



**Lake Hemet Municipal Water District  
Annual Financial Report**

**For the Fiscal Years Ended June 30, 2013 and 2012**



## *Mission Statement*

*The mission of the Lake Hemet Municipal Water District is to produce and deliver high-quality water to our customers for domestic and agricultural uses, to provide sewer collection services and to maintain Lake Hemet as a clean and safe water reservoir and recreational facility in an economical, efficient and responsible manner, now and into the future.*

### **Board of Directors as of June 30, 2013**

<b>Name</b>		<b>Title</b>	<b>Elected/ Appointed</b>	<b>Current Term</b>
Frank D. Gorman	Division II	President	Elected	01/2013 - 12/2016
Larry Minor	Division IV	Vice-President	Elected	01/2011 - 12/2014
Todd A Foutz	Division III	Secretary/Treasurer	Elected	01/2013 - 12/2014
Cornelius T. Schouten	Division I	Director	Elected	01/2013 - 12/2014
Rick Hoffman	Division V	Director	Elected	01/2013 - 12/2016

**Thomas W. Wagoner, General Manager  
Lake Hemet Municipal Water District  
26385 Fairview Avenue  
Hemet, California 92544  
(951) 658-3241 – [www.lhmwd.org](http://www.lhmwd.org)**

**Lake Hemet Municipal Water District**

**Annual Financial Report**

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# **Introductory Section**



## Board of Directors

Frank D. Gorman  
President – Div 2

Larry Minor  
Vice President – Div 4

Herbert C. Forst  
Secretary / Treasurer – Div 5

Comelius T. Schouten  
Director - Div 1

Todd A. Foutz  
Director – Div 3



## Staff

Thomas W. Wagoner  
General Manager

Mike Gow  
Asst. GM / Chief Engineer

Karen Hombarger  
Asst. Secretary/Treasurer

LeAnn Markham  
Admin Services Manager

Richard Johnson  
Construction Manager

**Mailing Address: P.O. Box 5039, Hemet, CA 92544-0039**  
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December 19, 2013

Board of Directors  
Lake Hemet Municipal Water District

## Introduction

It is our pleasure to submit the Annual Financial Report for the Lake Hemet Municipal Water District (District) for the fiscal years ended June 30, 2013 and 2012, following guidelines set forth by the Governmental Accounting Standards Board. District staff prepared this financial report. The District is ultimately responsible for both the accuracy of the data and the completeness and the fairness of presentation, including all disclosures in this financial report. We believe that the data presented is accurate in all material respects. The report is designed in a manner that we believe to be necessary to enhance the understanding of the District's financial position and activities.

This report is organized into two sections: (1) Introductory and (2) Financial. The Introductory section offers general information about the District's organization and current District activities and reports on a summary of significant financial results. The Financial section includes the Independent Auditor's Report, Management's Discussion and Analysis of the District's basic financial statements, the District's audited basic financial statements with accompanying Notes, and Supplemental Information.

Generally Accepted Accounting Principles (GAAP) requires that management provide a narrative introduction, overview and analysis to accompany the financial statements in the form of the Management's Discussion and Analysis (MD&A) section. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The District's MD&A can be found immediately after the Independent Auditor's Report.

## District Structure and Leadership

The Lake Hemet Municipal Water District is an independent special district, which was organized under the provisions of the Municipal Water District Act of 1911, as amended, and was incorporated on August 4, 1955. The District was created for the purpose of importing and delivering water to retail customers within its service area. The District is governed by a five-member Board of Directors, elected at-large from within the District's service area. The District General Manager administers the day-to-day operations of the District in accordance with policies and procedures established by the Board of Directors. The Lake Hemet Municipal Water District employs a full-time staff of 57 employees. The District's Board of Directors meets on the 3<sup>rd</sup> Thursday of each of each month. Meetings are publicly noticed and citizens are encouraged to attend.

The District is located in Riverside County, California and covers an area of approximately 16,700 acres (26 square mile area), providing water distribution and sewage collection within its boundaries to the communities of Hemet, San Jacinto, and adjacent unincorporated areas of Riverside County. The customer base is approximately 95% residential, 1% agricultural, and 4% commercial. The District currently provides water to over 14,188 connections and receives its water supply from four sources 1) local ground water, 2) Lake Hemet, 3) stream flow when available, and 4) Eastern Municipal Water District who in turn purchases from Metropolitan Water District.

### **Economic Condition and Outlook**

The District's administrative office is located in the unincorporated area of Riverside County, Valle Vista. The inland area has witnessed a slow economic recovery after several years of severe recessionary pressures.

California's water supply continues to be a concern due to projected population increases and a decrease in water supply levels. This concern has increased interest in conservation and in irrigation methods and systems.

### **Major Initiatives**

The activities of the Board and staff of the District are driven by its Mission Statement: "The mission of the Lake Hemet Municipal Water District is to produce and deliver high-quality water to our customers for domestic and agricultural uses, to provide sewer collection services and to maintain Lake Hemet as a clean and safe water reservoir and recreational facility in an economical, efficient, and responsible manner, now and into the future."

1. To supply clean, wholesome water to the community and provide water for the future.
2. To plan, construct, operate, maintain, and upgrade the water and wastewater systems facilities to adequately serve customer needs.
3. To utilize the District's financial resources in an effective, responsible, and prudent manner.
4. To provide quality customer service for District customers.
5. To inform, educate, and communicate with the community on District and water issues.
6. To review and maintain a plan to be proactive in preventative maintenance of the District's water and sewer systems.

All programs and operations of the District are developed and performed to provide the highest level of services to its customers.

### **Internal Control Structure**

District management is responsible for the establishment and maintenance of the internal control structure that ensures the assets of the District are protected from loss, theft, or misuse. The internal control structure also ensures that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The District's internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management.

### **Budgetary Control**

The District Board of Directors adopts an operating and capital budget every year. The budget authorizes and provides the basis for reporting and control of financial operations and accountability for the District's enterprise operations and capital projects. The budget and reporting treatment applied to the District is consistent with the accrual basis of accounting and the financial statement basis.



**Investment Policy**

The Board of Directors has adopted an investment policy that conforms to state law, District ordinance and resolutions, prudent money management, and the “prudent person” standards. The objective of the Investment Policy is safety, liquidity, and yield.

**Water and Sewer Rates and District Revenues**

District policy direction ensures that all revenues from user charges and surcharges generated from District customers must support all District operations including capital project funding. Accordingly, water and sewer rates are reviewed periodically. Water and wastewater rates are user charges imposed on customers for services and are the primary component of the District’s revenue. Water rates are composed of a commodity (usage) charge and a fixed (readiness-to-serve) charge. Wastewater rates are a flat charge to all residential dwelling units.

**Audit and Financial Reporting**

State Law and Bond covenants require the District to obtain an annual audit of its financial statements by an independent certified public accountant. The accounting firm of Charles Z. Fedak & Company, CPAs has conducted the audit of the District’s financial statements. Their unmodified Independent Auditor’s Report appears in the Financial Section.

**Other References**

More information is contained in the Management’s Discussion and Analysis and the Notes to the Basic Financial Statements found in the Financial Section of the report.

**Acknowledgements**

Preparation of this report was accomplished by the combined efforts of District staff. We appreciate the dedicated efforts and professionalism that these staff members contribute to the District. We would also like to thank the members of the Board of Directors and especially the Finance Committee members for their continued support in planning and implementation of the Lake Hemet Municipal Water District’s fiscal policies.

Respectfully submitted,

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Thomas W. Wagoner  
General Manager

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LeAnn Markham  
Administrative Services Manager

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# **Financial Section**





Charles Z. Fedak, CPA, MBA  
Paul J. Kaymark, CPA  
Christopher J. Brown, CPA

# Charles Z. Fedak & Company

Certified Public Accountants  
An Accountancy Corporation

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## Independent Auditor's Report

Board of Directors  
Lake Hemet Municipal Water District  
Hemet, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the Lake Hemet Municipal Water District (District) as of and for the years ended June 30, 2013 and 2012, 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.

### *Auditor's Responsibility*

Our responsibility is to express opinions 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the of the Lake Hemet Municipal Water District, as of June 30, 2013 and 2012, 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.

