to Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of the year for each investment type.

	<u>Rating as of Year End Standard &amp; Poor's</u>
California Local Agency Investment Fund (LAIF)	Not Rated
U.S. Agency Securities	AA+
Certificates of Deposits	Not Rated

**LAKESIDE WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**Note 2 - Cash and Investments: (Continued)**

**Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude to the District's investment in a single issue.

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. At June 30, 2015, reportable investments representing more than 5% of the District's investment portfolio are as follows:

U.S. Agency Securities:		
Federal Home Loan Bank	\$ 2,184,419	11%
Federal Home Loan Mortgage Corporation	\$ 1,655,537	9%
Federal Farm Credit Banks	\$ 1,416,631	7%

**Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the District will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counter-party (e.g., broker-dealer) the District will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must be equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

At June 30, 2015, none of the District's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts. The District's U.S. agency securities investments were held by the same broker dealer (counter party) that was used by the District to purchase the securities.

**Investment in State Investment Pool**

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

**LAKESIDE WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**Note 2 - Cash and Investments: (Continued)**

**Investment in State Investment Pool**

The statement of cash flows has been prepared by considering all investment instruments purchased with a maturity of three months or less to be cash equivalents. Following is a detail at June 30, 2015:

Deposits with financial institutions	\$ 856,116
California Local Agency Investment Fund (LAIF)	199,385
Cash on hand	13,999
	<u>\$ 1,069,500</u>

**Note 3 - Due from Padre Dam Water District:**

The District had a wholesale agreement with Padre Dam Municipal Water District (Padre Dam). Effective November 16, 2006, the District detached from Padre Dam. Per the detachment agreement, Padre Dam is to make ten annual payments to the District of \$44,800. The following is summary of activity for the year ended June 30, 2015:

	Balance at June 30, 2014	Additions	Payments	Balance at June 30, 2015	Due Within One Year
Due from Padre Dam	\$ 89,600	\$ -	\$ 44,800	\$ 44,800	\$ 44,800

**Note 4 - Capital Assets:**

Capital assets consist of the following at June 30, 2015:

	Balance at June 30, 2014	Additions	Deletions	Balance at June 30, 2015
<b>Capital Assets Not Being Depreciated:</b>				
Land	\$ 138,659	\$ -	\$ -	\$ 138,659
Construction in progress	600,116	951,615	(694,386)	857,345
Total Capital Assets not Being Depreciated	<u>\$ 738,775</u>	<u>\$ 951,615</u>	<u>\$ (694,386)</u>	<u>\$ 996,004</u>
<b>Capital Assets Being Depreciated:</b>				
Pumping plant and distribution	\$ 18,126,643	\$ 977,466	\$ (2,813)	\$ 19,101,296
Building and land improvements	610,415	1,600	-	612,015
Water development and treatment plant	2,109,903	-	-	2,109,903
Equipment	402,098	4,013	-	406,111
Autos and trucks	291,515	49,248	(36,259)	304,504
Office equipment	86,188	62,752	-	148,940
Total Capital Assets Being Depreciated	<u>21,626,762</u>	<u>1,095,079</u>	<u>(39,072)</u>	<u>22,682,769</u>
Less: Accumulated depreciation	<u>(11,781,628)</u>	<u>(498,256)</u>	<u>39,072</u>	<u>(12,240,812)</u>
Net Capital Assets being Depreciated	<u>9,845,134</u>	<u>596,823</u>	<u>-</u>	<u>10,441,957</u>
<b>Net Capital Assets</b>	<u>\$ 10,583,909</u>	<u>\$ 1,548,438</u>	<u>\$ (694,386)</u>	<u>\$ 11,437,961</u>

**LAKESIDE WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**Note 5 - Noncurrent Liabilities:**

Noncurrent liabilities consist of the following at June 30, 2015:

	<u>Balance at June 30, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2015</u>	<u>Due Within One Year</u>
Net pension liability	\$ 1,620,340	\$ 210,586	\$ (645,045)	1,185,881	\$ -
Compensated absences	129,034	91,590	(93,210)	127,414	91,590
Customer deposits	150,241	113,700	(34,300)	229,641	-
	<u>\$ 1,899,615</u>	<u>\$ 415,876</u>	<u>\$ 772,555</u>	<u>\$ 1,542,936</u>	<u>\$ 91,590</u>

**Note 6 - Postretirement Benefits:**

**Plan Description**

The Lakeside Water District administers a single-employer defined benefit healthcare plan (“the Retiree Health Plan”). The plan provides limited full coverage until age 65, and then provides lifetime annual limited payments to supplement government Medicare coverage for eligible retirees and their spouses through the District’s group health insurance plan, which covers both active and retired members. Benefit provisions are established through negotiations between the District and the bargaining units representing the employees. The Retiree Health Plan does not issue a publicly available financial report.

