

**LA HABRA HEIGHTS COUNTY WATER DISTRICT**

**BASIC FINANCIAL STATEMENTS**

**WITH REPORT ON AUDIT  
BY INDEPENDENT  
CERTIFIED PUBLIC ACCOUNTANTS**

**JUNE 30, 2018**



LA HABRA HEIGHTS COUNTY WATER DISTRICT

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For the years ended June 30, 2018 and 2017

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
La Habra Heights County Water District  
La Habra Heights, California

We have audited the accompanying financial statements of the La Habra Heights County Water District (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **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.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 auditors' 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 auditors consider internal control relevant to the District'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 District'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 basic financial statements referred to above present fairly, in all material respects, the financial position of the La Habra Heights County Water District as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Notes 1f and 10 of the financial statements, the District adopted Governmental Accounting Standards Board's (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. The adoption of this standard required retrospective application resulting in a \$674,176 reduction of previously reported net position. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Prior-Year Comparative Information*

The financial statements include partial prior-year comparative information. Such information does not include all of the information required for a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2017, from which such partial information was derived.

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of proportionate share of the net pension liability, the schedule of contributions, and the schedule of changes in the other post-employment benefit (OPEB) liability and related ratios, identified as Required Supplementary Information (RSI) in the accompanying table of contents, be presented to supplement the basic 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 financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the RSI because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The schedules of operating expenses are presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of operating expense is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of operating expenses are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*White Nelson Dick Evans LLP*

Irvine, California  
November 20, 2018

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# LA HABRA HEIGHTS COUNTY WATER DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2018

This section of the District's annual financial report presents our analysis of the District's financial performance during the fiscal year that ended on June 30, 2018. Please read it in conjunction with the basic financial statements, which follow this section.

### **FINANCIAL HIGHLIGHTS**

- The District's net position decreased by \$150,797 or 0.94 percent, which includes a prior period adjustment of \$674,176.
- During the year the District's total revenues increased to \$4,999,003 or 12.85 percent, and expenses increased to \$4,493,312 or 6.50 percent from the prior year.
- Capital contributions to the District decreased to \$17,688 or 88.83 percent from the prior year.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of three parts: Management's Discussion and Analysis, the Basic Financial Statements and Supplementary Information. The Basic Financial Statements also include notes that explain in more detail some of the information in the basic financial statements.

### **REQUIRED FINANCIAL STATEMENTS**

The Basic Financial Statements of the District report information about the District using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about its activities. The Statement of Net Position includes all of the District's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges, profitability, and credit worthiness. The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments during the reporting period. The Statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

LA HABRA HEIGHTS COUNTY WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)

June 30, 2018

**FINANCIAL ANALYSIS OF THE DISTRICT**

Management's analysis of the District begins on page 13 of the Basic Financial Statements. "Is the District as a whole better off or worse off as a result of the year's activities?" is one of the most important questions to answer about the District's finances. The Statement of Net Position, and the Statement of Revenues, Expenses and Changes in Net Position report information about the District's activities in a way that will help answer this question. These two statements report the net position of the District and changes in them. The District's net position - the difference between assets and liabilities - is a way to measure financial health or financial position. Over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating. However, you will need to consider other nonfinancial factors such as changes in economic conditions, population growth, zoning and new or changed government legislation.

LA HABRA HEIGHTS COUNTY WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)

June 30, 2018

**NET POSITION**

To begin our analysis, a summary of the District's Statements of Net Position is presented in Table 1.

TABLE 1  
Condensed Statements of Net Position

	Fiscal Year 2018	Fiscal Year 2017	Fiscal Year 2016	2018-2017 Variance		2017-2016 Variance	
				Dollar Change	Percent Change	Dollar Change	Percent Change
<b>Assets:</b>							
Current and Other Assets	\$4,382,355	\$3,651,656	\$3,841,730	\$730,699	20.01%	\$(190,074)	(4.95)%
Capital Assets	14,586,232	14,915,116	14,040,881	(328,884)	(2.21)%	874,235	6.23%
Deferred Outflows of Resources	358,210	209,551	373,869	148,659	70.94%	(164,318)	(43.95)%
<b>Total Assets and Deferred Outflows of Resources</b>	<b>19,326,797</b>	<b>18,776,323</b>	<b>18,256,480</b>	<b>550,474</b>	<b>2.93%</b>	<b>519,843</b>	<b>2.85%</b>
<b>Liabilities:</b>							
Current Liabilities	646,117	819,195	597,511	(173,078)	(21.13)%	221,684	37.10%
Long-Term Liabilities	2,549,096	1,666,041	1,633,463	883,055	53.00%	32,578	1.99%
Deferred Inflows of Resources	183,734	192,440	295,955	(8,706)	(4.52)%	(103,515)	(34.98)%
<b>Total Liabilities and Deferred Inflows of Resources</b>	<b>3,378,947</b>	<b>2,677,676</b>	<b>2,526,929</b>	<b>701,271</b>	<b>26.19%</b>	<b>150,747</b>	<b>5.97%</b>
<b>Net Position:</b>							
Net Investment in capital assets	14,238,720	14,514,271	13,587,930	(275,551)	(1.90)%	926,341	6.82%
Restricted-debt service	56,233	64,822	73,201	(8,589)	(13.25)%	(8,379)	(11.45)%
Unrestricted	1,652,897	1,519,554	2,068,420	133,343	8.78%	(548,866)	(26.54)%
<b>Total Net Position</b>	<b>\$15,947,850</b>	<b>\$16,098,647</b>	<b>\$15,729,551</b>	<b>\$(150,797)</b>	<b>(0.94)%</b>	<b>\$369,096</b>	<b>2.35%</b>

Total Net Position decreased by \$150,797 from fiscal year 2017 to 2018. Total Assets and Deferred Outflows of Resources increased by \$550,474. This change is primarily due to increased balance in Cash and Investment in State of California Local Agency Investment Fund. Total Liabilities and Deferred Inflows of Resources increased by \$701,271. This is represented by an increase in Long-Term Liabilities as a result of Net pension and Net OPEB (Other Post Employment Benefits) liability adjustments based on actuarial valuations.

LA HABRA HEIGHTS COUNTY WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)

June 30, 2018

NET POSITION (CONTINUED)

TABLE 2  
Condensed Statements of Revenues,  
Expenses and Changes in Net Position

	Fiscal Year 2018	Fiscal Year 2017	Fiscal Year 2016	2018-2017 Variance		2017-2016 Variance	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Revenues:							
Operating Revenues	\$4,068,269	\$3,555,246	\$3,293,021	\$513,023	14.43%	\$262,225	7.96%
Nonoperating Revenues	930,734	874,540	838,820	56,194	6.43%	35,720	4.26%
Total Revenues	4,999,003	4,429,786	4,131,841	569,217	12.85%	297,945	7.21%
Expenses:							
Depreciation	489,622	473,241	468,520	16,381	3.46%	4,721	1.01%
Other Operating Expenses	3,983,278	3,716,653	3,449,187	266,625	7.17%	267,466	7.75%
Nonoperating Expenses	20,412	29,111	9,393	(8,699)	(29.88)%	19,718	209.92%
Total Expenses	4,493,312	4,219,005	3,927,100	274,307	6.50%	291,905	7.43%
Net Income Before Capital Contributions							
	505,691	210,781	204,741	294,910	139.91%	6,040	2.95%
Capital Contributions	17,688	158,315	82,535	(140,627)	(88.83)%	75,780	91.82%
Changes in Net Position	523,379	369,096	287,276	154,283	41.80%	81,820	28.48%
Net Position: Beginning of year	16,098,647	15,729,551	15,442,275	369,096	2.35%	287,276	1.86%
Prior-Period Adjustment	(674,176)	-	-	(674,176)	0.00%	-	0.00%
Net Position: Beginning of year, As Restated	15,424,471	15,729,551	15,442,275	(305,080)	(1.94)%	287,276	1.86%
Net Position: End of year	\$15,947,850	\$16,098,647	\$15,729,551	\$(150,797)	(0.94)%	369,096	2.35%

While the Statements of Net Position show the change in financial position, the Statements of Revenues, Expenses, and Changes in Net Position provide answers as to the nature and source of these changes. As can be seen in Table 2, Income (Loss) Before Capital Contributions of \$505,691 and capital contributions of \$17,688 resulted in an increase in changes in net position of \$523,379 in fiscal year 2018.