## Independent Auditor's Report, continued

### ***Emphasis of Matter***

As described in Note 1 to the financial statements, in 2013, the District adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information on pages 6 through 10 and 36 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 required supplementary information 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 our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section on pages 1 through 3, and the supplemental information schedules on pages 37 through 39, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental information schedules 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 supplemental information schedules are fairly stated in all material respects in relation to the basic financial statements as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2013 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Charles Z. Fedak & Company CPAs - An Accountancy Corporation*

**Charles Z. Fedak & Company, CPAs – An Accountancy Corporation**

Cypress, California

December 19, 2013

**Lake Hemet Municipal Water District**  
**Management's Discussion and Analysis**  
**For the Fiscal Years Ended June 30, 2013 and 2012**

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Lake Hemet Municipal Water District (District) provides an introduction to the financial statements of the District for the fiscal years ended June 30, 2013 and 2012. We encourage readers to consider the information presented here in conjunction with the transmittal letter in the Introductory Section and with the basic financial statements and related notes, which follow this section.

**Financial Highlights**

- The District's net position decreased 0.91%, or \$539,183 to \$58,482,022, in 2013. In 2012, the District's net position increased 1.69% or \$2,098,325 to \$59,021,205 as restated.
- The District's operating revenues increased 4.57% or \$587,712 in fiscal year 2013. In 2012, the District's operating revenues increased 6.59% or \$794,139.
- The District's operating expense increased 33.09% or \$2,872,448 in 2013. In 2012, the District's operating expense decreased 6.15% or \$568,362 in 2012.

**Required Financial Statements**

This annual report consists of a series of financial statements. The Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position and Statement of Cash Flows provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies.

The Statement of Net Position includes all of the District's investments in resources (assets), deferred outflows of resources, and the obligations to creditors (liabilities), and deferred inflows of resources. It also provides the basis for computing a 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 revenue 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 if the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and credit worthiness. The final required financial statement is the Statement of Cash Flows, which provides information about the District's cash receipts and cash payments during the reporting period. The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash resulting from operations, investing, non-capital financing, and capital and related 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.

**Financial Analysis of the District**

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the District in a way that helps answer this question. These statements include all assets, deferred outflows, liabilities, and deferred inflows using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the District's *net position* and changes in them. You can think of the District's net position, as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net position are one indicator of whether its *financial health* is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, zoning and new or changed government legislation, such as changes in Federal and State water quality standards.

**Lake Hemet Municipal Water District**  
**Management's Discussion and Analysis**  
**For the Fiscal Years Ended June 30, 2013 and 2012**

**Financial Analysis of the District (Continued)**

**Notes to the Basic Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 16 through 35.

**Statements of Net Position**

**Condensed Statements of Net Position**

	<u>2013</u>	<u>As Restated 2012</u>	<u>Change</u>	<u>Percentage</u>
<b>Assets:</b>				
Current assets	\$ 23,977,433	25,166,143	(1,188,710)	-4.72%
Non-current assets	285,000	639,487	(354,487)	-55.43%
Capital assets, net	<u>58,574,258</u>	<u>57,410,700</u>	<u>1,163,558</u>	<u>2.03%</u>
<b>Total assets</b>	<u>82,836,691</u>	<u>83,216,330</u>	<u>(379,639)</u>	<u>-0.46%</u>
<b>Liabilities:</b>				
Current liabilities	4,143,851	2,821,556	1,322,295	46.86%
Non-current liabilities	<u>20,210,818</u>	<u>21,373,569</u>	<u>(1,162,751)</u>	<u>-5.44%</u>
<b>Total liabilities</b>	<u>24,354,669</u>	<u>24,195,125</u>	<u>159,544</u>	<u>0.66%</u>
<b>Net position:</b>				
Net investment in capital assets	38,646,002	40,875,604	(2,229,602)	-5.45%
Restricted	3,894,007	7,388,854	(3,494,847)	-47.30%
Unrestricted	<u>15,942,013</u>	<u>10,756,747</u>	<u>5,185,266</u>	<u>48.20%</u>
<b>Total net position</b>	<u>\$ 58,482,022</u>	<u>59,021,205</u>	<u>(539,183)</u>	<u>-0.91%</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets of the District exceeded liabilities by \$58,482,022 and \$59,021,205 as of June 30, 2013 and 2012, respectively.

By far the largest portion of the District's net position (66% and 69% as of June 30, 2013 and 2012, respectively) reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are not available for future spending.

At the end of fiscal year 2013 and 2012, the District showed a positive balance in its unrestricted net position of \$15,942,013 and \$10,756,747 as restated, respectively.



**Lake Hemet Municipal Water District**  
**Management's Discussion and Analysis**  
**For the Fiscal Years Ended June 30, 2013 and 2012**

**Statements of Revenues, Expenses and Changes in Net Position**

**Condensed Statements of Revenues, Expenses, and Changes in Net Position**

	<u>2013</u>	<u>As Restated 2012</u>	<u>Change</u>	<u>Percentage</u>
<b>Revenue:</b>				
Operating revenues	\$ 13,438,490	12,850,778	587,712	4.57%
Non-operating revenue	1,640,846	1,648,141	(7,295)	-0.44%
<b>Total revenue</b>	<u>15,079,336</u>	<u>14,498,919</u>	<u>580,417</u>	<u>4.00%</u>
<b>Expense:</b>				
Operating expense	11,553,141	8,680,693	2,872,448	33.09%
Depreciation and amortization	3,001,675	2,719,498	282,177	10.38%
Non-operating expense	1,189,018	1,098,182	90,836	8.27%
<b>Total expense</b>	<u>15,743,834</u>	<u>12,498,373</u>	<u>3,245,461</u>	<u>25.97%</u>
Net income(loss) before capital contributions	(664,498)	2,000,546	(2,665,044)	-133.22%
<b>Capital contributions</b>	<u>125,315</u>	<u>97,779</u>	<u>27,536</u>	<u>28.16%</u>
<b>Change in net position</b>	<u>(539,183)</u>	<u>2,098,325</u>	<u>(2,637,508)</u>	<u>-125.70%</u>
<b>Net position – beginning of year</b>	<u>59,021,205</u>	<u>56,922,880</u>	<u>2,098,325</u>	<u>3.69%</u>
<b>Net position – end of year</b>	<u>\$ 58,482,022</u>	<u>59,021,205</u>	<u>(539,183)</u>	<u>-0.91%</u>

The statements of revenues, expenses and changes of net position show how the District's net position changed during the fiscal years. The District's, net position decreased by \$539,183 in fiscal year 2013, and increased by \$2,098,325 in fiscal year 2012.

A closer examination of the sources of changes in net position reveals that:

In 2013, the District's total revenues increased 4.00% or \$580,417 primarily due to a \$501,184 increase in operating revenues related to water operations consumption and service charges. Non-operating revenues decreased 0.44% or \$7,295 primarily due to increases in tax revenues of \$40,146, and increase in the gain on sale of assets of \$26,734, that was offset by decreases in rental income of \$50,075, and investment earnings of \$25,846.

In 2012, the District's total revenues increased by \$893,805, primarily due to a 6.59% or \$794,139 increase in operating revenues related to water operations consumption and service charges. Non-operating revenues increased 6.44% or \$99,666 primarily due to \$115,286 in net, campground revenues and a \$55,393 increase in rental revenues. This was offset by a \$34,207 decrease in property tax revenues.

In 2013, the District's total expenses increased by 25.97% or \$3,245,461. Total operating expenses increased by \$2,872,448 primarily due to a \$3,309,500 increase in source of supply expense that was offset by a \$561,484 decrease in general and administrative expenses. Total non-operating expenses increased 8.27% or \$90,836 primarily due to a one-time increase in amortization expense of \$311,700 related to the implementation of GASB 65, which was offset by a \$222,554 decrease in interest expense.

In 2012, the District's total expenses decreased by 17.24% or \$2,603,727 due in part to a \$568,362 decrease in operating expenses related to a \$633,638 decrease in source of supply expense. Non-operating expenses decreased 66.95% or \$2,224,305 primarily due to the pay-off of the District's CalPERS Side-Fund balance of \$2,295,170 in 2011.

**Lake Hemet Municipal Water District**  
**Management's Discussion and Analysis**  
**For the Fiscal Years Ended June 30, 2013 and 2012**

**Capital Asset Administration**

At the end of fiscal years 2013 and 2012, the District's investment in capital assets amounted to \$58,574,258 and \$57,410,700, respectively, (net of accumulated depreciation). This investment in capital assets includes land, transmission and distribution systems, collection systems, buildings and structures, equipment, and vehicles, etc. Major capital assets additions during the year included upgrades to the District's water operations production and transmission and distribution systems.