**Funding Policy**

Contribution requirements also are negotiated between the District and the bargaining units. The District contributes 100% of the employees and 50% of spouse’s current-year premiums for eligible retired plan members and their spouses. The District contributed \$4,613 the year ended June 30, 2015.

**Annual OPEB Cost and Net OPEB Asset**

The District’s annual other postemployment benefit (OPEB) cost (expense) for the Plan is calculated based on the annual required contribution of the District (ARC). The District has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Cod. Sec. P50.132 “Postemployment Benefits Other Than Pension Benefits - Employer Reporting”. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The District’s Board of Directors established a net OPEB asset in the amount of \$287,436 during fiscal year 2010 and has been funding the ARC from that asset. The following table shows the components of the District’s annual OPEB cost, the amount actually contributed to the plan, including benefits paid to retirees, and changes in the District’s net OPEB obligation for the year ended June 30, 2015:

**LAKESIDE WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**Note 6 - Postretirement Benefits: (Continued)**

**Annual OPEB Cost and Net OPEB Asset (Continued)**

Annual required contribution	\$ 15,884
Interest on net OPEB obligation	645
Annual OPEB cost	16,529
Contributions made	-
Increase in net OPEB obligation (asset)	16,529
Net OPEB obligation (asset) at beginning of year	(184,912)
Net OPEB obligation (asset) at end of year	\$ (168,383)

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2015 and the four preceding fiscal years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
June 30, 2011	\$ 19,582	100%	\$ (239,417)
June 30, 2012	19,582	100%	(219,835)
June 30, 2013	18,394	100%	(201,441)
June 30, 2014	16,529	100%	(184,912)
June 30, 2015	16,529	100%	(168,383)

**Funded Status and Funding Progress**

The actuarial accrued liability for benefits was \$171,033 at June 30, 2015, all of which was funded. The covered payroll (annual payroll of active employees covered by the plan) was \$702,466 for the year ended June 30, 2015.

Actuarial valuations of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**LAKESIDE WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**Note 6 - Postretirement Benefits: (Continued)**

**Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in accrued liabilities and the value of assets, consistent with the long-term perspective of the calculations. The following simplifying assumptions were made:

**Retirement Age for Active Employees**

Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 60, or at the first subsequent year in which the member would qualify for benefits.

**Marital Status**

Marital status of members at the calculation date was assumed to continue throughout retirement.

**Mortality**

Life expectancies were based on mortality tables from the National Center for Health Statistics. The United States Life Tables for Males and for Females were used.

**Turnover**

Non-group-specific age-based turnover data from GASB Statement 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

**Healthcare Cost Trend Rate**

The expected rate of increase in healthcare insurance premiums was based on internal projections. A rate of 4.0 percent was used.

**Health Insurance Premiums**

For the year ended June 30, 2015, health insurance premiums were limited to \$3,000 as a basis for calculating the present value of total benefits to be paid after employees reach the age of 65.

**Inflation Rate**

The expected long-term inflation assumption of 3.3 percent was based on recent experience.



**LAKESIDE WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**Note 6 - Postretirement Benefits: (Continued)**

**Methods and Assumptions (Continued)**

**Payroll Growth Rate**

The expected long-term payroll growth rate was assumed to equal the rate of inflation.

Based on the historical and expected returns of the District's investment portfolio, a discount rate of 7.06 percent was used. In addition, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2010, was thirty years.

**Note 7 - Defined Benefit Pension Plan:**

**General Information About the Pension Plans**

**Plan Descriptions** - All qualified permanent and probationary employees are eligible to participate in the Miscellaneous Plan of the Lakeside Water District, (All Plans) a cost-sharing multiple employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and Local Government resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

**Benefits Provided** - CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. The District participates in the miscellaneous 3.0% at 60 pool, for those employees hired before July 1, 2012. Employees hired after July 1, 2012 participate in the miscellaneous 1.5% at 65 pool.