A closer examination of the source of changes in net position reveals that operating revenues increased by \$513,023 which results from increased water sales to customers by 16.9% compared to last year. Rainfall of 5.27 inches for the year was below average.

LA HABRA HEIGHTS COUNTY WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)

June 30, 2018

**NET POSITION (CONTINUED)**

Other Operating Expenses increased by \$266,625. An item affecting Other Operating Expenses are increased Source of Supply-purchased water. The District sold more water which results in purchasing more water to supply customer demands. In addition, Transmission and Distribution expenditures increased due to required infrastructure repairs and leaks.

Income (Loss) before capital contributions increased by \$294,910, resulting from the above mentioned items.

Capital Contributions decreased by \$140,627, due to fewer infrastructure installations by third parties. In 2018 installed three services at expense to third parties.

Prior period adjustment represents implementation of GASB Statement No. 75 which requires restating net position as of the beginning of the fiscal year for the OPEB liability.

LA HABRA HEIGHTS COUNTY WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)

June 30, 2018

**BUDGETARY HIGHLIGHTS**

TABLE 3  
Budget vs. Actual

	<u>Fiscal Year 2018</u>			<u>Fiscal Year 2017</u>			<u>Fiscal Year 2016</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:									
Operating Revenues:									
Water sales:									
Consumption	\$2,066,189	\$2,380,937	\$314,748	\$2,043,673	\$2,010,832	\$(32,841)	\$2,340,852	\$1,878,207	\$(462,645)
Readiness to serve	1,611,132	1,626,085	14,953	1,503,191	1,492,530	(10,661)	1,413,949	1,341,305	(72,644)
Water rights lease	18,235	25,006	6,771	17,889	24,044	6,155	17,661	23,479	5,818
Other	27,159	36,241	9,082	27,253	27,840	587	59,958	50,030	(9,928)
Nonoperating Revenues	861,847	930,734	68,887	841,835	874,540	32,705	822,805	838,820	16,015
Total Revenues	<u>4,584,562</u>	<u>4,999,003</u>	<u>414,441</u>	<u>4,433,841</u>	<u>4,429,786</u>	<u>(4,055)</u>	<u>4,655,225</u>	<u>4,131,841</u>	<u>(523,384)</u>
Expenses:									
Operating Expenses:									
Sources of supply	1,062,158	1,147,503	85,345	942,876	926,105	(16,771)	1,287,526	867,158	(420,368)
Depreciation	511,832	489,622	(22,210)	494,404	473,241	(21,163)	481,057	468,520	(12,537)
Administrative and general	1,507,946	1,514,895	6,949	1,429,942	1,595,530	165,588	1,419,620	1,448,314	28,694
Pumping	614,750	658,909	44,159	634,310	638,110	3,800	630,288	515,200	(115,088)
Transmission and distribution	452,315	431,051	(21,264)	473,600	345,763	(127,837)	484,519	504,801	20,282
Customer accounts	136,981	198,261	61,280	84,233	173,624	89,391	81,804	87,078	5,274
Water treatment	32,259	32,659	400	32,389	37,521	5,132	35,713	26,636	(9,077)
Nonoperating Expenses	7,348	20,412	13,064	8,364	29,111	20,747	11,329	9,393	(1,936)
Total Expenses	<u>4,325,589</u>	<u>4,493,312</u>	<u>167,723</u>	<u>4,100,118</u>	<u>4,219,005</u>	<u>118,887</u>	<u>4,431,856</u>	<u>3,927,100</u>	<u>(504,756)</u>
Income Before Capital									
Contributions	258,973	505,691	246,718	333,723	210,781	(122,942)	223,369	204,741	(18,628)
Capital Contributions	-	17,688	17,688	-	158,315	158,315	-	82,535	82,535
Changes in Net Position	258,973	<u>\$523,379</u>	<u>\$264,406</u>	333,723	<u>\$369,096</u>	<u>\$35,373</u>	223,369	<u>\$287,276</u>	<u>\$63,907</u>
Debt Service, Principle due	<u>(44,220)</u>			<u>(41,480)</u>			<u>(40,276)</u>		
Changes in Net Position, after Debt Service, Principle due	<u>\$214,753</u>			<u>\$292,243</u>			<u>\$183,093</u>		

LA HABRA HEIGHTS COUNTY WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)

June 30, 2018

**BUDGETARY HIGHLIGHTS (CONTINUED)**

The variance of budget to actual indicates changes in net position difference of \$264,406. The main difference is Operating Revenues, Water sales-Consumption which was higher than budget by \$314,748 due to higher water sales to customers.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**  
**CAPITAL ASSETS**

At the end of fiscal year 2018 the District had invested \$14,586,232 in a broad range of infrastructure as shown in Table 4.

TABLE 4  
Capital Assets

	Fiscal <u>Year 2018</u>	Fiscal <u>Year 2017</u>	Fiscal <u>Year 2016</u>	<u>2018-2017 Variance</u>		<u>2017-2016 Variance</u>	
				Dollar <u>Change</u>	Percent <u>Change</u>	Dollar <u>Change</u>	Percent <u>Change</u>
Capital assets, not depreciated:							
Land	\$532,744	\$532,744	\$532,744	\$ -	0.00%	\$ -	0.00%
Water rights	1,309,491	1,309,491	1,309,491	-	0.00%	-	0.00%
Construction In Progress	50,581	168,409	35,172	(117,828)	(69.97)%	133,237	378.82%
Total capital assets, not depreciated	<u>1,892,816</u>	<u>2,010,644</u>	<u>1,877,407</u>	<u>(117,828)</u>	<u>(5.86)%</u>	<u>133,237</u>	<u>7.10%</u>
Capital assets, being depreciated:							
Sources of supply	2,283,601	2,308,923	2,240,750	(25,322)	(1.10)%	68,173	3.04%
Pumping	1,625,878	1,625,878	1,607,958	-	0.00%	17,920	1.11%
Transmission and distribution	24,633,784	24,375,780	23,417,931	258,004	1.06%	957,849	4.09%
General	1,777,859	1,791,189	1,738,355	(13,330)	(0.74)%	52,834	3.04%
Total capital assets, being depreciated	<u>30,321,122</u>	<u>30,101,770</u>	<u>29,004,994</u>	<u>219,352</u>	<u>0.73%</u>	<u>1,096,776</u>	<u>3.78%</u>
Less accumulated depreciation for:							
Sources of supply	(1,176,233)	(1,117,259)	(1,050,625)	(58,974)	(5.28)%	(66,634)	(6.34)%
Pumping	(1,326,633)	(1,277,499)	(1,229,112)	(49,134)	(3.85)%	(48,387)	(3.94)%
Transmission and distribution	(13,678,909)	(13,408,418)	(13,185,817)	(270,491)	(2.02)%	(222,601)	(1.69)%
General	(1,445,931)	(1,394,122)	(1,375,966)	(51,809)	(3.72)%	(18,156)	(1.32)%
Total accumulated depreciation	<u>(17,627,706)</u>	<u>(17,197,298)</u>	<u>(16,841,520)</u>	<u>(430,408)</u>	<u>(2.50)%</u>	<u>(355,778)</u>	<u>(2.11)%</u>
Total capital assets, being depreciated, net	<u>12,693,416</u>	<u>12,904,472</u>	<u>12,163,474</u>	<u>(211,056)</u>	<u>(1.64)%</u>	<u>740,998</u>	<u>6.09%</u>
Capital assets, net	<u>\$14,586,232</u>	<u>\$14,915,116</u>	<u>\$14,040,881</u>	<u>\$(328,884)</u>	<u>(2.21)%</u>	<u>\$874,235</u>	<u>6.23%</u>

LA HABRA HEIGHTS COUNTY WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)

June 30, 2018

Increases for fiscal year 2018 Capital assets, being depreciated-Transmission and distribution of \$258,004 resulted from the following replacements:

- 600' of 14" pipe at Tumin Road
- Fire hydrant at Bonnie Jean
- Fire hydrant valve at Lamat

**DEBT ADMINISTRATION**

At year-end, the District had \$292,923 in long-term liabilities down from \$347,512 in fiscal year 2017 for a decrease of \$54,589 or 15.7 percent, which was the amount of fiscal year 2018 principal payments on outstanding debt. The 1981 State Loan Payable is the only debt that is outstanding at year end 2018. The District did not issue new debt in fiscal year 2018 to finance major capital improvements.