Changes in capital asset amounts for 2013 were as follows:

	<b>Balance 2012</b>	<b>Additions</b>	<b>Transfers/ Deletions</b>	<b>Balance 2013</b>
Non-depreciable assets	\$ 2,089,783	2,203,380	(3,042,466)	1,250,697
Depreciable assets	92,970,024	4,972,643	(342,424)	97,600,243
Accumulated depreciation	<u>(37,649,107)</u>	<u>(2,945,539)</u>	<u>317,964</u>	<u>(40,276,682)</u>
Total capital assets, net	<u>\$ 57,410,700</u>	<u>4,230,484</u>	<u>(3,066,926)</u>	<u>58,574,258</u>

Changes in capital asset amounts for 2012 were as follows:

	<b>Balance 2011</b>	<b>Additions</b>	<b>Transfers/ Deletions</b>	<b>Balance 2012</b>
Non-depreciable assets	\$ 1,650,650	8,611,519	(8,172,386)	2,089,783
Depreciable assets	81,830,669	11,976,330	(836,975)	92,970,024
Accumulated depreciation	<u>(35,440,152)</u>	<u>(2,719,498)</u>	<u>510,543</u>	<u>(37,649,107)</u>
Total capital assets, net	<u>\$ 48,041,167</u>	<u>17,868,351</u>	<u>(8,498,818)</u>	<u>57,410,700</u>

(See note 5 for further discussion)

**Debt Administration**

Changes in long-term debt amounts for 2013 were as follows:

	<b>Balance 2012</b>	<b>Additions</b>	<b>Principal Payments</b>	<b>Balance 2013</b>
Notes payable	\$ 9,234,677	-	(432,130)	8,802,547
Loan payable	2,798,530	-	(194,594)	2,603,936
Bond payable	1,535,000	-	(55,000)	1,480,000
Certificates of Participation payable	<u>7,685,000</u>	<u>-</u>	<u>(135,000)</u>	<u>7,550,000</u>
Total long-term debt	<u>\$ 21,253,207</u>	<u>-</u>	<u>(816,724)</u>	<u>20,436,483</u>

Changes in long-term debt amounts for 2012 were as follows:

	<b>Balance 2011</b>	<b>Additions</b>	<b>Principal Payments</b>	<b>Balance 2012</b>
Notes payable	\$ 3,318,809	6,705,252	(789,384)	9,234,677
Loan payable	2,988,263	-	(189,733)	2,798,530
Bond payable	1,585,000	-	(50,000)	1,535,000
Certificates of Participation payable	<u>7,820,000</u>	<u>-</u>	<u>(135,000)</u>	<u>7,685,000</u>
Total long-term debt	<u>\$ 15,712,072</u>	<u>6,705,252</u>	<u>(1,164,117)</u>	<u>21,253,207</u>

(See note 8 for further discussion)

**Lake Hemet Municipal Water District**  
*Management's Discussion and Analysis*  
**For the Fiscal Years Ended June 30, 2013 and 2012**

**Conditions Affecting Current Financial Position**

Management is unaware of any conditions that would have a significant impact on the District's financial position, net position, or operating results in terms of past, present and future.

**Requests for Information**

This financial report is designed to provide the District's funding sources, customers, stakeholders and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact Tom Wagoner, General Manager of Lake Hemet Municipal Water District, 26385 Fairview Avenue Hemet, California 92544.

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# **Basic Financial Statements**

**Lake Hemet Municipal Water District**  
**Statements of Net Position**  
**June 30, 2013 and 2012**

	<u>2013</u>	<u>As Restated 2012</u>
<b>Current assets:</b>		
Cash and cash equivalents (note 2)	\$ 17,953,777	15,782,413
Cash and cash equivalents – restricted (note 2)	3,868,040	7,382,467
Accrued interest receivable	1,867	3,153
Accounts receivable – water sales, net	1,241,948	1,243,572
Property taxes and assessments receivable	94,624	70,589
Property taxes and assessments receivable – restricted	25,967	6,386
Note receivable – restricted (note 3)	5,000	5,000
Materials and supplies inventory	475,335	461,400
Prepaid expenses and other assets	310,875	211,163
Total current assets	23,977,433	25,166,143
<b>Non-current assets:</b>		
Advance receivable	-	25,000
Note receivable – restricted (note 3)	285,000	290,000
Cost of debt issuance (note 4)	-	324,487
Capital assets – not being depreciated (note 5)	1,250,697	2,089,783
Depreciable capital assets, net (note 5)	57,323,561	55,320,917
Total non-current assets	58,859,258	58,050,187
Total assets	\$ 82,836,691	83,216,330

See accompanying notes to the basic financial statements

**Lake Hemet Municipal Water District**  
**Statements of Net Position, continued**  
**June 30, 2013 and 2012**

	<u>2013</u>	<u>As Restated 2012</u>
<b>Current liabilities:</b>		
Accounts payable and accrued expenses	\$ 2,411,939	862,158
Accrued salaries and related payables	169,550	169,623
Customer deposits	218,500	165,208
Accrued interest payable – restricted	203,461	356,497
Long-term liabilities – due within one year:		
Compensated absences (note 6)	289,916	451,346
Notes payable (note 8)	456,330	432,130
Loan payable (note 8)	199,155	194,594
Bonds payable (note 8)	55,000	55,000
Certificates of Participation (note 8)	140,000	135,000
Total current liabilities	<u>4,143,851</u>	<u>2,821,556</u>
<b>Non-current liabilities:</b>		
Unearned revenue – construction deposits	90,878	152,834
Long-term liabilities – due in more than one year:		
Compensated absences (note 6)	434,873	677,020
Other post-employment benefits payable (note 11)	99,069	107,232
Notes payable (note 8)	8,346,217	8,802,547
Loan payable (note 8)	2,404,781	2,603,936
Bonds payable (note 8)	1,425,000	1,480,000
Certificates of Participation (note 8)	7,410,000	7,550,000
Total non-current liabilities	<u>20,210,818</u>	<u>21,373,569</u>
<b>Total liabilities</b>	<u>24,354,669</u>	<u>24,195,125</u>
<b>Net position:</b> (note 12)		
Net investment in capital assets	38,646,002	40,875,604
Restricted for capital projects	3,394,686	6,893,103
Restricted for debt service	499,321	495,751
Unrestricted	15,942,013	10,756,747
<b>Total net position</b>	<u>\$ 58,482,022</u>	<u>59,021,205</u>

See accompanying notes to the basic financial statements

**Lake Hemet Municipal Water District**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**For the Fiscal Years Ended June 30, 2013 and 2012**

	<u>2013</u>	<u>As Restated 2012</u>
<b>Operating revenues:</b>		
Water consumption sales:		
Residential and commercial	\$ 9,418,553	9,063,154
Irrigation	1,578,787	1,433,002
Surcharges and assessments – water	1,252,690	1,179,753
Other charges	456,363	450,088
Sewer services	732,097	724,781
	<u>13,438,490</u>	<u>12,850,778</u>
<b>Operating expenses:</b>		
Source of supply	3,491,141	181,641
Pumping	1,182,550	1,059,454
Treatment	426,174	431,397
Transmission and distribution	1,295,499	1,293,130
Customer accounts	176,239	199,741
Sewer	163,530	135,838
General and administrative	4,818,008	5,379,492
	<u>11,553,141</u>	<u>8,680,693</u>
Total operating expenses	<u>11,553,141</u>	<u>8,680,693</u>
Operating income(loss) before depreciation expense	1,885,349	4,170,085
Depreciation expense	<u>(3,001,675)</u>	<u>(2,719,498)</u>
<b>Operating income (loss)</b>	<u>(1,116,326)</u>	<u>1,450,587</u>
<b>Non-operating revenue(expense):</b>		
Property taxes	1,331,164	1,291,018
Net income(loss) from Lake Hemet Campground operations	117,032	115,286
Rental income, net	83,570	133,645
Investment earnings	44,692	70,538
Interest expense	(798,191)	(1,020,745)
Gain on sale of assets	64,388	37,654
Amortization of deferred charges	(324,487)	(12,787)
Other non-operating expense, net	<u>(66,340)</u>	<u>(64,650)</u>
Total non-operating revenues(expenses), net	<u>451,828</u>	<u>549,959</u>
Net income (loss) before capital contributions	<u>(664,498)</u>	<u>2,000,546</u>
<b>Capital contributions:</b>		
Donations in aid of constructon	99,644	88,376
Connection fees	<u>25,671</u>	<u>9,403</u>
Total contributed capital	<u>125,315</u>	<u>97,779</u>
<b>Change in net assets</b>	<u>(539,183)</u>	<u>2,098,325</u>
<b>Net position, beginning of year</b>	<u>59,021,205</u>	<u>56,922,880</u>
<b>Net position, end of year</b>	<u>\$ 58,482,022</u>	<u>59,021,205</u>

See accompanying notes to the basic financial statements



**Lake Hemet Municipal Water District**  
**Statement of Cash Flows**  
**For the Fiscal Years Ended June 30, 2013 and 2012**

