

LA HABRA HEIGHTS COUNTY WATER DISTRICT

BASIC FINANCIAL STATEMENTS

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

JUNE 30, 2017 AND 2016

LA HABRA HEIGHTS COUNTY WATER DISTRICT

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For the years ended June 30, 2017 and 2016

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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 years ended June 30, 2017 and June 30, 2016, 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 audits 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, 2017 and 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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 funding progress - other post-employment benefits plan, 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 audits were 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 are not a required part of the basic financial statements.

The schedules of operating expenses are 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 schedules 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
October 11, 2017

LA HABRA HEIGHTS COUNTY WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2017

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, 2017. Please read it in conjunction with the basic financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's net position increased by \$369,096 or 2.35 percent.
- During the year the District's total revenues increased to \$4,429,786 or 7.21 percent, and expenses increased to \$4,219,005 or 7.43 percent from the prior year.
- Capital contributions to the District increased to \$158,315 or 91.82 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, 2017

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, 2017

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 2017	Fiscal Year 2016	Fiscal Year 2015	2017-2016 Variance		2016-2015 Variance	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Assets:							
Current and Other Assets	\$3,651,656	\$3,841,730	\$3,379,453	\$(190,074)	(4.95)%	\$462,277	13.68%
Capital Assets	14,915,116	14,040,881	14,363,492	874,235	6.23	(322,611)	(2.25)
Deferred Outflows of Resources	<u>209,551</u>	<u>373,869</u>	<u>61,068</u>	<u>(164,318)</u>	(43.95)	<u>312,801</u>	512.22
Total Assets and Deferred Outflows of Resources	<u>18,776,323</u>	<u>18,256,480</u>	<u>17,804,013</u>	<u>519,843</u>	2.85	<u>452,467</u>	2.54
Liabilities:							
Current Liabilities	819,195	597,511	458,543	221,684	36.10	138,968	30.31
Long-Term Liabilities	1,666,041	1,633,463	1,656,228	32,578	1.99	(22,765)	(1.37)
Deferred Inflows of Resources	<u>192,440</u>	<u>295,955</u>	<u>246,967</u>	<u>(103,515)</u>	(34.98)	<u>48,988</u>	19.84
Total Liabilities and Deferred Inflows of Resources	<u>2,677,676</u>	<u>2,526,929</u>	<u>2,361,738</u>	<u>150,747</u>	5.97	<u>165,191</u>	6.99
Net Position:							
Invested in Capital Assets, Net of Related Debt	14,514,271	13,587,930	13,859,630	926,341	6.82	(271,700)	(1.96)
Restricted	64,822	73,201	81,376	(8,379)	(11.45)	(8,175)	(10.05)
Unrestricted	<u>1,519,554</u>	<u>2,068,420</u>	<u>1,501,269</u>	<u>(548,866)</u>	(26.54)	<u>567,151</u>	37.78
Total Net Position	<u>\$16,098,647</u>	<u>\$15,729,551</u>	<u>\$15,442,275</u>	<u>\$369,096</u>	2.35	<u>\$287,276</u>	1.86

Net position increased by \$369,096 from fiscal year 2016 to 2017. Total Assets and Deferred Outflows of Resources increased by \$519,843. This change is primarily due to increased Capital Assets of \$874,235 as a result of various pipeline replacements.

LA HABRA HEIGHTS COUNTY WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

June 30, 2017

NET POSITION (CONTINUED)

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

	Fiscal <u>Year 2017</u>	Fiscal <u>Year 2016</u>	Fiscal <u>Year 2015</u>	<u>2017-2016 Variance</u>		<u>2016-2015 Variance</u>	
				Dollar <u>Change</u>	Percent <u>Change</u>	Dollar <u>Change</u>	Percent <u>Change</u>
Operating Revenues	\$3,555,246	\$3,293,021	\$3,262,448	\$262,225	7.96%	\$30,573	.94%
Nonoperating Revenues	<u>874,540</u>	<u>838,820</u>	<u>869,217</u>	<u>35,720</u>	4.26	<u>(30,397)</u>	(3.50)
Total Revenues	<u>4,429,786</u>	<u>4,131,841</u>	<u>4,131,665</u>	<u>297,945</u>	7.21	<u>176</u>	.00
Expenses:							
Depreciation Expense	473,241	468,520	473,790	4,721	1.01	(5,270)	(1.11)
Other Operating Expense	3,716,653	3,449,187	3,644,538	267,466	7.75	(195,351)	(5.36)
Nonoperating Expense	<u>29,111</u>	<u>9,393</u>	<u>10,360</u>	<u>19,718</u>	209.92	<u>(967)</u>	(9.33)
Total Expenses	<u>4,219,005</u>	<u>3,927,100</u>	<u>4,128,688</u>	<u>291,905</u>	7.43	<u>(201,588)</u>	(4.88)
Income (Loss) Before Capital Contributions	210,781	204,741	2,977	6,040	2.95	201,764	6777.43
Capital Contributions	<u>158,315</u>	<u>82,535</u>	<u>187,694</u>	<u>75,780</u>	91.82	<u>(105,159)</u>	(56.03)
Changes in Net Position	369,096	287,276	190,671	81,820	28.48	96,605	50.67
Beginning Net Position	<u>15,729,551</u>	<u>15,442,275</u>	<u>15,251,604</u>	<u>287,276</u>	1.86	<u>190,671</u>	1.25
Ending Net Position	<u>\$16,098,647</u>	<u>\$15,729,551</u>	<u>\$15,442,275</u>	<u>\$369,096</u>	2.35	<u>\$287,276</u>	1.86

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 \$210,781 and capital contributions of \$158,315 resulted in an increase in changes in net position of \$369,096 in fiscal year 2017.