The Plan's provisions and benefits in effect at June 30, 2015, are summarized as follows:

	Miscellaneous	
Benefit formula	3.0% @ 60	1.5% @ 65
Benefit vesting schedule	5 years service	5 years service
Benefit payments	Monthly for life	Monthly for life
Retirement age	50	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%	1.0% to 2.5%
Required employee contribution rates	8.00%	4%
Required employer contribution rates	16.161%	3.8%

**LAKESIDE WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**Note 7 - Defined Benefit Pension Plan: (Continued)**

**Contributions** - Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Lakeside Water District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

**Pension Liabilities, Pension Expenses and Deferred Outflow/Inflows of Resources Related to Pensions**

As of June 30, 2015, the Lakeside Water District reported net pension liabilities for its proportionate shares of the net pension liability of each Plan as follows:

	<u>Proportionate Share of Net Pension Liability</u>
3.0% @ 60	\$ 1,185,787
1.5% @ 65	94
Total Net Pension Liability	<u>\$ 1,185,881</u>

The Lakeside Water District's net pension liability for each plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plan is measured as of June 30, 2014, and the total pension liability for each plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30 2014 using standard update procedures. The Lakeside Water District's proportion of the net pension liability was based on a projection of the Lakeside Water District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The Lakeside Water District's proportionate share of the net pension liability for each Plan as of June 2013 and 2014 was as follows:

	3.0% @ 60	1.5 @ 66
Proportion - June 30, 2013	N/A	N/A
Proportion - June 30, 2014	0.01906%	0.0000%
Change - Increase (Decrease)	N/A	N/A

**LAKESIDE WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**Note 7 - Defined Benefit Pension Plan: (Continued)**

**Pension Liabilities, Pension Expenses and Deferred Outflow/Inflows of Resources Related to Pensions  
(Continued)**

For the year ended June 30, 2015, the Lakeside Water District recognized pension expense of \$80,487. At June 30, 2015, the Lakeside Water District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 105,043	\$ -
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	27,137	3,525
Differences between actual and expected experience	-	47,150
Net difference between projected and actual earnings on plan investments	-	398,510
Total	\$ 132,180	\$ 449,185

The \$105,043 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Years Ended June 30		
2016	\$	(108,034)
2017		(108,034)
2018		(106,354)
2019		(99,626)
2020		-
Total	\$	(422,048)

**LAKESIDE WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**Note 7 - Defined Benefit Pension Plan: (Continued)**

**Pension Liabilities, Pension Expenses and Deferred Outflow/Inflows of Resources Related to Pensions  
(Continued)**

**Actuarial Assumptions** - The total pension liabilities in the June 30, 2013 actuarial valuations were determined using the following actuarial assumptions:

	3.0% @ 60	1.5% @ 65
Valuation Date	June 30, 2013	June 30, 2013
Measurement Date	June 30, 2014	June 30, 2014
Actuarial Cost Method	Entry-Age Cost Method	Entry-Age Cost Method
Actuarial Assumptions:		
Discount Rate	7.5%	7.5%
Inflation	2.75%	2.75%
Payroll Growth	3.0%	3.0%
Projected Salary Increase	3.3% - 14.2%(1)	3.3% - 14.2%(1)
Investment Rate of Return	7.5% (2)	7.5% (2)
Mortality	CalPERS Specific	CalPERS Specific

(1) Depending on age, service and type of employment

(2) Net of pension plan investment expenses, including inflation

The underlying mortality assumption and all other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details for the Experience Study can be found on the CalPERS website.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

**LAKESIDE WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**Note 7 - Defined Benefit Pension Plan: (Continued)**

**Pension Liabilities, Pension Expenses and Deferred Outflow/Inflows of Resources Related to Pensions  
(Continued)**

**Actuarial Assumptions (Continued)** - The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1 - 10 (a)</u>	<u>Real Return Years 11 + (b)</u>
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	12.0%	6.83%	6.95%
Real Estate	11.0%	4.50%	5.13%
Infrastructure and Forestland	3.0%	4.50%	5.09%
Liquidity	2.0%	(0.55%)	(1.05%)
Total	<u>100.0%</u>		

- (a) An expected inflation of 2.5% used for this period.  
(b) An expected inflation of 3.0% used for this period.