	<b>2013</b>	<b>2012</b>
Cash flows from operating activities:		
Cash receipts from customers	\$ 13,440,114	12,648,900
Cash paid to employees for salaries and wages	(4,442,279)	(4,164,003)
Cash paid to vendors and suppliers	(6,223,574)	(3,571,500)
Net cash provided by operating activities	2,774,261	4,913,397
Cash flows from non-capital financing activities:		
Property tax revenue	1,124,965	1,264,919
Advance to Urban Parks Concrete	-	25,000
Payment of Soboba Tribe Water Rights Claim	-	(2,394,000)
Net cash provided by (used in) non-capital financing activities	1,124,965	(1,104,081)
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(3,877,602)	(5,401,726)
Proceeds from capital contributions	125,315	88,376
Proceeds from sale of capital assets	64,388	37,654
Proceeds from Beaumont concrete settlement	5,000	5,000
Principal payments on notes payable	(432,130)	(1,976,414)
Principal payments on loans payable	(194,594)	(189,733)
Proceeds from bond tax levy	162,583	142,045
Principal payments on bonds payable	(55,000)	(50,000)
Principal payments on certificates of participation	(135,000)	(135,000)
Interest paid on long-term debt	(951,227)	(832,059)
Net cash used in capital and related financing activities	(5,288,267)	(8,311,857)
Cash flows from investing activities:		
Investment earnings	45,978	67,385
Net cash provided by investing activities	45,978	67,385
Net decrease in cash and cash equivalents	(1,343,063)	(4,435,156)
Cash and cash equivalents, beginning of year	23,164,880	27,600,036
Cash and cash equivalents, end of year	\$ 21,821,817	23,164,880
Reconciliation of cash and cash equivalents to statements of financial position:		
Cash and cash equivalents	\$ 17,953,777	15,782,413
Cash and cash equivalents – restricted	3,868,040	7,382,467
Total cash and cash equivalents	\$ 21,821,817	23,164,880

Continued on next page

See accompanying notes to the basic financial statements

**Lake Hemet Municipal Water District**  
**Statement of Cash Flows, continued**  
**For the Fiscal Years Ended June 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
Reconciliation of operating income to net cash provided by (used in) operating activities:		
Operating income	\$ <u>(1,116,326)</u>	<u>1,450,587</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation and amortization	3,001,675	2,719,498
Non-operating revenues	200,602	248,931
Non-operating expenses	(390,927)	(77,537)
Changes in assets and liabilities:		
(Increase)Decrease in assets:		
Accounts receivable – water sales, net	1,624	(201,878)
Materials and supplies receivable	(13,935)	(42,204)
Prepaid expenses and other assets	(99,712)	415,992
Increase(Decrease) in liabilities:		
Accounts payable and accrued expenses	1,549,781	442,102
Accrued salaries and related payables	(73)	(8,334)
Customer deposits and deferred revenue	53,292	28,230
Compensated absences	(403,577)	(6,978)
Other post-employment benefits payable	<u>(8,163)</u>	<u>(55,012)</u>
Total adjustments	<u>3,890,587</u>	<u>3,462,810</u>
Net cash provided by operating activities	\$ <u><u>2,774,261</u></u>	<u><u>4,913,397</u></u>
Non-cash investing, capital and financing transactions:		
Change in fair-market value of funds deposited with LAIF	\$ <u><u>(3,490)</u></u>	<u><u>(3,157)</u></u>

See accompanying notes to the basic financial statements

**Lake Hemet Municipal Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Fiscal Years Ended June 30, 2013 and 2012**

**(1) Reporting Entity and Summary of Significant Accounting Policies**

**A. Organization and Operations of the Reporting Entity**

The Lake Hemet Municipal Water District is an independent special district, which was organized under the provisions of the Municipal Water District Act of 1911, as amended, and was incorporated on August 4, 1955. The District was created for the purpose of importing and delivering water to retail customers within its service area. The District is governed by a five-member Board of Directors, elected at-large from within the District's service area.

**B. Basis of Accounting and Measurement Focus**

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs of providing water and sewer services to its customers on a continuing basis be financed or recovered primarily through user charges (water and sewer service fees). Revenues and expenses are recognized on the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place.

Operating revenues and expenses, such as water sales and water purchases, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Management, administration and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses.

The District recognizes revenue from water and sewer service charges based on cycle billings performed monthly with the exception of the Garner Valley area which is billed on a bi-monthly basis. The District accrues revenues with respect to water and sewer service sold but not billed at the end of a fiscal period.

**C. Financial Reporting**

The District's basic financial statements are prepared in accordance with Generally Accepted Accounting Principles in the United States of America (GAAP) issued by the Governmental Accounting Standards Board (GASB) applicable to governmental entities that use proprietary fund accounting, including GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Revenues are recognized when earned, and costs and expenses are recognized when incurred.

In 2013, the District implemented the following GASB Standards:

*Governmental Accounting Standards Board Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* effective for financial statements for periods beginning after December 15, 2011. The effect of the implementation of this Statement to the District is limited to renaming of *Net Assets* to *Net Position*.

*Governmental Accounting Standards Board Statement No. 65 – Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The effect of the implementation of this statement to the District calls for the full amortization (expense) of costs associated with the issuance of debt in the current year.

**Lake Hemet Municipal Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Fiscal Years Ended June 30, 2013 and 2012**

**(1) Reporting Entity and Summary of Significant Accounting Policies (Continued)**

**D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position**

**1. Use of Estimates**

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in net position during the reporting period.

**2. Cash and Cash Equivalents**

Substantially all of the District's cash is invested in interest bearing accounts. The District considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents.

**3. Investments and Investment Policy**

The District has adopted an investment policy directing the Director of Finance to deposit funds in financial institutions. Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

**4. Restricted Assets**

Certain assets of the District are restricted in use by ordinance or debt covenant and, accordingly, are shown as restricted assets on the accompanying statement of net position. The District uses restricted resources prior to using unrestricted resources to pay expenditures meeting the criteria imposed on the use of restricted resources by a third party.

**5. Accounts Receivable**

The District extends credit to customers in the normal course of operations. When Management deems a customer account uncollectable, the District uses the direct method for the write-off of those accounts.

**6. Prepaid Expenses**

Certain payments to vendors reflects costs or deposits applicable to future accounting periods and are recorded as prepaid items in the basic financial statements.

**7. Inventory**

Inventory consists primarily of materials used in construction and maintenance of the water and sewer system and is stated at cost using the average-cost method.

**Lake Hemet Municipal Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Fiscal Years Ended June 30, 2013 and 2012**

**(1) Reporting Entity and Summary of Significant Accounting Policies (Continued)**

**D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position**

**8. Capital Assets**

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at \$1,000. Contributed assets are recorded at estimated fair market value at the date of contribution. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

• Source of Supply	33.3 years
• Power Plant	33.3 years
• Pumping Equipment	20.0 years
• Water Treatment Equipment	33.3 years
• Transmission & Distribution Plant	33.3 years
• General Plant	5.0 to 33.3 years

**9. Compensated Absences**

The District's policy is to permit employees to accumulate earned sick leave and vacation according to the number of years of service with the District vacation to a maximum of 960 and 160 hours respectively. Sick leave is to be used for extended periods of sickness; however, upon termination or retirement, a portion is paid as additional benefits to the employee. All employees who separate from the District who have completed at least five years of continuous service and/or have been authorized to use their sick leave are entitled to receive 30% to 100% of the then unused sick leave at their regular payroll rate. The liability for vested vacation and sick leave is recorded as an expense when earned and become vested, in accordance with District policy.

**10. Deposit Connection Fees**

Connection fees are collected by the District to cover the cost of service connections within the District.

**11. Water and Sewer Sales**

The District recognizes water and sewer services charges based on cycle billings rendered to the customers on a monthly basis with the exception of the Garner Valley area which is billed on a bi-monthly basis.

**12. Capital Contributions**

Capital contributions represent cash and capital asset additions contributed to the District by property owners or real estate developers desiring services that require capital expenditures or capacity commitment.

**13. Budgetary Policies**

The District adopts a one year non-appropriated budget for planning, control, and evaluation purposes. Budgetary control and evaluation are affected by comparisons of actual revenues and expenses with planned revenues and expenses for the period. Encumbrance accounting is not used to account for commitments related to unperformed contracts for construction and services.

**Lake Hemet Municipal Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Fiscal Years Ended June 30, 2013 and 2012**

**(1) Reporting Entity and Summary of Significant Accounting Policies (Continued)**

**D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position**

**14. Net Position**

The District follows the financial reporting requirements of the GASB and reports net position under the following classifications:

- **Net Investment in Capital Assets** – This component of net position consists of capital assets, net of accumulated depreciation and reduced by any outstanding debt against the acquisition, construction or improvement of those assets.
- **Restricted Net position** – This component of net position consists of constraints placed on net position use through external constraints imposed by creditors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted Net position** – This component of net position consists of net position that does not meet the definition of *restricted* or *net investment in capital assets*.