A closer examination of the source of changes in net position reveals that operating revenues increased by \$262,225. The District implemented drought restrictions in 2016 as required by the State of California which resulted in water sales to customer remaining approximately the same compared to last year with a slight increase of 2.6%. Rainfall of 16.97 inches for the year was above average.

LA HABRA HEIGHTS COUNTY WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

June 30, 2017

NET POSITION (CONTINUED)

Additionally, nonoperating revenues increased by \$35,720 resulting from higher Property Taxes and Assessments compared to 2016. The District receives a portion of the 1% General Levy which is administered by Los Angeles County.

Other Operating Expenses increased by \$267,466. Due to GASB 68 Accounting and Financial Reporting for Pensions adjustments employee benefits increased which affects Other Operating Expenses. Transmission and Distribution expenditures decreased due to less repairs and leaks, however, Customer Accounts increased due to several service replacements resulting from leaks in water pipes.

Income (Loss) before capital contributions increased by \$6,040, resulting from the above mentioned items.

Capital Contributions increased by \$75,780, as a result of infrastructure installations by third parties. In 2017 a fire hydrant and service was installed on Casalero Drive.

LA HABRA HEIGHTS COUNTY WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

June 30, 2017

BUDGETARY HIGHLIGHTS

TABLE 3
Budget vs. Actual

	<u>Fiscal Year 2017</u>			<u>Fiscal Year 2016</u>			<u>Fiscal Year 2015</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	\$2,043,673	\$2,010,832	\$(32,841)	\$2,340,852	\$1,878,207	\$(462,645)	\$2,022,798	\$1,984,591	\$(38,207)
Water sales-Readiness to serve	1,503,191	1,492,530	(10,661)	1,413,949	1,341,305	(72,644)	1,269,533	1,202,652	(66,881)
Water rights lease	17,889	24,044	6,155	17,661	23,479	5,818	17,371	23,196	5,825
Other	27,253	27,840	587	59,958	50,030	(9,928)	80,571	52,009	(28,562)
Nonoperating Revenues	<u>841,835</u>	<u>874,540</u>	<u>32,705</u>	<u>822,805</u>	<u>838,820</u>	<u>16,015</u>	<u>771,365</u>	<u>869,217</u>	<u>97,852</u>
Total Revenues	<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>	<u>4,161,638</u>	<u>4,131,665</u>	<u>(29,973)</u>
Expenses:									
Operating Expenses:									
Sources of supply	942,876	926,105	(16,771)	1,287,526	867,158	(420,368)	963,467	1,084,071	120,604
Depreciation	494,404	473,241	(21,163)	481,057	468,520	(12,537)	477,642	473,790	(3,852)
Administrative and general	1,429,942	1,595,530	165,588	1,419,620	1,448,314	28,694	1,353,874	1,379,093	25,219
Pumping	634,310	638,110	3,800	630,288	515,200	(115,088)	605,119	601,888	(3,231)
Transmission and distribution	473,600	345,763	(127,837)	484,519	504,801	20,282	403,598	457,488	53,890
Customer accounts	84,233	173,624	89,391	81,804	87,078	5,274	82,725	94,928	12,203
Water treatment	32,389	37,521	5,132	35,713	26,636	(9,077)	34,794	27,070	(7,724)
Nonoperating Expenses	<u>8,364</u>	<u>29,111</u>	<u>20,747</u>	<u>11,329</u>	<u>9,393</u>	<u>(1,936)</u>	<u>12,496</u>	<u>10,360</u>	<u>(2,136)</u>
Total Expenses	<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>	<u>3,933,715</u>	<u>4,128,688</u>	<u>194,973</u>
Income (Loss) Before									
Capital Contributions	333,723	210,781	(122,942)	223,369	204,741	(1,028,140)	227,923	2,977	(165,000)
Capital Contributions	<u>-</u>	<u>158,315</u>	<u>158,315</u>	<u>-</u>	<u>82,535</u>	<u>82,535</u>	<u>-</u>	<u>187,694</u>	<u>187,694</u>
Changes in Net Position	333,723	<u>\$369,096</u>	<u>\$35,373</u>	223,369	<u>\$287,276</u>	<u>\$63,907</u>	227,923	<u>\$190,671</u>	<u>\$(37,252)</u>
Debt Service, Principle due	<u>(41,480)</u>			<u>(40,276)</u>			<u>(39,109)</u>		
Changes in Net Position, after									
Debt Service, Principle due	<u>\$292,243</u>			<u>\$183,093</u>			<u>\$188,814</u>		

LA HABRA HEIGHTS COUNTY WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

June 30, 2017

BUDGETARY HIGHLIGHTS (CONTINUED)

The variance of budget to actual indicates changes in net position difference of \$35,373. Expenses-Administrative and general increased due to GASB 68 Accounting and Financial Reporting for Pensions adjustments. Expenses-Transmissions and distribution were lower as there were less repairs to infrastructure.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

At the end of fiscal year 2017 the District had invested \$14,915,116 in a broad range of infrastructure as shown in Table 4.