**Discount Rate** - The discount rate used to measure the total pension liability was 7.50% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent is applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained from the CalPERS website under the GASB 68 Section.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. The difference was deemed immaterial to the Public Agency Cost Sharing Multiple-Employer Defined Benefit Pension Plan.

**LAKESIDE WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**Note 7 - Defined Benefit Pension Plan: (Continued)**

**Pension Liabilities, Pension Expenses and Deferred Outflow/Inflows of Resources Related to Pensions (Continued)**

**Discount Rate (Continued)** - CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017 - 18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as they have changed their methodology.

**Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** - The following presents the net position liability of each Plan, as of the measurement date calculated using the discount rate of 7.5%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>3.0% @ 60</u>	<u>1.5% @ 65</u>
1% Decrease Net Pension Liability	\$ 2,112,705	\$ 168
Current Discount Rate Net Pension Liability	\$ 1,185,787	\$ 94
1% Increase Net Pension Liability	\$ 416,532	\$ 33

**Pension Plan Fiduciary Net Position** - Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

**Payable to the Pension Plan**

At June 30, 2015, the Lakeside Water District reported a payable of \$-0- for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2015.

**Note 8 - Commitments and Contingencies:**

**Contracts**

The Lakeside Water District has entered into various contracts for the purchase of material and construction of capital assets. The amounts contracted are based on the contractor's estimated cost of construction. At June 30, 2015, the total unpaid amount on these contracts is approximately \$96,735.

**Litigation**

Legal claims and lawsuits arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Lakeside Water District's financial position.

**LAKESIDE WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**Note 9 - New Governmental Accounting Standards:**

**GASB No. 68**

In June 2012, the Governmental Accounting Standards Board issued Statement No. 68, "Accounting and Financial Reporting for Pensions". This pronouncement is effective for periods beginning after June 15, 2013. This pronouncement establishes accounting and financial reporting requirements related to pensions for governments whose employees are provided with pensions through pension plans, as well as for nonemployer governments that have a legal obligation to contribute to those plans. The effects of this pronouncement on the financial statements of the District in the year of implementation are more fully described in Note 10.

**GASB No. 69**

In January 2013, The Governmental Accounting Standard Board issued Statement No. 69, "Government Combinations and Disposals of Government Operations." This pronouncement is effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013 and should be applied on a prospective basis. Earlier application is encouraged. This statement requires the use of carrying values to measure the assets and liabilities in a government merger. Conversely, this statement requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. This statement also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. This statement provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold. This pronouncement did not have a material effect on the financial statements of the District in the year of implementation.

**GASB No. 70**

In April 2013, The Governmental Accounting Standard Board issued Statement No. 70, "Accounting and Financial Reporting for Nonexchange Financial Guarantees." This pronouncement is effective for financial reporting periods beginning after June 15, 2013. Earlier application is encouraged. This statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data indicate that the government will be required to make a payment on the guarantee. The Government that issued the obligation guaranteed in a nonexchange transaction should recognize revenue to the extent that its guaranteed obligations have been reduced. If that government is required to repay a guarantor for making a payment, they should continue to reflect the liability until legally released as an obligor. The District has not extended any nonexchange financial guarantees at the date of these financial statements.

**LAKESIDE WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**Note 9 - New Governmental Accounting Standards: (Continued)**

**GASB No. 71**

In November 2013, The Governmental Accounting Standards Board issue Statement No. 71, “Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68. This pronouncement is effective simultaneously with the implementation of Statement 68. This statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The effects of this pronouncement on the financial statements of the District in the year of implementation are more fully described in Note 10.

**GASB No. 72**

In February 2015, The Governmental Accounting Standards Board issued Statement No. 72, “Fair Value Measurement and Application.” This pronouncement provides guidance for determining fair value measurement for financial reporting purposes and provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. Governments are required to use valuation techniques that are appropriate under the circumstances and for which sufficient data is available to measure fair value. Required disclosures include the level of fair value hierarchy and valuation techniques and should be organized by type of asset or liability. This pronouncement is effective for financial statements for periods beginning after June 15, 2015. Earlier application is encouraged. The District has not yet determined the effects of this pronouncement on the financial statements of the District in the year of implementation.