**15. Prior Year Financial Data**

The District has reclassified certain prior year information to conform to current year presentation as well as conforming to the implementation of GASB No. 63 and GASB No. 65.

**(2) Cash and Investments**

Cash and investments as of June 30, are classified in the accompanying financial statements as follows:

	<b>2013</b>	<b>2012</b>
Cash and cash equivalents	\$ 17,953,777	15,782,413
Cash and cash equivalents – restricted	3,868,040	7,382,467
Total cash and investments	\$ 21,821,817	23,164,880

Cash and investments as of June 30, consist of the following:

	<b>2013</b>	<b>2012</b>
Cash on hand	\$ 1,150	1,150
Deposits with financial institutions	11,812,074	9,317,245
Investments	10,008,593	13,846,485
Total cash and investments	\$ 21,821,817	23,164,880

As of June 30, the District's authorized deposits had the following maturities:

	<b>2013</b>	<b>2012</b>
Deposits held with Local Agency Investment Fund (LAIF)	278 days	268 days

**Lake Hemet Municipal Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Fiscal Years Ended June 30, 2013 and 2012**

**(2) Cash and Investments (Continued)**

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

The table below identifies the investment types that are authorized by the District in accordance with 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. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
U.S Treasury Obligations	No	None	None
U.S. Agency and Sponsored Enterprise Securities	No	None	None
Bankers' Acceptances	No	40%	None
Negotiable Certificates of Deposit	No	30%	None
Commercial Paper	No	25%	None
Repurchase Agreements	No	None	None
Reverse Repurchase Agreements	No	20%	None
Medium-Term Notes	No	30%	None
Mortgage Pass-Through Securities	No	None	None
Local Agency Investment Fund - LAIF	Yes	None	\$50,000,000
Local Agency Bonds	No	None	None
Mutual Funds	No	20%	None
Money Market Mutual Funds	Yes	15%	N/A
County Pooled Investment Funds	No	None	None
Joint Powers Authority (CalTRUST)	No	None	None

Investment of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements 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>
U.S Treasury Obligations	None	None	None
U.S. Agency and Sponsored Enterprise Securities	None	None	None
State Obligations			
or Political Subdivision of States	None	None	None
Bankers' Acceptances	None	None	None
Negotiable Certificates of Deposit	None	None	None
Commercial Paper	None	None	None
Guaranteed Investment Contracts	None	None	None
Repurchase Agreements	None	None	None
Money Market Mutual Funds	None	None	None
Local Agency Investment Fund - LAIF	None	None	None

**Lake Hemet Municipal Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Fiscal Years Ended June 30, 2013 and 2012**

**(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.

With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

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. Of the bank balances, up to \$250,000 at June 30, 2013 and 2012, respectively, is federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

***Investment in State Investment Pool***

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

***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 matures or comes close to maturity evenly over time as necessary to provide requirements for 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 date:



**Lake Hemet Municipal Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Fiscal Years Ended June 30, 2013 and 2012**

**(2) Cash and Investments (Continued)**

***Interest Rate Risk***

Maturities of investments at June 30, 2013, were as follows:

<u>Investment Type</u>	<u>Total</u>	<u>Remaining Maturity</u> <u>12 Months</u> <u>Or Less</u>
Local Agency Investment Fund (LAIF)	\$ 3,071,673	3,071,673
Money Market Mutual Funds	6,805,659	6,805,659
Investment with fiscal agent		
Money Market Mutual Funds	131,261	131,261
Total	<u>\$ 10,008,593</u>	<u>10,008,593</u>

Maturities of investments at June 30, 2012, were as follows:

<u>Investment Type</u>	<u>Total</u>	<u>Remaining Maturity</u> <u>12 Months</u> <u>Or Less</u>
Local Agency Investment Fund (LAIF)	\$ 3,553,847	3,553,847
Money Market Mutual Funds	10,161,376	10,161,376
Investment with fiscal agent		
Money Market Mutual Funds	131,262	131,262
Total	<u>\$ 13,846,485</u>	<u>13,846,485</u>

***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, or debt agreements, and the actual rating as of year end for each investment type.

Credit ratings of investments as of June 30, 2013 were as follows:

<u>Investment Types</u>	<u>Total</u>	<u>Minimum</u> <u>Legal</u> <u>Rating</u>	<u>Rating</u> <u>AAA</u>	<u>Not</u> <u>Rated</u>
Local Agency Investment Fund (LAIF)	\$ 3,071,673	N/A	\$ -	3,071,673
Money Market Mutual Funds	6,805,659	AAA	6,805,659	-
Investment with fiscal agent				
Money Market Mutual Funds	131,261	AAA	131,261	-
Total	<u>\$ 10,008,593</u>		<u>\$ 6,936,920</u>	<u>3,071,673</u>

**Lake Hemet Municipal Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Fiscal Years Ended June 30, 2013 and 2012**

**(2) Cash and Investments (Continued)**

Credit ratings of investments as of June 30, 2012 were as follows:

<u>Investment Types</u>	<u>Total</u>	<u>Minimum Legal Rating</u>	<u>Rating AAA</u>	<u>Not Rated</u>
Local Agency Investment Fund (LAIF)	\$ 3,553,847	N/A	\$ -	3,553,847
Money Market Mutual Funds	10,161,376	AAA	10,161,376	
Investment with fiscal agent				
Money Market Mutual Funds	131,262	AAA	131,262	-
Total	<u>\$ 13,846,485</u>		<u>\$ 10,292,638</u>	<u>3,553,847</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.

**(3) Note Receivable, Beaumont Concrete Settlement**

In 2001, the District settled a claim against Beaumont Concrete in the amount of \$365,000. Terms of the settlement agreement call for annual payments to the District with the final payment due in 2046.

Changes in note receivable amounts for the year ended June 30, 2013 were as follows:

	<u>Balance 2012</u>	<u>Payments Received</u>	<u>Balance 2013</u>	<u>Current Portion</u>	<u>Non-Current Portion</u>
Note receivable	\$ 295,000	(5,000)	290,000	5,000	285,000

Changes in note receivable amounts for the year ended June 30, 2012 were as follows:

	<u>Balance 2011</u>	<u>Payments Received</u>	<u>Balance 2012</u>	<u>Current Portion</u>	<u>Non-Current Portion</u>
Note receivable	\$ 300,000	(5,000)	295,000	5,000	290,000

**(4) Cost of Debt Issuance**

Debt issuance costs of \$366,824 were capitalized and amortized over the term of the Certificates of Participation using the straight-line method. In fiscal year 2013, the remaining issuance cost balance has been fully amortized in accordance with GASB No. 65.

The changes in cost of debt issuance, net at June 30, were as follows:

The balance at June 30, consists of the following:

	<u>2013</u>	<u>2012</u>
Cost of debt issuance	\$ 366,824	366,824
Accumulated amortization	(366,824)	(42,337)
Total cost of issuing debt	<u>\$ -</u>	<u>324,487</u>

**Lake Hemet Municipal Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Fiscal Years Ended June 30, 2013 and 2012**

**(5) Capital Assets**

Changes in capital assets for the year were as follows:

	<u>Balance 2012</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2013</u>
Non-depreciable assets:				
Land	\$ 560,800	-	-	560,800
Intangible assets	360,029	-	-	360,029
Construction-in process	1,168,954	2,203,380	(3,042,466)	329,868
Total non-depreciable assets	<u>2,089,783</u>	<u>2,203,380</u>	<u>(3,042,466)</u>	<u>1,250,697</u>
Depreciable assets:				
Capacity rights	6,705,252	-	-	6,705,252
Franchise & rights of way	11,340	-	-	11,340
Dams, wells & reservoirs	6,443,111	3,900	-	6,447,011
North Fork Power Plant	70,794	-	-	70,794
Pumping & purification	5,402,122	138,509	(2,138)	5,538,493
Distribution & transmission	31,278,983	2,647,436	(40,074)	33,886,345
Fire hydrants, services & meters	11,348,499	1,959,705	(81,517)	13,226,687
Bldgs Structures & Grounds	10,763,976	1,550	-	10,765,526
General Equipment	4,914,788	153,109	(191,459)	4,876,438
Sewers	12,864,778	50,050	-	12,914,828
Campground Installations Etc.	3,166,381	18,384	(27,236)	3,157,529
Total depreciable assets	<u>92,970,024</u>	<u>4,972,643</u>	<u>(342,424)</u>	<u>97,600,243</u>
Accumulated depreciation	<u>(37,649,107)</u>	<u>(2,945,539)</u>	<u>317,964</u>	<u>(40,276,682)</u>
Total depreciable assets, net	<u>55,320,917</u>	<u>2,027,104</u>	<u>(24,460)</u>	<u>57,323,561</u>
Total capital assets, net	<u>\$ 57,410,700</u>	<u>4,230,484</u>	<u>(3,066,926)</u>	<u>58,574,258</u>

Increases in 2013 to capital assets consisted primarily of additions to pumping and purification equipment of \$138,509, distribution and transmission \$2,647,436, fire hydrants, services & meters of \$1,959,705, and general equipment \$153,109.