TABLE 4
Capital Assets

	Fiscal Year 2017	Fiscal Year 2016	Fiscal Year 2015	2017-2016 Variance		2016-2015 Variance	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Capital assets, not being depreciated:							
Land	\$532,744	\$532,744	\$532,744	-	.00	-	.00
Water rights	1,309,491	1,309,491	1,309,491	-	.00	-	.00
Construction In Progress	<u>168,409</u>	<u>35,172</u>	<u>35,172</u>	<u>133,237</u>	378.82	<u>-</u>	.00
Total capital assets, not being depreciated	<u>2,010,644</u>	<u>1,877,407</u>	<u>1,877,407</u>	<u>133,237</u>	7.10	<u>-</u>	.00
Capital assets, being depreciated:							
Sources of supply	2,308,923	2,240,750	2,181,520	68,173	3.04	59,230	2.72
Pumping	1,625,878	1,607,958	1,607,958	17,920	1.11	-	.00
Transmission and distribution	24,375,780	23,417,931	23,404,253	957,849	4.09	13,678	.06
General	<u>1,791,189</u>	<u>1,738,355</u>	<u>1,813,642</u>	<u>52,834</u>	3.04	<u>(75,287)</u>	(4.15)
Total capital assets, being depreciated	<u>30,101,770</u>	<u>29,004,994</u>	<u>29,007,373</u>	<u>1,096,776</u>	3.78	<u>(2,379)</u>	(.01)

LA HABRA HEIGHTS COUNTY WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

June 30, 2017

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

CAPITAL ASSETS (CONTINUED)

TABLE 4
Capital Assets (Continued)

	Fiscal Year 2017	Fiscal Year 2016	Fiscal Year 2015	2017-2016 Variance		2016-2015 Variance	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Less accumulated depreciation for:							
Sources of supply	\$(1,117,259)	\$(1,050,625)	\$(1,000,959)	\$(66,634)	(6.34)%	\$(49,666)	(4.96)%
Pumping	(1,277,499)	(1,229,112)	(1,180,874)	(48,387)	(3.94)	(48,238)	(4.08)
Transmission and distribution	(13,408,418)	(13,185,817)	(12,922,375)	(222,601)	(1.69)	(263,442)	(2.04)
General	<u>(1,394,122)</u>	<u>(1,375,966)</u>	<u>(1,417,080)</u>	<u>(18,156)</u>	(1.32)	<u>41,114</u>	2.90
Total accumulated depreciation	<u>(17,197,298)</u>	<u>(16,841,520)</u>	<u>(16,521,288)</u>	<u>(355,778)</u>	(2.11)	<u>(320,232)</u>	(1.94)
Total capital assets, being depreciated, net	<u>12,904,472</u>	<u>12,163,474</u>	<u>12,486,085</u>	<u>740,998</u>	(6.09)	<u>(322,611)</u>	(2.58)
Total capital assets, net	<u>\$14,915,116</u>	<u>\$14,040,881</u>	<u>\$14,363,492</u>	<u>\$874,235</u>	(6.23)	<u>\$(322,611)</u>	(2.25)

Increases for fiscal year 2017 Capital assets, being depreciated-Transmission and distribution of \$957,849 resulted from the following replacements:

- 625' of 8" and 120' of 4" pipe at Hacienda Road
- 2- 6" fire hydrants at Hacienda Road
- 150' of 8" and 150' of 14" and 460' of 16" pipe at Tumin Road
- 680 of 6" pipe at West Road
- 2-6" fire hydrants on West Road
- 6" pipe and fire hydrant on Casalero

Additional detail about capital assets is shown in Note 3 to the basic financial statements.

DEBT ADMINISTRATION

At year-end, the District had \$347,512 in long-term liabilities down from \$400,845 in fiscal year 2016 for a decrease of \$53,333 or 13.3 percent, which was the amount of fiscal year 2017 principal payments on outstanding debt. The 1981 State Loan Payable is the only debt that is outstanding at year end 2017. The District did not issue new debt in fiscal year 2017 to finance major capital improvements.

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

LA HABRA HEIGHTS COUNTY WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

June 30, 2017

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 2017 budget, user fees and charges. The factors include cost of purchasing water, as well as, electricity costs. The District also considers the water rates of agencies in the surrounding communities.

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

STATEMENTS OF NET POSITION

June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS:		
Cash (Note 2)	\$ 995,137	\$ 1,229,985
Investment in State of California Local Agency Investment Fund (Note 2)	1,812,504	1,800,777
Accounts receivable:		
Customers	537,215	473,544
Interest	4,174	2,450
Taxes	17,275	6,800
Other	85,121	111,567
Inventory	88,253	98,890
Prepaid expenses	46,564	43,925
	<u>3,586,243</u>	<u>3,767,938</u>
TOTAL CURRENT ASSETS		
NONCURRENT ASSETS:		
Restricted assets:		
Construction advance receivable (Note 4b)	64,822	73,201
Investment in California Domestic Water Co., at cost	591	591
Capital assets (Note 3):		
Nondepreciable	2,010,644	1,877,407
Depreciable, net of accumulated depreciation	12,904,472	12,163,474
	<u>14,980,529</u>	<u>14,114,673</u>
TOTAL NONCURRENT ASSETS		
TOTAL ASSETS	<u>18,566,772</u>	<u>17,882,611</u>
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred amounts from pension plan	209,551	373,869
	<u>209,551</u>	<u>373,869</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES		

(Continued)

See accompanying notes to basic financial statements.