Additional detail on long-term liabilities is shown in Note 4 to the basic financial statements.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The District's Board of Directors and management considered many factors when setting the fiscal year 2018 budget, user fees and charges. The factors include cost of purchasing water, as well as, electricity costs.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGER**

This financial report is designed to provide our citizens, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Tammy Wagstaff at La Habra Heights County Water District.

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LA HABRA HEIGHTS COUNTY WATER DISTRICT

STATEMENT OF NET POSITION

June 30, 2018  
(With prior-year comparative totals)

	2018	2017
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>		
<b>CURRENT ASSETS:</b>		
Cash (Note 2)	\$ 1,170,826	\$ 995,137
Investment in State of California Local Agency Investment Fund (Note 2)	2,335,454	1,812,504
Accounts receivable:		
Customers	551,429	537,215
Interest	11,082	4,174
Taxes	23,286	17,275
Other	86,595	85,121
Inventory	96,583	88,253
Prepaid expenses	50,276	46,564
	<b>4,325,531</b>	<b>3,586,243</b>
<b>TOTAL CURRENT ASSETS</b>		
<b>NONCURRENT ASSETS:</b>		
Restricted assets:		
Construction advance receivable (Note 4b)	56,233	64,822
Investment in California Domestic Water Co., at cost	591	591
Capital assets (Note 3):		
Nondepreciable	1,892,816	2,010,644
Depreciable, net of accumulated depreciation	12,693,416	12,904,472
	<b>14,643,056</b>	<b>14,980,529</b>
<b>TOTAL NONCURRENT ASSETS</b>		
<b>TOTAL ASSETS</b>		
	<b>18,968,587</b>	<b>18,566,772</b>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>		
Deferred amounts from pension plan	342,318	209,551
Deferred amounts from OPEB	15,892	-
	<b>358,210</b>	<b>209,551</b>
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>		

LA HABRA HEIGHTS COUNTY WATER DISTRICT

STATEMENT OF NET POSITION  
(CONTINUED)

June 30, 2018  
(With prior-year comparative totals)

	<u>2018</u>	<u>2017</u>
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 424,130	\$ 598,916
Current portion of 1981 State loan payable (Note 4a)	54,589	53,333
Deposits:		
Customers	1,500	500
Accrued payroll	16,835	14,610
Accrued employee benefits	57,365	60,139
Unearned rental income	91,698	91,697
	<u>646,117</u>	<u>819,195</u>
TOTAL CURRENT LIABILITIES		
LONG-TERM LIABILITIES:		
Accrued employee benefits, net of current portion	52,177	44,751
1981 State loan payable, net of current portion (Note 4a)	292,923	347,512
Net pension liability (Note 6)	719,602	566,312
Net OPEB liability (Note 7)	1,484,394	707,466
	<u>2,549,096</u>	<u>1,666,041</u>
TOTAL LONG-TERM LIABILITIES		
TOTAL LIABILITIES	<u>3,195,213</u>	<u>2,485,236</u>
DEFERRED INFLOWS OF RESOURCES:		
Deferred amounts from pension plan	183,734	192,440
	<u>183,734</u>	<u>192,440</u>
TOTAL DEFERRED INFLOWS OF RESOURCES		
NET POSITION:		
Net investment in capital assets	14,238,720	14,514,271
Restricted - debt service	56,233	64,822
Unrestricted	1,652,897	1,519,554
	<u>15,947,850</u>	<u>16,098,647</u>
TOTAL NET POSITION		

See accompanying notes to basic financial statements.

LA HABRA HEIGHTS COUNTY WATER DISTRICT

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION

For the year ended June 30, 2018  
(With prior-year comparative totals)

	<u>2018</u>	<u>2017</u>
OPERATING REVENUES:		
Water sales:		
Consumption	\$ 2,380,937	\$ 2,010,831
Readiness to serve	1,626,085	1,492,531
Water rights lease	25,006	24,044
Other	36,241	27,840
TOTAL OPERATING REVENUES	<u>4,068,269</u>	<u>3,555,246</u>
OPERATING EXPENSES:		
Sources of supply	1,147,503	926,105
Depreciation	489,622	473,241
Administrative and general	1,514,895	1,595,530
Pumping	658,909	638,110
Transmission and distribution	431,051	345,763
Customer accounts	198,261	173,624
Water treatment	32,659	37,521
TOTAL OPERATING EXPENSES	<u>4,472,900</u>	<u>4,189,894</u>
OPERATING LOSS	<u>(404,631)</u>	<u>(634,648)</u>
NONOPERATING REVENUES (EXPENSES):		
Property taxes and assessments	770,324	741,140
Investment income	29,857	13,451
Rental income	114,051	107,631
Oil royalties	10,641	7,863
Other, net	5,861	4,455
Interest on long-term debt	(7,348)	(8,364)
Gain (loss) on disposal of assets	(13,064)	(20,747)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>910,322</u>	<u>845,429</u>
NET INCOME BEFORE CAPITAL CONTRIBUTIONS	505,691	210,781
CAPITAL CONTRIBUTIONS	<u>17,688</u>	<u>158,315</u>
CHANGES IN NET POSITION	<u>523,379</u>	<u>369,096</u>
NET POSITION - BEGINNING OF YEAR	16,098,647	15,729,551
PRIOR-PERIOD ADJUSTMENT (NOTE 10)	<u>(674,176)</u>	<u>-</u>
NET POSITION - BEGINNING OF YEAR, AS RESTATED	<u>15,424,471</u>	<u>15,729,551</u>
NET POSITION - END OF YEAR	<u>\$ 15,947,850</u>	<u>\$ 16,098,647</u>

See accompanying notes to basic financial statements.

LA HABRA HEIGHTS COUNTY WATER DISTRICT

STATEMENT OF CASH FLOWS

For the year ended June 30, 2018  
(With prior-year comparative totals)

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 4,053,581	\$ 3,518,021
Payments to suppliers	(3,365,589)	(2,456,949)
Payments to employees	(690,374)	(876,154)
Proceeds from rental activities	114,051	107,631
Other	5,861	4,455
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>117,530</u>	<u>297,004</u>
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from property taxes and assessments	764,313	730,665
NET CASH PROVIDED BY NONCAPITAL AND RELATED FINANCING ACTIVITIES	<u>764,313</u>	<u>730,665</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of utility and general plant assets, net	(173,801)	(1,368,223)
Principal paid on 1981 State loan payable	(53,333)	(52,108)
Interest paid on 1981 State loan payable	(7,348)	(8,364)
Capital contributions	17,688	158,315
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(216,794)</u>	<u>(1,270,380)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest earned on investments	22,949	11,727
Royalty income	10,641	7,863
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>33,590</u>	<u>19,590</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	698,639	(223,121)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>2,807,641</u>	<u>3,030,762</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 3,506,280</u>	<u>\$ 2,807,641</u>

See accompanying notes to basic financial statements.