**Lake Hemet Municipal Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Fiscal Years Ended June 30, 2013 and 2012**

**(5) Capital Assets (Continued)**

Changes in capital assets for the year were as follows:

	<u>Balance 2011</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2012</u>
Non-depreciable assets:				
Land	\$ 560,800	-	-	560,800
Intangible assets	360,029	-	-	360,029
Construction-in process	729,821	8,611,519	(8,172,386)	1,168,954
Total non-depreciable assets	<u>1,650,650</u>	<u>8,611,519</u>	<u>(8,172,386)</u>	<u>2,089,783</u>
Depreciable assets:				
Capacity rights	-	6,705,252	-	6,705,252
Franchise & rights of way	11,340	-	-	11,340
Dams, wells & reservoirs	6,351,322	91,789	-	6,443,111
North Fork Power Plant	70,794	-	-	70,794
Pumping & purification	5,059,367	343,071	(316)	5,402,122
Distribution & transmission	29,334,110	2,327,692	(382,819)	31,278,983
Fire hydrants, services & meters	9,906,155	1,655,128	(212,784)	11,348,499
Bldgs Structures & Grounds	10,746,449	17,527	-	10,763,976
General Equipment	4,351,366	732,789	(169,367)	4,914,788
Sewers	12,841,797	23,152	(171)	12,864,778
Campground Installations Etc.	3,157,969	79,930	(71,518)	3,166,381
Total depreciable assets	<u>81,830,669</u>	<u>11,976,330</u>	<u>(836,975)</u>	<u>92,970,024</u>
Accumulated depreciation	<u>(35,440,152)</u>	<u>(2,719,498)</u>	<u>510,543</u>	<u>(37,649,107)</u>
Total depreciable assets, net	<u>46,390,517</u>	<u>9,256,832</u>	<u>(326,432)</u>	<u>55,320,917</u>
Total capital assets, net	<u>\$ 48,041,167</u>	<u>17,868,351</u>	<u>(8,498,818)</u>	<u>57,410,700</u>

Increases in 2012 for capital assets consisted primarily of additions to capacity rights \$6,705,252, pumping and purification \$343,071, distribution and transmission \$2,327,692, Fire hydrants services & meters \$1,655,128, and general equipment \$424,745.

**(6) Compensated Absences**

Compensated absences comprise unpaid vacation leave, sick leave and compensating time off which is accrued as earned. The District's liability for compensated absences is determined annually.

Changes to compensated absences for 2013, were as follows:

	<u>Balance 2012</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance 2013</u>	<u>Current Portion</u>	<u>Long-term Portion</u>
\$	<u>1,128,366</u>	<u>462,758</u>	<u>(866,335)</u>	<u>724,789</u>	<u>289,916</u>	<u>434,873</u>

Changes to compensated absences for 2012, were as follows:

	<u>Balance 2011</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance 2012</u>	<u>Current Portion</u>	<u>Long-term Portion</u>
\$	<u>1,135,344</u>	<u>450,992</u>	<u>(457,970)</u>	<u>1,128,366</u>	<u>451,346</u>	<u>677,020</u>

**Lake Hemet Municipal Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Fiscal Years Ended June 30, 2013 and 2012**

**(8) Long-Term Debt**

Changes in long-term debt amounts for 2013 were as follows:

	<b>As Restated Balance 2012</b>	<b>Additions</b>	<b>Payments</b>	<b>Balance 2013</b>
Long-term debt:				
Notes payable:				
Ground Water Management Plan	6,185,313	-	(150,423)	6,034,890
Municipal Finance Corporation – Admin Bldg	\$ 3,049,364	-	(281,707)	2,767,657
Total notes payable	<u>9,234,677</u>	<u>-</u>	<u>(432,130)</u>	<u>8,802,547</u>
Loan payable:				
Department of Water Resources	<u>2,798,530</u>	<u>-</u>	<u>(194,594)</u>	<u>2,603,936</u>
Bonds payable:				
Assessment District No. 2003-1, Garner Valley	<u>1,535,000</u>	<u>-</u>	<u>(55,000)</u>	<u>1,480,000</u>
Certificates of Participation:				
CSDA – Series 2010	<u>7,685,000</u>	<u>-</u>	<u>(135,000)</u>	<u>7,550,000</u>
Total long-term debt	<u>\$ 21,253,207</u>	<u>-</u>	<u>(816,724)</u>	<u>20,436,483</u>

Changes in long-term debt amounts for 2012 were as follows:

	<b>Balance 2011</b>	<b>Additions</b>	<b>Payments</b>	<b>As Restated Balance 2012</b>
Long-term debt:				
Notes payable:				
Ground Water Management Plan	-	6,705,252	(519,939)	6,185,313
Municipal Finance Corporation – Admin Bldg	\$ 3,318,809	-	(269,445)	3,049,364
Total notes payable	<u>3,318,809</u>	<u>6,705,252</u>	<u>(789,384)</u>	<u>9,234,677</u>
Loan payable:				
Department of Water Resources	<u>2,988,263</u>	<u>-</u>	<u>(189,733)</u>	<u>2,798,530</u>
Bonds payable:				
Assessment District No. 2003-1, Garner Valley	<u>1,585,000</u>	<u>-</u>	<u>(50,000)</u>	<u>1,535,000</u>
Certificates of Participation:				
CSDA – Series 2010	<u>7,820,000</u>	<u>-</u>	<u>(135,000)</u>	<u>7,685,000</u>
Total long-term debt	<u>\$ 15,712,072</u>	<u>6,705,252</u>	<u>(1,164,117)</u>	<u>21,253,207</u>

***Ground Water Management Plan Note Payable***

In 2009, Eastern Municipal Water District (EMWD) issued \$19,606,000 in bonds to fund construction of capital improvements related to a regional Ground Water Management Plan. Terms of the agreement with EMWD calls for the District to service a 34.2% proportional share (\$6,705,252) of the outstanding obligation. Semi-annual principal and interest payments of \$234,325 are due January 1, and July 1, at an interest rate of 4.0%, maturing in 2035.

**Lake Hemet Municipal Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Fiscal Years Ended June 30, 2013 and 2012**

**(8) Long-Term Debt, Continued**

***Ground Water Management Plan Note Payable, Continued***

Future annual debt service requirements are as follows:

Fiscal Year	Principal	Interest	Total
2014	\$ 161,804	306,846	468,650
2015	168,341	300,309	468,650
2016	175,142	293,508	468,650
2017	182,218	286,432	468,650
2018	189,579	279,071	468,650
2019-2023	1,069,159	1,274,092	2,343,251
2024-2028	1,325,369	1,017,883	2,343,252
2029-2033	1,706,273	636,978	2,343,251
2034-2035	1,057,005	113,071	1,170,076
Total	6,034,890	4,508,190	10,543,080
Less current portion	(161,804)		
Total non-current	\$ 5,873,086		

***Municipal Finance Corporation Note Payable***

In March 2006, the District entered into an agreement with the Municipal Finance Corporation in the amount of \$4,500,000 at the rate of 4.5%, to finance the construction of the Districts main office building and operations facility. Debt service payments in the amount of \$207,897 are due each March 10, and September 10, maturing March 2021.

Future annual debt service requirements are as follows:

Fiscal Year	Principal	Interest	Total
2014	\$ 294,526	121,268	415,794
2015	307,929	107,865	415,794
2016	321,942	93,853	415,794
2017	336,592	79,202	415,794
2018	351,909	63,885	415,794
2019-2021	1,154,759	92,623	1,247,382
Total	2,767,657	558,696	3,326,353
Less current portion	(294,526)		
Total non-current	\$ 2,473,131		

**Lake Hemet Municipal Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Fiscal Years Ended June 30, 2013 and 2012**

**(8) Long-Term Debt, Continued**

***Department of Water Resources Loan Payable***

In June 1999, the District entered into a low interest loan agreement with the California Department of Water Resources in the amount of \$3,909,310 at the rate of 2.4%, to fund the replacement of 37,000 feet aged transmission pipelines and related infrastructure. Debt service payments of \$130,233 are due each November 1 and March 1, maturing September 2024.