LA HABRA HEIGHTS COUNTY WATER DISTRICT

STATEMENTS OF NET POSITION
(CONTINUED)

June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 598,916	\$ 394,050
Current portion of 1981 State loan payable (Note 4a)	53,333	52,106
Deposits:		
Customers	500	500
Accrued payroll	14,610	12,035
Accrued employee benefits	60,139	53,380
Unearned rental income	91,697	85,440
	<u>819,195</u>	<u>597,511</u>
TOTAL CURRENT LIABILITIES	<u>819,195</u>	<u>597,511</u>
LONG-TERM LIABILITIES:		
Accrued employee benefits, net of current portion	44,751	74,444
Accrued other post-employment benefits (OPEB) liability (Note 7)	707,466	581,488
1981 State loan payable, net of current portion (Note 4a)	347,512	400,845
Net pension liability (Note 6)	566,312	576,686
	<u>1,666,041</u>	<u>1,633,463</u>
TOTAL LONG-TERM LIABILITIES	<u>1,666,041</u>	<u>1,633,463</u>
TOTAL LIABILITIES	<u>2,485,236</u>	<u>2,230,974</u>
DEFERRED INFLOWS OF RESOURCES:		
Deferred amounts from pension plan	192,440	295,955
	<u>192,440</u>	<u>295,955</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>192,440</u>	<u>295,955</u>
NET POSITION:		
Net investment in capital assets	14,514,271	13,587,930
Restricted - debt service	64,822	73,201
Unrestricted	1,519,554	2,068,420
	<u>16,098,647</u>	<u>15,729,551</u>
TOTAL NET POSITION	<u>\$ 16,098,647</u>	<u>\$ 15,729,551</u>

See accompanying notes to basic financial statements.

LA HABRA HEIGHTS COUNTY WATER DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION

For the years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
OPERATING REVENUES:		
Water sales:		
Consumption	\$ 2,010,831	\$ 1,878,207
Readiness to serve	1,492,531	1,341,305
Water rights lease	24,044	23,479
Other	27,840	50,030
TOTAL OPERATING REVENUES	<u>3,555,246</u>	<u>3,293,021</u>
OPERATING EXPENSES:		
Sources of supply	926,105	867,158
Depreciation	473,241	468,520
Administrative and general	1,595,530	1,448,314
Pumping	638,110	515,200
Transmission and distribution	345,763	504,801
Customer accounts	173,624	87,078
Water treatment	37,521	26,636
TOTAL OPERATING EXPENSES	<u>4,189,894</u>	<u>3,917,707</u>
OPERATING LOSS	<u>(634,648)</u>	<u>(624,686)</u>
NONOPERATING REVENUES (EXPENSES):		
Property taxes and assessments	741,140	714,025
Investment income	13,451	7,635
Rental income	107,631	106,219
Oil royalties	7,863	7,282
Other, net	4,455	3,441
Interest on long-term debt	(8,364)	(9,393)
Gain (loss) on disposal of assets	(20,747)	218
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>845,429</u>	<u>829,427</u>
NET INCOME BEFORE CAPITAL CONTRIBUTIONS	210,781	204,741
CAPITAL CONTRIBUTIONS	<u>158,315</u>	<u>82,535</u>
CHANGES IN NET POSITION	369,096	287,276
NET POSITION - BEGINNING OF YEAR	<u>15,729,551</u>	<u>15,442,275</u>
NET POSITION - END OF YEAR	<u>\$ 16,098,647</u>	<u>\$ 15,729,551</u>

See accompanying notes to basic financial statements.

LA HABRA HEIGHTS COUNTY WATER DISTRICT

STATEMENTS OF CASH FLOWS

For the years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 3,518,021	\$ 3,244,637
Payments to suppliers	(2,456,949)	(2,316,021)
Payments to employees	(876,154)	(1,238,814)
Other	4,455	3,441
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>189,373</u>	<u>(306,757)</u>
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from rental activities	107,631	106,219
Proceeds from property taxes and assessments	730,665	715,885
NET CASH PROVIDED BY NONCAPITAL AND RELATED FINANCING ACTIVITIES	<u>838,296</u>	<u>822,104</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of utility and general plant assets, net	(1,368,223)	(145,691)
Principal paid on 1981 State loan payable	(52,108)	(50,911)
Interest paid on 1981 State loan payable	(8,364)	(9,393)
Capital contributions	158,315	82,535
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(1,270,380)</u>	<u>(123,460)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest earned on investments	11,727	6,453
Royalty income	7,863	7,282
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>19,590</u>	<u>13,735</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(223,121)	405,622
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>3,030,762</u>	<u>2,625,140</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 2,807,641</u></u>	<u><u>\$ 3,030,762</u></u>

See accompanying notes to basic financial statements.

(Continued)

LA HABRA HEIGHTS COUNTY WATER DISTRICT

STATEMENTS OF CASH FLOWS
(CONTINUED)

For the years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating loss	<u>\$ (634,648)</u>	<u>\$ (624,686)</u>
Adjustment to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation	473,241	468,520
Other	4,455	3,441
Changes in assets, deferred outflows of resources, liabilities, and deferred inflow of resources:		
(Increase) decrease in assets and deferred outflows of resources:		
Accounts receivable	(28,846)	(39,709)
Inventory	10,637	(12,886)
Prepaid expenses	(2,639)	(4,738)
Deferred outflows of resources from pension plan	164,318	(312,801)
Increase (decrease) in liabilities and deferred inflow of resources:		
Accounts payable and accrued liabilities	330,846	286,702
Customers deposits	-	(500)
Accrued payroll and employee benefits liabilities	(20,359)	(27,906)
Unearned rental income	6,257	-
Net pension liability	(10,374)	(91,182)
Deferred inflows of resources from pension plan	<u>(103,515)</u>	<u>48,988</u>
Total adjustments	<u>824,021</u>	<u>317,929</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 189,373</u>	<u>\$ (306,757)</u>

See accompanying notes to basic financial statements.