LA HABRA HEIGHTS COUNTY WATER DISTRICT

STATEMENT OF CASH FLOWS  
(CONTINUED)

For the year ended June 30, 2018  
(With prior-year comparative totals)

	<u>2018</u>	<u>2017</u>
RECONCILIATION OF OPERATING LOSS TO NET		
CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating loss	\$ (404,631)	\$ (634,648)
Adjustment to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation	489,622	473,241
Other	5,861	4,455
Proceeds from rental activities	114,051	107,631
Changes in assets, deferred outflows of resources, liabilities, and deferred inflow of resources:		
(Increase) decrease in assets and deferred outflows of resources:		
Accounts receivable	(7,099)	(28,846)
Inventory	(8,330)	10,637
Prepaid expenses	(3,712)	(2,639)
Deferred outflows of resources from pension plan	(132,767)	164,318
Deferred outflows of resources from OPEB	86	-
Increase (decrease) in liabilities and deferred inflow of resources:		
Accounts payable and accrued liabilities	(174,786)	330,846
Customers deposits	1,000	-
Accrued payroll and employee benefits liabilities	6,877	(20,359)
Unearned rental income	-	6,257
Net pension liability	153,290	(10,374)
Net OPEB liability	86,774	-
Deferred inflows of resources from pension plan	(8,706)	(103,515)
Total adjustments	<u>522,161</u>	<u>931,652</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 117,530</u>	<u>\$ 297,004</u>

See accompanying notes to basic financial statements.

# LA HABRA HEIGHTS COUNTY WATER DISTRICT

## Notes to Basic Financial Statements

June 30, 2018

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### *1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES*

a. Financial Reporting Entity

The La Habra Heights County Water District (District) is a public entity organized as a County Water District under the County Water District Law (under the appropriate California Water Code Sections) on November 30, 1976. The District provides potable water service to an area encompassing the City of La Habra Heights and a portion of the unincorporated Los Angeles County Area. The District is operated under the direction of a five-member Board of Directors elected for staggered four-year terms by the citizens residing within the District's boundaries.

The District has the power under the law of a governmental taxing authority and is authorized to (1) receive a proportional share of 1% of the County of Los Angeles (County) ad valorem property tax, as determined by the County's Tax Assessor, and (2) assess taxes for the purpose of carrying on its operations and paying its general obligation bonds.

b. Basic Financial Statements

The basic financial statements are comprised of the Statements of Net Position, the Statements of Revenues, Expenses and Changes in Net Position, the Statements of Cash Flows and the notes to the basic financial statements.

c. Basis of Presentation

The accounts of the District are an enterprise fund. An enterprise fund is a proprietary type fund used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The District is subject to the application of all Governmental Accounting Standards Board Statements.

d. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied. The accompanying financial statements are reported using the economic resources measurement focus, and the accrual basis of accounting. Under the economic measurement focus all assets, deferred outflows of resources, liabilities and deferred inflows of resources (whether current or noncurrent) associated with these activities are included on the Statements of Net Position. The Statements of Revenues, Expenses and Changes in Net Position present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

# LA HABRA HEIGHTS COUNTY WATER DISTRICT

## Notes to Basic Financial Statements

June 30, 2018

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### 1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e. Deferred Outflows/Inflows of Resources

In addition to assets, the Statements of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until that time. The District has the following items that qualify for reporting in this category:

- Deferred outflow related to pensions. This amount is equal to employer contributions made after the measurement date of the net pension liability.
- Deferred outflow related to pensions for differences between expected and actual experiences. This amount is amortized over a closed period equal to the average of the expected remaining services lives of all employees that are provided with pensions through the plans.
- Deferred outflow from pensions resulting from changes in assumptions. This amount is amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the plans.
- Deferred outflow related to pensions resulting from the difference in projected and actual earnings on investments of the pension plans' fiduciary net position. This amount is amortized over five years.
- Deferred outflow related to OPEB. This amount is equal to employer contributions made after the measurement date of the net OPEB liability.

In addition to liabilities, the Statements of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. The District has the following items that qualify for reporting in this category:

- Deferred inflow related to pensions for differences between expected and actual experiences. This amount is amortized over a closed period equal to the average of the expected remaining services lives of all employees that are provided with pensions through the plans.
- Deferred inflow from pensions resulting from changes in assumptions. This amount is amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the plans.
- Deferred inflow related to pensions for the changes in proportion and differences between employer contributions and the proportionate share of contributions. This amount is amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the plans.

# LA HABRA HEIGHTS COUNTY WATER DISTRICT

## Notes to Basic Financial Statements

June 30, 2018

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### 1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f. New Accounting Pronouncements

#### Current Year Standards

In fiscal year 2017-2018, the District implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses for postemployment benefits other than pension. Accounting changes adopted to conform to the provisions of this statement should be applied retroactively. The result of the implementation of this statement decreased the net position at July 1, 2017 of the governmental activities by \$674,176.

GASB 82 - *Pension Issues*, effective for periods beginning after June 15, 2016, except for certain provisions on selection of assumptions, which are effective in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017, and did not impact the District.

GASB 85 - *Omnibus 2017*, effective for periods beginning after June 15, 2017, and did not impact the District.

GASB 86 - *Certain Debt Extinguishment Issues*, effective for periods beginning after June 15, 2017, and did not impact the District.

#### Pending Accounting Standards

GASB has issued the following statements, which may impact the District's financial reporting requirements in the future:

- GASB 83 - *Certain Asset Retirement Obligations*, effective for periods beginning after June 15, 2018.
- GASB 84 - *Fiduciary Activities*, effective for periods beginning after December 15, 2018.
- GASB 87 - *Leases*, effective for periods beginning after December 15, 2019.
- GASB 88 - *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, effective for periods beginning after June 15, 2018.
- GASB 89 - *Accounting for Interest Cost Incurred before the End of a Construction Period*, effective for periods beginning after December 15, 2019.
- GASB 90 - *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*, effective for periods beginning after December 15, 2018.

# LA HABRA HEIGHTS COUNTY WATER DISTRICT

## Notes to Basic Financial Statements

June 30, 2018

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### 1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g. Operating Revenues and Expenses

Operating revenues, such as charges for services (water sales) result from exchange transactions associated with the principal activity of the District. Nonoperating revenues, such as property taxes and assessments, and investment income, result from nonexchange transactions or ancillary activities in which the District gives (receives) value without directly receiving (giving) equal value in exchange.

Operating expenses include the cost of sales and services, administrative expenses and depreciation on capital assets. All expenses not meeting this definition are reported as nonoperating expenses.

h. Budgetary Practices

Each year the District adopts a budget to assess its general operations. Budgets are prepared on the accrual basis of accounting. Expenses that exceed the budgeted totals are approved by the District's Board. All annual appropriations lapse at fiscal year-end.

i. Cash and Investments

The District invests cash in excess of its operating requirements primarily in the State of California Local Agency Investment Fund (LAIF). All invested funds are stated at fair value.

For purposes of the statements of cash flows, the District defines cash and cash equivalents as demand account balances, cash on hand and all cash deposited in LAIF. Together, these balances represent cash and investments, with maturities less than 90 days.

j. Restricted Assets

The District's policy considers restricted assets as those amounts the use of which are legally restricted for such purposes as principal and interest payments by agreements.

k. Inventory

The District values its materials and supplies inventory at the lower of cost or market, using the average cost method.

**LA HABRA HEIGHTS COUNTY WATER DISTRICT**

**Notes to Basic Financial Statements**

**June 30, 2018**

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**1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

l. Capital Assets and Depreciation

The District records capital assets that are purchased at historical cost, while contributed assets are recorded at acquisition value at the time received. Capital assets are defined by the District as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of one year. Capital assets retirements are removed from the accounts at cost, together with the related accumulated depreciation. Any gains or losses resulting from retirements are recorded as nonoperating revenues or expenses.

Capital assets owned by the District are depreciated on a straight-line method based on their estimated useful lives by asset classification. Estimated useful lives by asset classification are as follows:

Source of supply plant	30 years
Pumping equipment	25 years
Transmission and distribution plant	75 years
General plant	5 to 20 years

Expenditures which materially increase capital assets lives are capitalized, while costs of maintenance and repairs are charged to expense as incurred.

m. Capital Contributions

Capital contributions are composed of transmission and distribution plant assets that are constructed by the District or a third party and are paid for by developers or the District's customers desiring services that require capital expenditures or capacity commitment. When these assets are constructed, they become part of the District's transmission and distribution system and are depreciated on a straight-line method over 75 years. Capital contributions received during the year are recorded on the Statements of Revenues, Expenses and Changes in Net Position.

n. Compensated Absences

Accumulated unpaid vacation, sick pay and other employee benefit amounts are accrued when vested.

o. Method Used to Record Bad Debts

The District has elected to record bad debts using the direct write-off method. Customers with overdue balances of four months or more are specifically written-off as uncollectible. Any differences between the direct write-off method and reporting an allowance for bad debts is not significant to the financial statements.