Future annual debt service requirements are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 199,155	61,311	260,466
2015	203,963	56,503	260,466
2016	208,784	51,682	260,466
2017	214,026	46,440	260,466
2018	219,096	41,370	260,466
2019-2023	1,177,421	124,909	1,302,330
2024-2025	381,490	9,209	390,699
Total	2,603,936	<u>391,422</u>	<u>2,995,358</u>
Less current portion	<u>(199,155)</u>		
Total non-current	\$ <u>2,404,781</u>		

***Assessment District No. 2003-1, Garner Valley Bond Payable***

In August 2005, the District issued \$1,842,479 in limited obligation bonds at various rates, to finance the acquisition and construction of improvements benefiting properties located within the boundaries of the District's Assessment District No. 2003-1, Garner Valley. The bonds are issued upon and secured by property assessments with the Assessment District. Interest on the bonds is payable semi-annually on September 2 and March 2 at variable rates from 3.0% to 5.0%, with principal payments scheduled each September 2, maturing in 2030.

Future annual debt service requirements are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 55,000	70,654	125,654
2015	60,000	68,230	128,230
2016	60,000	65,605	125,605
2017	65,000	62,808	127,808
2018	65,000	59,834	124,834
2019-2023	380,000	247,671	627,671
2024-2028	460,000	143,000	603,000
2029-2030	335,000	25,875	360,875
Total	1,480,000	<u>743,677</u>	<u>2,223,677</u>
Less current portion	<u>(55,000)</u>		
Total non-current	\$ <u>1,425,000</u>		

**Lake Hemet Municipal Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Fiscal Years Ended June 30, 2013 and 2012**

**(8) Long-Term Debt, Continued**

***CSDA Finance Corporation – Certificates of Participation Series 2010***

In September 2010, the Lake Hemet Municipal Water District issued \$7,802,976 of 2010 Series Certificates of Participation at rates from 3.0% to 5.25% (averaging 5.05%), to fund a portion of the cost of the design and construction of the Pipeline Replacement Project. The project primarily consists of 120,000 feet of pipeline replacement, modification to pumping facilities, and increased water storage for fire protection within the Valley Public Water System section of the enterprise.

The Series 2010 Certificates of Participation include principal payments due in varying amounts from \$135,000 to \$495,000 annually from September 1, 2011 to September 1, 2040, with interest payable semi-annually beginning March 2011, and maturing in fiscal year 2040.

***CSDA Finance Corporation – Certificates of Participation Series 2010***

Fiscal Year	Principal	Interest	Total
2014	\$ 140,000	364,238	504,238
2015	145,000	359,963	504,963
2016	150,000	355,538	505,538
2017	155,000	350,963	505,963
2018	160,000	346,038	506,038
2019-2023	895,000	1,632,139	2,527,139
2024-2028	1,135,000	1,389,315	2,524,315
2029-2033	1,465,000	1,064,265	2,529,265
2034-2038	1,900,000	628,685	2,528,685
2039-2040	1,405,000	113,269	1,518,269
Total	7,550,000	6,604,413	14,154,413
Less current portion	(140,000)		
Total non-current	\$ 7,410,000		

**(10) Defined Benefit Pension Plan**

***Plan Description***

The District contributes to the California Public Employees Retirement System (CalPERS), a cost-sharing multi-employer defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public agencies within the State of California. Benefit provisions and all other requirements are established by state statute and the District. Copies of CalPERS annual financial report may be obtained from their executive Office: 400 P Street, Sacramento, CA, 95814.

***Funding Policy***

The contribution rate for plan members in the CalPERS, 2.0% at 55 Risk Pool Retirement Plan is 7% of their annual covered salary and is paid by the District. The District makes these contributions required of District employees on their behalf and for their account. Also, the District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The required employer contribution rates are equal to the annual pension costs (APC) percentage of payroll for fiscal years 2013, 2012 and 2011 as noted below. The contribution requirements of the plan members are established by State statute, and the employer contribution rate is established and may be amended by CalPERS.



**Lake Hemet Municipal Water District  
Notes to the Basic Financial Statements (Continued)  
For the Fiscal Years Ended June 30, 2013 and 2012**

**(10) Defined Benefit Pension Plan, Continued**

*Funding Policy, Continued*

***California Public Employees' Pension Reform Act of 2013***

On September 12, 2012, the California Governor signed the California Public Employees' Pension Reform Act of 2013 (PEPRA) into law. PEPRA took effect January 1, 2013.

***Funding Policy***

Key components of the legislation are as follows:

- Establishes PEPRA which will apply to all public employers and public pension plans on and after January 1, 2013 (Except specific exemptions);
- Establishes new retirement tiers/benefits for new public employees;
- Prohibits certain cash payments from being counted as compensation; and
- Increases retirement age for all new public employees.

***Second-Tier – Beginning January 1, 2013***

The contribution rate for plan members in the CalPERS 2.0% at 62 Retirement Plan under PEPRA is 6.25% of their annual covered wages. The District filed a Certification of Memorandum of Understanding (MOU) Impairment with CalPERS prior to January 1, 2013. All District employees hired before January 1, 2013 contribute 2.8% and District employees hired on or after January 1, 2013 contribute 6.25% of their annual covered wages to their account. Also, the District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members.

For Fiscal years 2013, 2012 and 2011, the District's annual contributions for the CalPERS plan were equal to the Agencies required and actual contributions for each fiscal year as follows:

***Three Year Trend Information:***

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>APC Percentage of Payroll</u>
2013	\$ 628,709	100%	9.765%
2012	776,556	100%	10.985%
2011	1,041,146	100%	19.022%

For the benefit of its employees, the District participates in a 457 Deferred Compensation Program (Program) administered by ING and Nationwide through administrative service agreements. The purpose of this program is to provide deferred compensation for public employees that elect to participate in the Program. Generally, eligible employees may defer receipt of a portion of their salary until termination, retirement, death, or unforeseen 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.

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. Accordingly, the District is in compliance with this legislation. Therefore, these assets are not the legal property of the District, and are not subject to claims of the District's general creditors. Market value of all plan assets held in trust by the District plan amounted to \$2,752,826 and \$2,685,622 in fiscal years 2013 and 2012, respectfully.

The District has implemented GASB Statement No. 32, Accounting for Financial Reporting for Internal Revenue code Section 457 Deferred Compensation Plans. Since the District has little administrative involvement and does not perform the investing function of this plan, the assets and related liabilities are not shown on the Statements of Net position.

**Lake Hemet Municipal Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Fiscal Years Ended June 30, 2013 and 2012**

**(11) Other Post-Employment Benefits Payable**

The District provides other post-employment benefits (OPEB) to qualified employees who retire from the District and meet the District's vesting requirements. During the fiscal year ended June 30, 2010, the District implemented GASB Statement No. 45, which changed the accounting and financial reporting used by local government employers for post employment benefits. Previously, the costs of such benefits were generally recognized as expenses of local government employers on a pay-as-you-go basis. The new reporting requirements for these benefit programs as they pertain to the District are set forth below.

***Plan Description – Eligibility***

A retired employee and dependent spouse, or spouse of a deceased employee or retiree must satisfy the following requirements in order to be eligible for post employment medical and dental benefits:

- Employee who retires with at least 10 years of continuous service.

If the spouse of a deceased employee or retiree remarries and becomes eligible for health benefits under his/her new spouse's health plan, all District benefits shall be terminated.

Membership in the OPEB plan consisted of the following members as of June 30:

	2013	2012	2011
Active plan members	44	44	50
Retirees and beneficiaries receiving benefits	11	11	7
Separated plan members entitled to but not yet receiving benefits	-	-	-
Total plan membership	55	55	57

***Plan Description – Benefits***

The District offers post employment medical benefits to retired employees who satisfy the eligibility rules. The District contributes up to \$112 plus up to sixty-six (\$66) per month towards District retirees' health insurance premiums for those District employees who retire with ten years of service and are taking District medical insurance at the time of retirement. These payments will continue until the earlier of the death of the retiree or the retiree ceasing to be covered under the District's medical plan.

***Funding Policy***

The District is required to accrue the *Annual Required Contribution (ARC) of the Employer*, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The 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 (or funding excess) over a period not to exceed thirty years. The current ARC rate is 0.23% of the annual covered payroll.

***Annual Cost***

For the year ended June 30, 2013, the District's ARC cost is \$7,017. The District's net OPEB payable obligation amounted to \$99,069 for the year ended June 30, 2013. The District contributed \$15,180 in age adjusted contributions for current retiree OPEB premiums for the year ended June 30, 2013.