LA HABRA HEIGHTS COUNTY WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017 and 2016

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.

LA HABRA HEIGHTS COUNTY WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2017 and 2016

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

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.

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 three items that qualify for reporting in this category. These items are the deferred outflows related to pensions. The first item is the deferred outflow for the differences between actual and expected experience. 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 Plan, which is 3.8 years. The second item is the deferred outflow for the amount that is equal to employer contributions made after the measurement date of the net pension liability. The third item is a deferred outflow related to pensions resulting from the difference in projected and actual earnings on investments of the pension plan fiduciary net position. This amount is amortized over five years.

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 three items that qualify for reporting in this category. The first item is the deferred inflow for the differences between actual and expected experience. The second item is a deferred inflow related to pensions for the changes in proportion and differences between employer contributions and the proportionate share of contributions.

LA HABRA HEIGHTS COUNTY WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2017 and 2016

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

e. Deferred Outflows/Inflows of Resources (Continued):

The third item is a deferred inflow related to changes in assumptions for the pension liabilities. These amounts are 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 Plan, which is 3.8 years.

f. New Accounting Pronouncements:

Current Year Standards:

GASB 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, contains provisions that address employer and governmental nonemployer contributing entities for pensions that are not within the scope of GASB 68, effective for periods beginning after June 15, 2016 and did not impact the District.

GASB 74 - Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, effective for periods beginning after June 15, 2016 and did not impact the District.

GASB 77 - Tax Abatement Disclosure, effective for periods beginning after December 15, 2015 and did not impact the District.

GASB 78 - Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans, effective for periods beginning after December 15, 2015 and did not impact the District.

GASB 79 - Certain External Investment Pools and Pool Participants, contains certain provisions on portfolio quality, custodial credit risk, and shadow pricing, effective for periods beginning after December 15, 2015 and did not impact the District.

GASB 80 - Blending Requirements for Certain Component Units, effective for periods beginning after June 15, 2016 and did not impact the District.

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.

LA HABRA HEIGHTS COUNTY WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2017 and 2016

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

f. New Accounting Pronouncements (Continued):

Pending Accounting Standards:

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

- GASB 75 - *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for periods beginning after June 15, 2017.
- GASB 81 - *Irrevocable Split-Interest Agreements*, effective for periods beginning after December 15, 2016 and did not impact the District.
- 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 85 - *Omnibus 2017*, effective for periods beginning after June 15, 2017.
- GASB 86 - *Certain Debt Extinguishment Issues*, effective for periods beginning after June 15, 2017.
- GASB 87 - *Leases*, effective for periods beginning after December 15, 2019.

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.

LA HABRA HEIGHTS COUNTY WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2017 and 2016

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

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.

l. Capital Assets and Depreciation:

The District records capital assets that are purchased at historical cost, while contributed assets are recorded at fair 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.

LA HABRA HEIGHTS COUNTY WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2017 and 2016

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

l. Capital Assets and Depreciation (Continued):

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
(CONTINUED)

June 30, 2017 and 2016

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 2017, 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.

LA HABRA HEIGHTS COUNTY WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2017 and 2016

2. CASH AND INVESTMENTS:

Cash and Investments:

Cash and investments as of June 30, 2017 and 2016 are reported in the accompanying Statements of Net Position as follows:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Financial Statement Classification:		
Unrestricted:		
Cash	\$ 995,137	\$ 1,229,985
Investment in State of California		
Local Agency Investment Fund	<u>1,812,504</u>	<u>1,800,777</u>
Total	<u>\$ 2,807,641</u>	<u>\$ 3,030,762</u>

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

LA HABRA HEIGHTS COUNTY WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2017 and 2016

2. CASH AND INVESTMENTS (CONTINUED):

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, 2017</u>	<u>June 30, 2016</u>
California Local Agency Investment Fund	<u>\$ 1,812,504</u>	<u>\$ 1,800,777</u>

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:

	<u>Unrated</u>	
	<u>June 30, 2017</u>	<u>June 30, 2016</u>
California Local Agency Investment Fund	<u>\$ 1,812,504</u>	<u>\$ 1,800,777</u>

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, 2017 and 2016.

LA HABRA HEIGHTS COUNTY WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2017 and 2016

2. CASH AND INVESTMENTS (CONTINUED):

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, 2017 and 2016, the bank balance of deposits were \$1,191,410 and \$1,351,981, 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.

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.

LA HABRA HEIGHTS COUNTY WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2017 and 2016

3. CAPITAL ASSETS:

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

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
Capital assets, not being depreciated:				
Land	\$ 532,744	\$ -	\$ -	\$ 532,744
Water rights	1,309,491	-	-	1,309,491
Construction in progress	<u>35,172</u>	<u>1,044,158</u>	<u>(910,921)</u>	<u>168,409</u>
Total capital assets, not being 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	<u>1,738,355</u>	<u>115,969</u>	<u>(63,135)</u>	<u>1,791,189</u>
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	<u>(1,375,966)</u>	<u>(77,301)</u>	<u>59,145</u>	<u>(1,394,122)</u>
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>
Total 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
(CONTINUED)