**LA HABRA HEIGHTS COUNTY WATER DISTRICT**

**Notes to Basic Financial Statements**

**June 30, 2018**

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**1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

p. Property Taxes

Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent of county-wide assessed valuations. This one percent is allocated pursuant to state law to the appropriate units of local government.

For fiscal year 2018, the property tax calendar is as follows:

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

q. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District's California Public Employees' Retirement System (CalPERS) plan (Plan) and additions to/deductions from the Plan 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.

r. Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**2. CASH AND INVESTMENTS**

**Cash and Investments**

Cash and investments as of June 30, 2018 and 2017 are reported in the accompanying Statements of Net Position as follows:

Financial Statement Classification:	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Unrestricted:		
Cash	\$ 1,170,826	\$ 995,137
Investment in State of California		
Local Agency Investment Fund	2,335,454	1,812,504
Total	<u>\$ 3,506,280</u>	<u>\$ 2,807,641</u>

**LA HABRA HEIGHTS COUNTY WATER DISTRICT**

**Notes to Basic Financial Statements**

**June 30, 2018**

**2. CASH AND INVESTMENTS (CONTINUED)**

**Investments 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 (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds	5 years	None	None
United States Treasury Obligations	5 years	None	None
Federal Agencies (United States Government Sponsored Agency Securities)	5 years	None	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20%	None
Corporate Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
California Local Agency Investment Fund (LAIF)	N/A	None	None

**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. One of the ways that the District manages its exposure to interest rate risk is 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 or coming close to maturity evenly 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 by the following table that shows the distribution of the District's investments by maturity:

	<u>Maturity 12 Months or Less</u>	
	<u>June 30, 2018</u>	<u>June 30, 2017</u>
California Local Agency Investment Fund	<u>\$ 2,335,454</u>	<u>\$ 1,812,504</u>

# LA HABRA HEIGHTS COUNTY WATER DISTRICT

## Notes to Basic Financial Statements

June 30, 2018

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### 2. CASH AND INVESTMENTS (CONTINUED)

#### 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 minimum rating required by (where applicable) the California Government Code, the District's investment policy and the actual rating by Standard and Poor's, as of year-end for each investment type:

	Unrated	
	June 30, 2018	June 30, 2017
California Local Agency Investment Fund	\$ 2,335,454	\$ 1,812,504

#### Concentration of Credit Risk

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. There are no investments in any one issuer that represents 5% or more of total District's investments as of June 30, 2018 and 2017.

#### Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government 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 counterparty (e.g., broker-dealer) to a transaction, a government 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 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, 2018 and 2017, the bank balance of deposits were \$1,267,790 and \$1,191,410, respectively, which are insured by the Federal Deposit Insurance Company or collateralized as required by California law. The difference between the bank balances and carrying value is due to outstanding checks and deposits in transit.

#### 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 Section 16429 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.

**LA HABRA HEIGHTS COUNTY WATER DISTRICT**  
**Notes to Basic Financial Statements**  
**June 30, 2018**

**2. CASH AND INVESTMENTS (CONTINUED)**

**Fair Value Measurements**

The District categorizes its fair value measurement within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the relative inputs used to measure the fair value of the investments. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The District's investments in LAIF are not subject to the fair value measurement hierarchy.

**3. CAPITAL ASSETS**

Changes in capital assets and accumulated depreciation as of June 30, 2018 were as follows:

	<u>Balance at July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2018</u>
Capital assets, not depreciated:				
Land	\$ 532,744	\$ -	\$ -	\$ 532,744
Water rights	1,309,491	-	-	1,309,491
Construction in progress	<u>168,409</u>	<u>138,743</u>	<u>(256,571)</u>	<u>50,581</u>
Total capital assets, not depreciated	<u>2,010,644</u>	<u>138,743</u>	<u>(256,571)</u>	<u>1,892,816</u>
Capital assets, being depreciated:				
Sources of supply	2,308,923	-	(25,322)	2,283,601
Pumping	1,625,878	-	-	1,625,878
Transmission and distribution	24,375,780	268,226	(10,222)	24,633,784
General	<u>1,791,189</u>	<u>23,404</u>	<u>(36,734)</u>	<u>1,777,859</u>
Total capital assets, being depreciated	<u>30,101,770</u>	<u>291,630</u>	<u>(72,278)</u>	<u>30,321,122</u>
Less accumulated depreciation for:				
Sources of supply	(1,117,259)	(83,048)	24,074	(1,176,233)
Pumping	(1,277,499)	(49,134)	-	(1,326,633)
Transmission and distribution	(13,408,418)	(277,628)	7,137	(13,678,909)
General	<u>(1,394,122)</u>	<u>(79,812)</u>	<u>28,003</u>	<u>(1,445,931)</u>
Total accumulated depreciation	<u>(17,197,298)</u>	<u>(489,622)</u>	<u>59,214</u>	<u>(17,627,706)</u>
Total capital assets, being depreciated, net	<u>12,904,472</u>	<u>(197,992)</u>	<u>(13,064)</u>	<u>12,693,416</u>
Capital assets, net	<u>\$14,915,116</u>	<u>\$ (59,249)</u>	<u>\$ (269,635)</u>	<u>\$14,586,232</u>

**LA HABRA HEIGHTS COUNTY WATER DISTRICT**  
**Notes to Basic Financial Statements**  
**June 30, 2018**

**3. CAPITAL ASSETS (CONTINUED)**

Changes in capital assets and accumulated depreciation as of June 30, 2017 were as follows:

	Balance at July 1, 2016	Additions	Deletions	Balance at June 30, 2017
Capital assets, not depreciated:				
Land	\$ 532,744	\$ -	\$ -	\$ 532,744
Water rights	1,309,491	-		1,309,491
Construction in progress	35,172	1,044,158	(910,921)	168,409
Total capital assets, not depreciated	<u>1,877,407</u>	<u>1,044,158</u>	<u>(910,921)</u>	<u>2,010,644</u>
Capital assets, being depreciated:				
Sources of supply	2,240,750	98,241	(30,068)	2,308,923
Pumping	1,607,958	17,920	-	1,625,878
Transmission and distribution	23,417,931	1,007,085	(49,236)	24,375,780
General	1,738,355	115,969	(63,135)	1,791,189
Total capital assets, being depreciated	<u>29,004,994</u>	<u>1,239,215</u>	<u>(142,439)</u>	<u>30,101,770</u>
Less accumulated depreciation for:				
Sources of supply	(1,050,625)	(82,130)	15,496	(1,117,259)
Pumping	(1,229,112)	(48,387)	-	(1,277,499)
Transmission and distribution	(13,185,817)	(265,423)	42,822	(13,408,418)
General	(1,375,966)	(77,301)	59,145	(1,394,122)
Total accumulated depreciation	<u>(16,841,520)</u>	<u>(473,241)</u>	<u>117,463</u>	<u>(17,197,298)</u>
Total capital assets, being depreciated, net	<u>12,163,474</u>	<u>765,974</u>	<u>(24,976)</u>	<u>12,904,472</u>
Capital assets, net	<u>\$14,040,881</u>	<u>\$ 1,810,132</u>	<u>\$ (935,897)</u>	<u>\$14,915,116</u>

**LA HABRA HEIGHTS COUNTY WATER DISTRICT**  
**Notes to Basic Financial Statements**  
**June 30, 2018**

**4. LONG-TERM LIABILITIES**

The following is a summary of long-term liabilities payable at June 30, 2018 and 2017 with changes thereon:

	Balance July 1, 2016	Payments	Balance July 1, 2017	Payments	Balance June 30, 2018
1981 State loan payable	\$ 452,951	\$ 52,106	\$ 400,845	\$ 53,333	\$ 347,512
Less current portion	<u>(52,106)</u>		<u>(53,333)</u>		<u>(54,589)</u>
	<u>\$ 400,845</u>		<u>\$ 347,512</u>		<u>\$ 292,923</u>

a. 1981 State Loan Payable

In 1981, pursuant to the State of California Davis-Grunsky Act, the State of California loaned the District \$1,500,000 to finance the relining of the La Mirada Conduit (Conduit) and construction of Reservoir 2. The District entered into a Joint Facilities Agreement as of October 15, 1980 with Orchard Dale for the purpose of operating and maintaining the Conduit (see Note 9a). The State loan bears interest at 2.5% and matures in graduated annual amounts through 2024, while interest is due semiannually. The balance of deferred interest is repayable over the remaining life of the State loan in equal annual payments of \$3,065.