**GASB No. 73**

In June 2015, The Governmental Accounting Standards Board issued Statement No. 73, “Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.” This pronouncement establishes requirements for defined benefit pension plans that are not with the scope of Statement No. 68, as well as assets accumulated for purposes of providing those pensions. It establishes requirements for defined contribution pension plans that are not within the scope of Statement No. 68 and amends certain provisions of Statement No. 67. The pronouncement extends the approach to accounting and financial reporting established in Statement 68 to all pensions with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement 68 be included in the notes and required supplementary information by all similarly situated employers and nonemployer contributing entities. The requirements of this statement addressing accounting and financial reporting for employers that are not within the scope of GASB 68 are effective for financial statements for fiscal years beginning after June 15, 2016. All other provisions are effective for periods beginning after June 15, 2015. This pronouncement is not anticipated to have a material effect on the financial statements of the District.



**LAKESIDE WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**Note 10 - Change in Accounting Principle:**

Effective July 1, 2014, the District changed its method of accounting for retirement expense and the related pension liability as well any deferred inflows of resources and deferred outflows of resources in order to conform with Governmental Accounting Standards Board Statement No. 68, "Accounting and Financial Reporting for Pensions", as amended by Governmental Accounting Standards Board Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date".

This Statement requires cost-sharing employers such as the District to recognize a liability for its proportionate share of the net pension liability (of all employers for benefits provided through the plan) – the collective net pension liability. A cost-sharing employer is required to recognize pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions for its proportionate share of collective pension expense and collective deferred outflows of resources and deferred inflows of resources related to pensions. Employer contributions to the pension plan subsequent to the measurement date of the collective net pension liability are also required to be reported as deferred outflows related to pensions. As a result, the District established the following net pension liability and deferred outflow of resources resulting in a reduction in net position reported at June 30, 2014:

Net pension liability	\$ (1,620,340)
Deferred outflows related to contributions	92,898
Prepaid PERS contribution	(451,197)
Net Effect of a Change in Accounting Principle	<u>(1,978,639)</u>
 Net Position as Originally Stated	 <u>30,518,008</u>
 Net Position as Restated	 <u><u>\$ 28,539,369</u></u>

**LAKESIDE WATER DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS  
FOR THE RETIREE HEALTH PLAN  
JUNE 30, 2015**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Simplified Entry Age	Unfunded AAL (UALL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2010	\$ 287,436	\$ 287,436	-	100%	\$ 653,279	-
June 30, 2011	356,382	194,443	-	100%	716,375	-
June 30, 2012	353,824	194,443	-	100%	734,732	-
June 30, 2013	384,634	181,034	-	100%	587,309	-
June 30, 2014	377,643	171,033	-	100%	675,886	-
June 30, 2015	428,320	171,033	-	100%	702,466	-

**LAKESIDE WATER DISTRICT**  
**SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
**JUNE 30, 2015**

	2014
<b><u>Miscellaneous Plan:</u></b>	
District's proportion of the net pension liability (asset)	0.01906%
District's proportionate share of the net pension liability (asset)	\$ 1,185,787
District's covered-employee payroll	\$ 575,589
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	206.01%
District's proportionate share of the fiduciary net position as a percentage of the total pension liability	80.46%
<b><u>Miscellaneous PEPRA Plan:</u></b>	
District's proportion of the net pension liability (asset)	0.00000%
District's proportionate share of the net pension liability (asset)	\$ 94
District's covered-employee payroll	\$ 75,149
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	0.13%
District's proportionate share of the fiduciary net position as a percentage of the District's' total pension liability	83.09%

**LAKESIDE WATER DISTRICT  
SCHEDULE OF PLAN CONTRIBUTIONS  
JUNE 30, 2015**

	2014
<b><u>Miscellaneous Plan:</u></b>	
Contractually required contribution	\$ 92,408
Contributions in relation to the contractually required contribution	\$ (92,408)
Contribution deficiency (excess)	\$ -
District's covered-employee payroll	\$ 575,589
Contributions as a percentage of covered-employee payroll	16.05%

<b><u>Miscellaneous PEPRA Plan:</u></b>	
Contractually required contribution	\$ 3,048
Contributions in relation to the contractually required contribution	\$ (3,048)
Contribution deficiency (excess)	\$ -
District's covered-employee payroll	\$ 75,149
Contributions as a percentage of covered-employee payroll	4.06%