June 30, 2017 and 2016

3. CAPITAL ASSETS (CONTINUED):

Changes in capital assets and accumulated depreciation as of June 30, 2016 were as follows:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
Capital assets, not being depreciated:				
Land	\$ 532,744	\$ -	\$ -	\$ 532,744
Water rights	1,309,491	-	-	1,309,491
Construction in progress	<u>35,172</u>	<u>101,557</u>	<u>(101,557)</u>	<u>35,172</u>
Total capital assets, not being depreciated	<u>1,877,407</u>	<u>101,557</u>	<u>(101,557)</u>	<u>1,877,407</u>
Capital assets, being depreciated:				
Sources of supply	2,181,520	87,879	(28,649)	2,240,750
Pumping	1,607,958	-	-	1,607,958
Transmission and distribution	23,404,253	13,678	-	23,417,931
General	<u>1,813,642</u>	<u>49,134</u>	<u>(124,421)</u>	<u>1,738,355</u>
Total capital assets, being depreciated	<u>29,007,373</u>	<u>150,691</u>	<u>(153,070)</u>	<u>29,004,994</u>
Less accumulated depreciation for:				
Sources of supply	(1,000,959)	(73,533)	23,867	(1,050,625)
Pumping	(1,180,874)	(48,238)	-	(1,229,112)
Transmission and distribution	(12,922,375)	(263,442)	-	(13,185,817)
General	<u>(1,417,080)</u>	<u>(83,307)</u>	<u>124,421</u>	<u>(1,375,966)</u>
Total accumulated depreciation	<u>(16,521,288)</u>	<u>(468,520)</u>	<u>148,288</u>	<u>(16,841,520)</u>
Total capital assets being depreciated, net	<u>12,486,085</u>	<u>(317,829)</u>	<u>(4,782)</u>	<u>12,163,474</u>
Total capital assets, net	<u>\$ 14,363,492</u>	<u>\$ (216,272)</u>	<u>\$ (106,339)</u>	<u>\$ 14,040,881</u>

LA HABRA HEIGHTS COUNTY WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2017 and 2016

4. LONG-TERM LIABILITIES:

The following is a summary of long-term liabilities payable at June 30, 2017 and 2016 with changes thereon:

	Balance at June 30, 2015	Payments	Balance at June 30, 2016	Payments	Balance at June 30, 2017
1981 State loan payable \$	503,862	<u>\$ 50,911</u>	\$ 452,951	<u>\$ 52,106</u>	\$ 400,845
Less current portion	<u>(50,911)</u>		<u>(52,106)</u>		<u>(53,333)</u>
	<u>\$ 452,951</u>		<u>\$ 400,845</u>		<u>\$ 347,512</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 2023, 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
2018	\$ 50,268	\$ 3,065	\$ 9,484	\$ 62,817
2019	51,524	3,065	8,228	62,817
2020	52,812	3,065	6,940	62,817
2021	54,133	3,065	5,619	62,817
2022	55,486	3,065	4,266	62,817
2023 - 2024	<u>115,167</u>	<u>6,130</u>	<u>4,338</u>	<u>125,635</u>
	<u>\$ 379,390</u>	<u>\$ 21,455</u>	<u>\$ 38,875</u>	<u>\$ 439,720</u>

LA HABRA HEIGHTS COUNTY WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2017 and 2016

4. LONG-TERM LIABILITIES (CONTINUED):

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, 2017 and 2016 from Orchard Dale were \$64,822 and \$73,201, respectively.

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.

LA HABRA HEIGHTS COUNTY WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2017 and 2016

6. PENSION PLAN (CONTINUED):

a. General Information about the Pension Plan (Continued):

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.

The Plan's provisions and benefits in effect at June 30, 2017, are summarized as follows:

	Miscellaneous	
	Prior to January 1, 2013	On or After January 1, 2013
Hire date		
Benefit formula	2% @60	2% @62
Benefit vesting schedule	5 years service	5 years 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	6.88%	6.25%
Required employer contribution rates		
Normal cost rate	7.159%	6.555%
Payment of unfunded liability	\$ 26,910	\$ -

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.

LA HABRA HEIGHTS COUNTY WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2017 and 2016

6. PENSION PLAN (CONTINUED):

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

As of June 30, 2017, 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	<u>\$ 566,312</u>

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, 2016, 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, 2015 rolled forward to June 30, 2016 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 employers, actuarially determined.

The District's proportionate share of the net pension liability for the Plan as of the measurement dates ended June 30, 2015 and 2016 was as follows:

	<u>Miscellaneous</u>
Proportion - June 30, 2015	.02102 %
Proportion - June 30, 2016	.01630 %
Change - Increase (Decrease)	(.00472) %

For the year ended June 30, 2017, the District recognized pension expense of \$134,364. At June 30, 2017, 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	\$ 83,935	\$ -
Differences between actual and expected experience	2,500	(573)
Change in assumptions	-	(23,655)
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	-	(168,212)
Net differences between projected and actual earnings on plan investments	123,116	-
Total	<u>\$ 209,551</u>	<u>\$ (192,440)</u>

LA HABRA HEIGHTS COUNTY WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2017 and 2016

6. PENSION PLAN (CONTINUED):

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

\$83,935 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ending June 30,	Amount
2018	\$ (87,329)
2019	(62,406)
2020	51,024
2021	31,887
2022	-
Thereafter	-

Actuarial Assumptions:

For the measurement period ended June 30, 2016 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2015 total pension liability determined in the June 30, 2015 actuarial accounting valuation. The June 30, 2016 total pension liability was based on the following actuarial methods and assumptions:

Valuation Date	<u>Miscellaneous</u> June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	(1)
Mortality Rate Table	(2)
Post Retirement 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 1977 to 2011) available on the CalPERS website.

(3) Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter.