A summary of debt service for the District's outstanding 1981 State loan is as follows:

Year Ending June 30,	Principal	Deferred Interest (Included in Principal)	Interest	Total
2019	\$ 51,524	\$ 3,065	\$ 8,228	\$ 62,817
2020	52,812	3,065	6,940	62,817
2021	54,132	3,065	5,620	62,817
2022	55,486	3,065	4,266	62,817
2023	56,873	3,065	2,879	62,817
2024	<u>58,295</u>	<u>3,065</u>	<u>1,457</u>	<u>62,817</u>
	<u>\$ 329,122</u>	<u>\$ 18,390</u>	<u>\$ 29,390</u>	<u>\$ 376,902</u>

b. Construction Advance Receivable

The District has entered into a construction agreement with Orchard Dale in which Orchard Dale is to reimburse the District for a portion of the debt service payments on the 1981 State loan. The amounts due as of June 30, 2018 and 2017 from Orchard Dale were \$56,233 and \$64,822, respectively.

# LA HABRA HEIGHTS COUNTY WATER DISTRICT

## Notes to Basic Financial Statements

June 30, 2018

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### 5. *EMPLOYEE-DEFERRED COMPENSATION PLAN*

For the benefit of its employees, the District established an eligible employee-deferred compensation plan in accordance with the Internal Revenue Code Section 457. Funds may be withdrawn by participants upon either termination of employment, retirement, death or an unforeseeable emergency. Until the funds are paid or otherwise made available to the employee, the employee is not obligated to report the deferred salary for income tax purposes. The District makes matching contributions of 100% on the first 2% of compensation deferred by the plan.

All plan assets are held in a trust fund to protect them from claims of general creditors and from diversion to any uses other than paying benefits to participants and beneficiaries. Therefore, in accordance with GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, deferred compensation plan assets are not reported in the accompanying financial statements.

### 6. *PENSION PLAN*

#### a. General Information about the Pension Plan

##### **Plan Description**

All qualified permanent and probationary employees are eligible to participate in the District's Miscellaneous Employee Pension Plan, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plan are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plans 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. Members with five years of total service are eligible to retire at age 50 to 62 with statutorily reduced benefits. All members are eligible for non-industrial disability benefits after five (5) years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

**LA HABRA HEIGHTS COUNTY WATER DISTRICT**  
**Notes to Basic Financial Statements**  
**June 30, 2018**

**6. PENSION PLAN (CONTINUED)**

a. General Information about the Pension Plan (Continued)

The Plan's provisions and benefits in effect at June 30, 2018, are summarized as follows:

	Miscellaneous	
	Prior to January 1, 2013	On or After January 1, 2013
Hire date		
Benefit formula	2.0%@60	2%@62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 67	52 - 67
Monthly benefits, as a % of eligible compensation	1.092% to 2.418%	1.0% to 2.5%
Required employee contribution rates	6.90%	6.25%
Required employer contribution rates		
Normal cost rate	7.200%	6.533%
Payment of unfunded liability	\$ 35,247	\$ -

**Contributions**

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. 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 District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. District contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contributions requirements are classified as plan member contributions.

b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2018, the District reported net pension liabilities for its proportionate share of the net pension liability of the Plan as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous	\$ 719,602

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2017, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. The District's proportionate share of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employees, actuarially determined.

**LA HABRA HEIGHTS COUNTY WATER DISTRICT**

**Notes to Basic Financial Statements**

**June 30, 2018**

**6. PENSION PLAN (CONTINUED)**

- b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

The District's proportionate share of the net pension liability for the Plan as of the measurement dates ended June 30, 2016 and 2017 was as follows:

	<u>Miscellaneous</u>
Proportion - June 30, 2016	0.01630%
Proportion - June 30, 2017	0.01825%
Change - increase (decrease)	0.00195%

For the year ended June 30, 2018, the District recognized pension expense of \$85,064. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 73,246	\$ -
Differences between actual and expected experience	1,757	(25,173)
Change in assumptions	218,011	(16,624)
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	-	(141,937)
Net differences between projected and actual earnings on plan investments	49,304	-
Total	<u>\$ 342,318</u>	<u>\$ (183,734)</u>

\$73,246 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 ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ (41,719)
2020	99,058
2021	57,274
2022	(29,275)
2023	-
Thereafter	-

**LA HABRA HEIGHTS COUNTY WATER DISTRICT**

**Notes to Basic Financial Statements**

**June 30, 2018**

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**6. PENSION PLAN (CONTINUED)**

- b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

**Actuarial Assumptions**

For the measurement period ended June 30, 2017 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2016 total pension liability determined in the June 30, 2016 actuarial accounting valuation. The June 30, 2017 total pension liability was based on the following actuarial methods and assumptions:

	<u>Miscellaneous</u>
Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-age normal cost method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Salary Increases	(1)
Mortality Rate Table	(2)
Postretirement Benefit Increase	(3)

- (1) Varies by entry age and service.
- (2) The mortality table used was developed based on CalPERS specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the April 2014 Experience Study report (based on CalPERS demographic data from 1997 to 2011) available on the CalPERS website.
- (3) Contract cost of living adjustment up to 2.75% until purchasing power protection allowance floor on purchasing power applies, 2.75% thereafter.

All other actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from 1998 to 2012, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at the CalPERS website under Forms and Publications.

**Change of Assumptions**

In fiscal year 2017-2018, the financial reporting discount rate was reduced from 7.65% to 7.15%. Deferred outflows of resources and deferred inflows of resources for changes of assumptions represent the unamortized portion of this assumption change and the unamortized portion of the changes of assumptions related to prior measurement periods.

# LA HABRA HEIGHTS COUNTY WATER DISTRICT

## Notes to Basic Financial Statements

June 30, 2018

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### 6. PENSION PLAN (CONTINUED)

- b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

#### **Discount Rate**

The discount rate used to measure the total pension liability was 7.15% for each Plan and reflects the long-term expected rate of return for the each Plan net of investment expenses and without reduction for administrative expenses. 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 of the Plans, the tests revealed the assets would not run out. Therefore, the current 7.15% discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long term expected discount rate of 7.15% is applied to all plans in the Public Employees Retirement Fund (PERF). The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. 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.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which 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, Public Employees Retirement Funds' (PERF), cash flows. Taking into account historical returns of all the Public Employees Retirement Funds' asset classes (which includes the agent plan and two cost-sharing plans or PERF A, B, and C funds), 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 PERF 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.

**LA HABRA HEIGHTS COUNTY WATER DISTRICT**

**Notes to Basic Financial Statements**

**June 30, 2018**

**6. PENSION PLAN (CONTINUED)**

- b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

**Discount Rate (Continued)**

The table below reflects the 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. The target allocation shown was adopted by the CalPERS Board effective on July 1, 2014.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11+ (b)
Global Equity	47.00%	4.90%	5.38%
Global Fixed Income	19.00%	0.80%	2.27%
Inflation Sensitive	6.00%	0.60%	1.39%
Private Equity	12.00%	6.60%	6.63%
Real Estate	11.00%	2.80%	5.21%
Infrastructure and Forestland	3.00%	3.90%	5.36%
Liquidity	2.00%	-0.40%	-0.90%
Total	100.00%		

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

**Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate**

The following presents the District’s proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the District’s proportionate share of 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:

	Miscellaneous
1% Decrease	6.15%
Net Pension Liability	\$ 1,438,229
Current Discount Rate	7.15%
Net Pension Liability	\$ 719,602
1% Increase	8.15%
Net Pension Liability	\$ 124,422

**Pension Plan Fiduciary Net Position**

Detailed information about the pension plan’s fiduciary net position is available in the separately issued CalPERS financial reports.

**LA HABRA HEIGHTS COUNTY WATER DISTRICT**

**Notes to Basic Financial Statements**

**June 30, 2018**

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**6. PENSION PLAN (CONTINUED)**

- c. Payable to the Pension Plan

At June 30, 2018, the District had no outstanding amount of contributions to the pension plan required for the year ended June 30, 2018.

**7. OTHER POST-EMPLOYMENT BENEFITS**

- a. Plan Description

The District provides post-employment health care benefits through a single-employer defined benefit plan. Specifically, the District provides health insurance for its retired employees in accordance with Board resolutions. Medical coverage is provided for retired employees who are age 60 or over and who have a minimum of 20 years service with the District. The District pays the premium for the retiree coverage. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75. The plan does not provide a publicly available financial report.

**Employees Covered**

As of the June 30, 2017 measurement date, the following current and former employees were covered by the benefit terms under the plan:

Inactive employees or beneficiaries currently receiving benefits	2
Inactive employees or beneficiaries entitled to but not yet receiving benefits	-
Active employees	9
Total	<u>11</u>

- b. Total OPEB Liability

The District's OPEB liability of \$1,484,394 was measured as of June 30, 2017, and was determined by an actuarial valuation as of June 30, 2017.

**LA HABRA HEIGHTS COUNTY WATER DISTRICT**  
**Notes to Basic Financial Statements**  
**June 30, 2018**

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**7. OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)**

b. Total OPEB Liability (Continued)

**Actuarial Assumptions and Other Inputs**

The total OPEB liability as of June 30, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Valuation Date	June 30, 2017
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method
Funding Policy	Pay-as-you-go-basis
Actuarial Assumptions:	
Discount Rate	3.13%
Projected Salary Increase	3.00%
Expected long term investment rate of return	Not applicable since the District had not established an irrevocable trust for pre-funding the OPEB as of measurement date
Medical Trend	5.0% for 2018 and later
Mortality Rates	Pre-retirement mortality rates based on the RP-2014 tables Post-retirement mortality rates based on the RP-2014 health annuitant mortality tables.
Age adjustment factor	3.00%

The discount rate was based on a high-quality 20-year tax-exempt general obligation municipal bond yield or index rate. The municipal bond rate utilized was 3.13%.

**LA HABRA HEIGHTS COUNTY WATER DISTRICT**  
**Notes to Basic Financial Statements**  
**June 30, 2018**

**7. OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)**

c. Changes in the Total OPEB Liability

The change in total OPEB liability are as follows:

	Increase (Decrease)
	Total OPEB Liability
<b>Balance at June 30, 2016</b>	
<b>(Measurement Date)</b>	<u>\$ 1,397,620</u>
<b>Changes in the Year:</b>	
Service cost	59,254
Interest on the total OPEB liability	43,498
Benefit payments	<u>(15,978)</u>
<b>Net Changes</b>	<u>86,774</u>
 <b>Balance at June 30, 2017</b>	
<b>(Measurement Date)</b>	<u>\$ 1,484,394</u>

**Sensitivity of the Total OPEB Liability to Changes in the Discount Rate**

The following presents the total OPEB liability of the District, calculated using the discount rate for the Plan, as well as what the District total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	1% Decrease (2.13%)	Discount Rate (3.13%)	1% Increase (4.13%)
Total OPEB Liability	<u>\$ 1,786,490</u>	<u>\$ 1,484,394</u>	<u>\$ 1,248,598</u>

**Sensitivity of the Total OPEB Liability to Changes in the Discount Rate**

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current healthcare cost trend rates:

	1% Decrease (4.0% after 2018)	Current Trend (5.0% after 2018)	1% Increase (6.0% after 2018)
Total OPEB Liability	<u>\$ 1,244,105</u>	<u>\$ 1,484,394</u>	<u>\$ 1,826,747</u>

**LA HABRA HEIGHTS COUNTY WATER DISTRICT**

**Notes to Basic Financial Statements**

**June 30, 2018**

**7. OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)**

- d. OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the District recognized OPEB expense of \$102,752. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	\$ 15,892	\$ -
Total	<u>\$ 15,892</u>	<u>\$ -</u>

- e. Payable to the OPEB Plan

At June 30, 2018, the District had no outstanding amount of contributions to the OPEB plan as required for the year ended June 30, 2018.

**8. COMMITMENTS AND CONTINGENCIES**

- a. Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, injuries to employees and natural disasters. In an effort to manage its risk exposure, the District is a member of the Association of California Water Agencies Joint Powers Insurance Authority (the 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, 2018, as a member of the Authority, the District participated in the insurance programs as follows:

Property Loss - the District retains risk of loss up to \$1,000 (deductible amount); the Authority is self-insured up to \$100,000 and insurance coverage has been purchased to cover losses ranging from \$100,000 to \$500,000,000 limited to the insurable value of \$15,027,913.

Auto and General Liability - Insured up to \$60,000,000 with no deductible subject to policy aggregate limits; the Authority is self-insured up to \$5,000,000 and excess insurance coverage has been purchased to cover losses ranging from \$5,000,000 to \$60,000,000.

Public Officials' Liability - Coverage for errors and omissions up to \$60,000,000 subject to policy aggregate limits; the Authority is self-insured up to \$5,000,000 and excess insurance coverage has been purchased to cover losses ranging from \$5,000,000 to \$60,000,000.

Public Employee Fidelity Bond - Insured up to \$100,000 with a \$1,000 deductible; the Authority is self-insured up to \$100,000.

# LA HABRA HEIGHTS COUNTY WATER DISTRICT

## Notes to Basic Financial Statements

June 30, 2018

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### 8. *COMMITMENTS AND CONTINGENCIES (CONTINUED)*

a. Risk Management (Continued)

Workers' Compensation Insurance - Compensation insurance up to California statutory limits for all work related injuries/illnesses covered by California law. The Authority is self-insured to \$2 million and has purchased excess insurance to the statutory limit.

The District has not settled any claims that have exceeded insurance coverage in any of the past three fiscal years. An annual premium deposit is paid by the District. Actual annual premiums are to be determined utilizing a retrospective method.

b. Litigation

In the ordinary course of operations, the District is the subject of claims and litigation from outside parties. After consultation with its legal counsel, the District believes that an adequate provision has been made for the costs, if any, of the ultimate outcome of the legal proceedings through its self-insurance plan, such that these matters will not materially affect the District's financial condition.

### 9. *AGREEMENTS*

a. Orchard Dale Water District

The District is party to a joint facilities agreement with the Orchard Dale Water District (Orchard Dale) for the purpose of operating and maintaining the Well Fields, La Mirada Conduit and the La Mirada Reservoir, a transmission and distribution system that carries water from the Well Fields to each water district's service area. The operating agreement under which the facilities were constructed required that each participant provide its own proportionate share of construction financing. The District's proportionate share of construction and improvement costs for such jointly owned facilities is included in the appropriate category of utility and general plant assets. The District incurs certain minimum operating costs on jointly owned facilities, whether or not it is able to take delivery of its proportionate share of annual water rights. Such expenses incurred are included as operating expenses in the accompanying statements of revenues, expenses and changes in net position.

In fiscal years 2017-2018 and 2016-2017, the District was reimbursed \$159,686 and \$217,961, respectively, for this agreement.

b. Rowland Water District

The District is party to a water production and delivery agreement dated May 12, 2012 with the Rowland Water District (Rowland) for the purpose of assisting Rowland to access water rights in the Central Groundwater Basin of Los Angeles County (Central Basin). Rowland has acquired pumping rights in the Central Basin but has no facilities to produce water from Central Basin to Rowland's service area. The District has facilities to produce water from the Central Basin and is able to assist Rowland to produce water, pursuant to Rowland's water rights, and deliver the water to Rowland's water distribution system. Subject to certain limitations as specified in the agreement, the District will convey to Rowland, groundwater from the Central Basin. The District will bill Rowland on a monthly basis for water delivery costs. Rowland will pay the District for transporting water, and the District's direct cost of production, energy costs associated with the delivery of the water to the delivery point, any other variable cost of production.