LA HABRA HEIGHTS COUNTY WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2017 and 2016

6. PENSION PLAN (CONTINUED):

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

Actuarial Assumptions (Continued):

All other actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, 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:

There were no changes of assumptions during the measurement period June 30, 2016. Deferred inflows of resources for changes of assumptions presented in the financial statements represent the unamortized portion of the changes of assumptions related to prior measurement periods.

Discount Rate:

The discount rate used to measure the total pension liability was 7.65% 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 of the Plans, the tests revealed the assets would not run out. Therefore, the current 7.65% discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long term expected discount rate of 7.65% 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.

LA HABRA HEIGHTS COUNTY WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2017 and 2016

6. PENSION PLAN (CONTINUED):

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

Discount Rate (Continued):

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.

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, 2015.

Asset Class	Target Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11+ (b)
Global Equity	51.0 %	5.25 %	5.71 %
Global Fixed Income	20.0 %	0.99 %	2.43 %
Inflation Sensitive	6.0 %	0.45 %	3.36 %
Private Equity	10.0 %	6.83 %	6.95 %
Real Estate	10.0 %	4.50 %	5.13 %
Infrastructure and Forestland	2.0 %	4.50 %	5.09 %
Liquidity	1.0 %	(0.55)%	(1.05)%
Total	100.0 %		

(a) An expected inflation of 2.5% used for this period

(b) An expected inflation of 3.0% used for this period

LA HABRA HEIGHTS COUNTY WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2017 and 2016

6. PENSION PLAN (CONTINUED):

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

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:

	<u>Miscellaneous</u>
1% Decrease	6.65%
Net Pension Liability	\$ 1,185,221
Current Discount Rate	7.65%
Net Pension Liability	\$ 566,312
1% Increase	8.65%
Net Pension Liability	\$ 54,814

Pension Plan Fiduciary Net Position:

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

Subsequent Events:

There were no subsequent events that would materially affect the results presented in this disclosure.

- c. Payable to the Pension Plan:

At June 30, 2017, the District had no outstanding amount of contributions to the pension plan required for the year ended June 30, 2017.

LA HABRA HEIGHTS COUNTY WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2017 and 2016

7. OTHER POST-EMPLOYMENT BENEFITS:

a. Plan Description:

The District contributes to a single-employer defined benefit plan to provide post-employment health care benefits. 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. The plan currently has ten active participants and one retiree. The plan does not provide a publicly available financial report.

b. Funding Policy:

The contribution requirements of plan members and the District are established and may be amended by the District, and/or the District's Board of Directors. Currently, contributions are not required from plan members. The District elected to use the Alternative Measurement Method in observing the parameters of GASB Statement 45 and is currently funding the OPEB obligation on a pay-as-you-go basis. The Annual Required Contribution (ARC) represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The ARC for fiscal year ended June 30, 2017 was \$109,092.

c. Annual OPEB Cost and Net OPEB Obligation:

The following table shows the component of the District's annual OPEB costs for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation.

Annual required contribution (ARC)	\$ 109,092
Interest on Net OPEB obligation	23,260
Adjustment to ARC	<u>-</u>
Annual OPEB cost	132,352
Contribution made	<u>(6,374)</u>
Increase in Net OPEB obligation	125,978
Net OPEB obligation at June 30, 2016	<u>581,488</u>
 Net OPEB obligation at June 30, 2017	 <u>\$ 707,466</u>

Interest on the net OPEB obligation at the beginning of the year is computed at a 4% rate which is the same rule used in the actuarial assumption.

The net OPEB liability is included as part of long-term liabilities in the District's statements of net position.

LA HABRA HEIGHTS COUNTY WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2017 and 2016

7. OTHER POST-EMPLOYMENT BENEFITS (CONTINUED):

d. Three-Year Trend Information:

For fiscal year 2017, the District's annual OPEB cost (expense) was \$132,352. The annual OPEB cost, actual contribution, percentage of annual OPEB cost contributed and net OPEB obligation for the last three fiscal years are as follows:

Fiscal Year Ended	Annual OPEB Cost	Actual Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2015	\$ 112,974	\$ 7,483	6.62%	\$ 459,594
6/30/2016	127,475	5,581	4.38%	581,488
6/30/2017	132,352	6,374	4.82%	707,466

e. Funded Status and Funding Progress:

As of July 1, 2015, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$907,948, and the actuarial value of assets was zero, resulting in an unfunded accrued liability (UAL) of \$907,948. The covered payroll (annual payroll of active employees covered by the plan) was \$722,019 and the ratio of the UAL to the covered payroll was 125.75%.

Actuarial valuations of an ongoing plan involve 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 District 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 basic financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

f. Actuarial Methods and Assumptions:

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

LA HABRA HEIGHTS COUNTY WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2017 and 2016

7. OTHER POST-EMPLOYMENT BENEFITS (CONTINUED):

f. Actuarial Methods and Assumptions (Continued):

In the July 1, 2015 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4.00% investment rate of return (net of administrative expenses), with a health care trend rate of 8.0% in 2015 decreasing to 5% in 2024, and an age adjustment factor of 3.0% with a cap inflation rate of -1.0%. The District's unfunded actuarial accrued liability will be amortized by level dollar contributions over thirty years as a level dollar amount.

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, 2017, 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 \$150,000,000 limited to the insurable value.

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.

LA HABRA HEIGHTS COUNTY WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2017 and 2016

8. COMMITMENTS AND CONTINGENCIES (CONTINUED):

a. Risk Management (Continued):

As a member of the Authority, the District participated in the insurance programs (Continued):

Boiler and Machinery - Coverage for the replacement cost up to \$150 million per occurrence limited to insurable value, subject to various deductible depending on the type of equipment.