**LA HABRA HEIGHTS COUNTY WATER DISTRICT**

**Notes to Basic Financial Statements**

**June 30, 2018**

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**9. AGREEMENTS (CONTINUED)**

b. Rowland Water District (Continued)

Rowland will pay a wheeling charge that is \$50 per acre-foot until Rowland has amortized its capital costs. After Rowland has fully amortized its capital cost, the wheeling charge is \$75 per acre-foot. In addition, the District will share in the cost savings that Rowland realizes as a result of the District pumping and delivering water to Rowland from the Central Basin instead of Rowland purchasing water from other sources. In fiscal years 2017-2018 and 2016-2017, the District was reimbursed \$0 and \$10,929, respectively for this agreement. As of June 30, 2018, the agreement was in dispute.

**10. RESTATEMENT OF PRIOR-YEAR FINANCIAL STATEMENTS**

The implementation of GASB Statement No. 75 requires reporting the net OPEB liability of the District's single-employer defined benefit plan in the financial statements and is applied retroactively by restating the net position as of the beginning of the fiscal year. The implementation of GASB No. 75 resulted in a reduction of net position by \$674,176 as of July 1, 2017.

**11. SUBSEQUENT EVENTS**

Events occurring after June 30, 2018 have been evaluated for possible adjustment to the financial statements or disclosure as of November 20, 2018, which is the date these financial statements were available to be issued.

**REQUIRED SUPPLEMENTARY INFORMATION  
(UNAUDITED)**

LA HABRA HEIGHTS COUNTY WATER DISTRICT

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Last Ten Fiscal Years\*

Fiscal year ended	Miscellaneous			
	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Measurement period	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Plan's proportion of the net pension liability	0.00726%	0.00654%	0.02102%	0.02702%
Plan's proportionate share of the net pension liability	\$ 719,602	\$ 566,312	\$ 576,686	\$ 667,868
Plan's covered payroll	\$ 741,585	\$ 744,900	\$ 722,019	\$ 609,966
Plan's proportionate share of the net pension liability as a percentage of covered - employee payroll	97.04%	76.03%	79.87%	109.49%
Plan's proportionate share of the fiduciary net position as a percentage of the Plan's total pension liability	73.31%	74.06%	86.30%	83.03%
Plan's proportionate share of aggregate employer contributions	\$ 170,453	\$ 150,102	\$ 125,678	\$ 88,356

Notes to Schedule:

Benefit Changes:

There were no changes in benefits.

Changes in Assumptions:

From fiscal year June 30, 2015 to June 30, 2016:

GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50% used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

From fiscal year June 30, 2016 to June 30, 2017:

There were no changes in assumptions.

From fiscal year June 30, 2017 to June 30, 2018:

The discount rate was reduced from 7.65% to 7.15%.

\* - Fiscal year 2015 was the 1st year of implementation, therefore only four years are shown.

LA HABRA HEIGHTS COUNTY WATER DISTRICT

SCHEDULE OF CONTRIBUTIONS

Last Ten Fiscal Years\*

Fiscal year ended	Miscellaneous			
	June 30, 2017	June 30, 2017	June 30, 2016	June 30, 2015
Contractually required contribution (actuarially determined)	\$ 73,246	\$ 83,935	\$ 69,955	\$ 61,068
Contributions in relation to the actuarially determined contributions	<u>(73,246)</u>	<u>(83,935)</u>	<u>(369,955)</u>	<u>(61,068)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (300,000)</u>	<u>\$ -</u>
Covered payroll	\$ 766,210	\$ 741,585	\$ 744,900	\$ 722,019
Contributions as a percentage of covered - employee payroll	9.56%	11.32%	49.67%	8.46%

Notes to Schedule:

Valuation Date	6/30/2015	6/30/2014	6/30/2013	6/30/2012
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Methods and Assumptions Used to Determine Contribution Rates:

Single and agent employers	Entry age**
Amortization method	Level percentage of payroll, closed**
Asset valuation method	Market Value***
Inflation	2.75%**
Salary increases	Depending on age, service, and type of employment**
Investment rate of return	7.50%, net of pension plan investment expense, including inflation**
Retirement age	50 years (2%@60), 52 years (2%@62)**
Mortality	Mortality assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study adopted by the CalPERS Board.**

\* - Fiscal year 2015 was the 1st year of implementation, therefore only four years are shown

\*\* - The valuation for June 30, 2012, 2013, and 2014 (applicable to fiscal years ended June 30, 2015, 2016, and 2017, respectively) included the same actuarial assumptions.

\*\*\* - The valuation for June 30, 2012 (applicable to fiscal year ended June 30, 2015) valued assets using a 15 Year Smoothed Market method. The market value asset valuation method was utilized for the June 30, 2013, 2014, and 2015 valuations (applicable to fiscal years ended June 30, 2016, 2017, and 2018, respectively).

LA HABRA HEIGHTS COUNTY WATER DISTRICT

SCHEDULE OF CHANGES IN THE OPEB LIABILITY AND RELATED RATIOS

Last Ten Fiscal Years\*

Fiscal year end	<u>6/30/2018</u>
Measurement date	<u>6/30/2017</u>
Total OPEB Liability:	
Service cost	\$ 59,254
Interest on total OPEB liability	43,498
Benefit payments, including refunds of	<u>(15,978)</u>
Net Change in Total OPEB Liability	86,774
Total OPEB Liability - Beginning of Year	<u>1,397,620</u>
Total OPEB Liability - End of Year (a)	<u>1,484,394</u>
Covered - employee payroll	\$ 773,970
Net OPEB liability as percentage of covered - employee payroll	191.79%

Notes to Schedule:

Benefit Changes:

There were no changes in benefits.

Changes in Assumptions:

The fiscal year ended June 30, 2018 is the first year of implementation; therefore, there are no previous GASB 75 actuarial reports for comparison.

\* Fiscal year 2018 was the first year of implementation; therefore, only one year is shown.

## **SUPPLEMENTARY INFORMATION**

LA HABRA HEIGHTS COUNTY WATER DISTRICT

SCHEDULE OF OPERATING EXPENSES

For the year ended June 30, 2018  
(With prior-year comparative totals)

	2018	2017
Sources of supply - purchased water	<u>\$ 1,147,503</u>	<u>\$ 926,105</u>
Depreciation	<u>489,622</u>	<u>473,241</u>
Administrative and General:		
Office salaries	211,359	215,517
Manager's salary	130,030	140,432
Insurance	261,447	280,798
Employee benefits	173,934	246,061
Vacation, sick leave and holidays	118,848	121,196
Professional services	71,779	46,048
Payroll taxes	60,942	70,434
OPEB expense	102,752	132,352
Maintenance - general plant	74,373	68,090
Office supplies and equipment	57,555	40,457
Utilities	43,473	45,838
Automobile service	29,994	42,135
Travel	12,833	19,130
Dues	23,342	18,126
Legal services	66,448	37,945
Engineering expenses	40,478	31,334
Property taxes	4,453	3,296
Directors fees and election expenses	21,326	17,446
Miscellaneous	9,529	18,895
Total Administrative and General	<u>1,514,895</u>	<u>1,595,530</u>
Pumping:		
Supervision and maintenance	95,292	97,095
Purchased power	563,617	541,015
Total Pumping	<u>658,909</u>	<u>638,110</u>
Transmission and Distribution:		
Supervision, labor and expense	139,643	210,775
Maintenance - structures and plant	119,569	59,609
Joint facilities accounts	171,839	75,379
Total Transmission and Distribution	<u>431,051</u>	<u>345,763</u>
Customer accounts	<u>198,261</u>	<u>173,624</u>
Water treatment	<u>32,659</u>	<u>37,521</u>
TOTAL OPERATING EXPENSES	<u>\$ 4,472,900</u>	<u>\$ 4,189,894</u>