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

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.

LA HABRA HEIGHTS COUNTY WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2017 and 2016

9. AGREEMENTS (CONTINUED):

a. Orchard Dale Water District (Continued):

In fiscal years 2016-2017 and 2015-2016, the District was reimbursed \$217,961 and \$208,283, 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.

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 2016-2017 and 2015-2016, the District was reimbursed \$10,929 and \$192,075, respectively for this agreement. As of June 30, 2017, the agreement was in dispute.

10. SUBSEQUENT EVENTS:

Events occurring after June 30, 2017 have been evaluated for possible adjustment to the financial statements or disclosure as of October 11, 2017, 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, 2017	June 30, 2016	June 30, 2015
Measurement period	June 30, 2016	June 30, 2015	June 30, 2014
Plan's proportion of the net pension liability	0.00654%	0.02102%	0.02702%
Plan's proportionate share of the net pension liability	\$ 566,312	\$ 576,686	\$ 667,868
Plan's covered - employee payroll	\$ 744,900	\$ 722,019	\$ 609,966
Plan's proportionate share of the net pension liability as a percentage of covered - employee payroll	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	74.06%	86.30%	83.03%
Plan's proportionate share of aggregate employer contributions	\$ 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.

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

LA HABRA HEIGHTS COUNTY WATER DISTRICT

SCHEDULE OF CONTRIBUTIONS

Last Ten Fiscal Years*

Fiscal year ended	Miscellaneous		
	June 30, 2017	(1) June 30, 2016	June 30, 2015
Contractually required contribution (actuarially determined)	\$ 83,935	\$ 69,955	\$ 61,068
Contributions in relation to the actuarially determined contributions	<u>(83,935)</u>	<u>(369,955)</u>	<u>(61,068)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ (300,000)</u>	<u>\$ -</u>
Covered - employee payroll	\$ 741,585	\$ 744,900	\$ 722,019
Contributions as a percentage of covered - employee payroll	11.32%	49.67%	8.46%

Notes to Schedule:

Valuation Date 6/30/2014

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 for all plans with the exception of 52 for Miscellaneous PEPRA 2% @ 62**
 Mortality Morality 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 three years are shown.

** - The valuation for June 30, 2012 and 2013 (applicable to fiscal years ended June 30, 2015 and 2016, 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 and 2014 valuations (applicable to fiscal years ended June 30, 2016 and 2017, respectively).

(1) Fiscal year 2016 - Contributions in relationship to the actuarially determined contributions includes the District's pay off of its CalPERS Side Fund liability.

LA HABRA HEIGHTS COUNTY WATER DISTRICT

SCHEDULE OF FUNDING PROGRESS
OTHER POST-EMPLOYMENT BENEFITS PLAN

For the year ended June 30, 2017

Actuarial Valuation Date	Actuarial Accrued Liability (AAL) (a)	Actuarial Value of Assets (AVA) (b)	Unfunded Accrued Liability (UAL) (a) - (b)	Funded Ratio (b)/(a)	Annual Covered Payroll (c)	UAL as a Percentage of Payroll [(a)-(b)]/(c)
07/01/09	\$ 515,311	\$ -	\$ 515,311	0.00%	\$ 646,340	79.73%
07/01/12	\$ 762,474	\$ -	\$ 762,474	0.00%	\$ 670,152	113.78%
07/01/15	\$ 907,948	\$ -	\$ 907,948	0.00%	\$ 722,019	125.75%

SUPPLEMENTARY INFORMATION

LA HABRA HEIGHTS COUNTY WATER DISTRICT

SCHEDULES OF OPERATING EXPENSES

For the years ended June 30, 2017 and 2016

	2017	2016
Sources of supply - purchased water	<u>\$ 926,105</u>	<u>\$ 867,158</u>
Depreciation	<u>473,241</u>	<u>468,520</u>
Administrative and General:		
Office salaries	215,517	213,408
Manager's salary	140,432	138,101
Insurance	280,798	259,706
Employee benefits	246,061	125,452
Vacation, sick leave and holidays	121,196	121,567
Professional services	46,048	45,432
Payroll taxes	70,434	67,562
OPEB expense	132,352	127,476
Maintenance - general plant	68,090	53,713
Office supplies and equipment	40,457	51,539
Utilities	45,838	45,694
Automobile service	42,135	30,766
Travel	19,130	15,442
Dues	18,126	18,768
Legal services	37,945	44,810
Engineering expenses	31,334	48,787
Property taxes	3,296	3,237
Directors fees and election expenses	17,446	18,300
Miscellaneous	18,895	18,554
Total Administrative and General	<u>1,595,530</u>	<u>1,448,314</u>
Pumping:		
Supervision and maintenance	97,095	58,196
Purchased power	541,015	457,004
Total Pumping	<u>638,110</u>	<u>515,200</u>
Transmission and Distribution:		
Supervision, labor and expense	210,775	187,809
Maintenance - structures and plant	59,609	78,937
Joint facilities accounts	75,379	238,055
Total Transmission and Distribution	<u>345,763</u>	<u>504,801</u>
Customer accounts	<u>173,624</u>	<u>87,078</u>
Water treatment	<u>37,521</u>	<u>26,636</u>
TOTAL OPERATING EXPENSES	<u><u>\$ 4,189,894</u></u>	<u><u>\$ 3,917,707</u></u>