**Lake Hemet Municipal Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Fiscal Years Ended June 30, 2013 and 2012**

**(11) Other Post Employment Benefits Payable, Continued**

The balance at June 30, consists of the following:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Annual OPEB expense:			
Annual required contribution (ARC)	\$ 7,017	5,512	2,532
Interest on net OPEB obligation	-	-	-
Adjustment to annual required contribution	-	(52,604)	(3,756)
Total annual OPEB expense	7,017	(47,092)	(1,224)
Change in net OPEB payable obligation:			
Age adjusted contributions made	(15,180)	(7,920)	(2,532)
Total change in net OPEB payable obligation	(8,163)	(55,012)	(3,756)
OPEB payable – beginning of year	107,232	162,244	166,000
OPEB payable – end of year	\$ 99,069	107,232	162,244

***Annual Cost, Continued***

The District’s annual OPEB cost, the percentage of the annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal year 2013 and the two preceding years were as follows:

<i>Three-Year History of Net OPEB Obligation</i>				
<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Age Adjusted Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation Payable</u>
2013	\$ 7,017	15,180	0.00%	\$ 99,069
2012	(47,092)	7,920	0.00%	107,232
2011	(1,224)	2,532	0.00%	162,244

***Funded Status and Funding Progress of the Plan***

The most recent valuation (dated June 30, 2013) includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of \$99,069. The covered payroll (annual payroll of active employees covered by the plan) for the year ended June 30, 2013 was \$3,000,000. The ratio of the unfunded actuarial accrued liability to annual covered payroll is 3.99%.

See the Schedule of Funding Status of the District’s Other Post-Employment Benefits Obligation in the Required Supplementary Information Section on Page 35.

***Actuarial Methods and Assumptions***

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and the pattern of sharing of costs between the employer and plan members to that point.

Consistent with the long-term perspective of actuarial calculations, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities for benefits.

**Lake Hemet Municipal Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Fiscal Years Ended June 30, 2013 and 2012**

**(11) Other Post Employment Benefits Payable, Continued**

***Actuarial Methods and Assumptions***

The following is a summary of the actuarial assumptions and methods:

Valuation date	June 30, 2013
Actuarial cost method	Entry age actuarial cost method
Amortization method	Level dollar amortization period
Remaining amortization	30 Years as of the valuation date
Actuarial assumptions:	
Discount rate	4.00%
Projected salary increase	3.30%
Inflation - discount rate	4.00%

**(12) Net Position**

Calculation of net position as of June 30, were as follows:

	<u>2013</u>	<u>As Restated 2012</u>
Net investment in capital assets::		
Capital assets, net	\$ 58,574,258	57,410,700
Notes payable, current	(456,330)	(432,130)
Notes payable, non-current	(8,346,217)	(8,802,547)
Loan payable, current	(199,155)	(194,594)
Loan payable, non-current	(2,404,781)	(2,603,936)
Bonds payable, current	(55,000)	(55,000)
Bonds payable, non-current	(1,425,000)	(1,480,000)
Certificate of Participation, current	(140,000)	(135,000)
Certificate of Participation, non-current	(7,410,000)	(7,550,000)
Loan proceeds held by District	508,227	4,718,111
Total net investment in capital assets	<u>38,646,002</u>	<u>40,875,604</u>
Restricted for capital projects:		
Restricted – cash and cash equivalents	3,368,719	6,886,717
Restricted – property taxes and assessments receivable	25,967	6,386
Total restricted for capital projects	<u>3,394,686</u>	<u>6,893,103</u>
Restricted for debt service:		
Restricted – cash and cash equivalents	499,321	495,751
Unrestricted net position:		
Non-spendable net position:		
Materials and supplies receivable	475,335	461,400
Prepaid expenses and other assets	310,875	211,163
Cost of debt issuance	-	324,487
Total non-spendable net position	<u>786,210</u>	<u>997,050</u>
Spendable net position is designated as follows:		
Unrestricted	15,155,803	9,759,697
Total spendable net position	<u>15,155,803</u>	<u>9,759,697</u>
Total unrestricted net position	<u>15,942,013</u>	<u>10,756,747</u>
Total net position	<u>\$ 58,482,022</u>	<u>59,021,205</u>

**Lake Hemet Municipal Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Fiscal Years Ended June 30, 2013 and 2012**

**(13) Prior Period Adjustment**

***Ground Water Management Plan Note Payable***

In fiscal year 2013, the District determined that a debt payment related to the Ground Water Management Plan note payable was improperly recorded. As a result, the District has recorded a prior period adjustment to net position in the amount of \$1,115,141 at July 1, 2012.

The adjustments to net position are as follows:

Net position at July 1, 2011, as previously stated	\$ 58,038,021
Effect of adjustment to debt balance	(1,115,141)
Change in net position at June 30, 2012, as previously stated	<u>2,098,325</u>
Net position at June 30, 2012, as restated	<u><u>\$ 59,021,205</u></u>

**(14) 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. Insurance coverage is provided by various carriers in amounts to meet statutory requirements.

**(15) Governmental Accounting Standards Board Statements Issued, Not Yet Effective**

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2013, that has effective dates that may impact future financial presentations.

***Governmental Accounting Standards Board Statement No. 66***

In March 2012, the GASB issued Statement No. 66 – Technical Corrections–2012—an amendment of GASB Statements No. 10 and No. 62. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The impact of the implementation of this Statement to the District’s financial statements has not been assessed at this time.

***Governmental Accounting Standards Board Statement No. 68***

In June 2012, the GASB issued Statement No. 68 – Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

**Lake Hemet Municipal Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Fiscal Years Ended June 30, 2013 and 2012**

**(15) Governmental Accounting Standards Board Statements Issued, Not Yet Effective**

This Statement replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, as well as the requirements of Statement No. 50, Pension Disclosures, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The provisions of Statement 68 are effective for fiscal years beginning after June 15, 2014. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

***Governmental Accounting Standards Board Statement No. 69***

In January 2013, the GASB issued Statement No. 69 – Government Combinations and Disposals of Government Operations. The objective of this Statement is to provide new accounting and financial reporting standards for government mergers and acquisitions and for government operations that have been transferred or sold. The provisions of this Statement are effective for financial statements for periods beginning after December 19, 2013. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

***Governmental Accounting Standards Board Statement No. 70***

In April 2013, the GASB issued Statement No. 70 – Accounting and Financial Reporting for Non-exchange Guarantees. Provisions of this Statement require that governments that extend non-exchange financial guarantees to recognize a liability when qualitative factors and historic data, if any, indicate that it is more likely than not that the government will be required to make a payments on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows related to the guarantee expected to be incurred. When there is no best estimate but a range of the estimated future outflows can be established, the amount of the liability to be recognized should be the discounted present value of the minimum amount within the range.

**(16) Commitments and Contingencies**

***Litigation***

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. After consultation with legal counsel, the District believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

**(17) Subsequent Event**

Events occurring after June 30, 2013 have been evaluated for possible adjustment to the financial statements or disclosure as of December 19, 2013, which is the date the financial statements were available to be issued.

## **Required Supplementary Information**

**Lake Hemet Municipal Water District**  
**Schedule of Funding Status – Other Post-Employment Benefits Obligation**  
**For the Fiscal Years Ended June 30, 2013 and 2012**

**Other Post Employment Benefits Payable**

*Funded Status and Funding Progress of the Plan*

*Required Supplemental Information – Schedule of Funding Progress*

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/2013 \$	-	119,836	119,836	0.00%	\$ 3,000,000	3.99%
6/30/2012	-	107,232	107,232	0.00%	\$ 3,000,000	3.57%

Funding progress is presented for the year(s) that an actuarial study has been prepared since the effective date of GASB Statement 45. Actuarial review and analysis of the post-employment benefits liability and funding status is performed every three years or annually if there are significant changes in the plan. The next scheduled actuarial review and analysis of the post-employment benefits liability and funding status will be performed in fiscal year 2015 based on the year ending June 30, 2014.



## **Supplemental Information**



**Lake Hemet Municipal Water District**  
**Individual Non-Major Fund – Statements of Net Position – Garner Valley**  
**June 30, 2013 and 2012**

	<b>2013</b>	<b>2012</b>
<b>Current assets:</b>		
Cash and cash equivalents	\$ -	-
Cash and cash equivalents – restricted	131,262	131,262
Accounts receivable – water sales, net	3,722	2,987
Property taxes and assessments receivable	30,779	12,088
Prepaid expenses and other assets	1,586	638
Total current assets	167,349	146,975
<b>Non-current assets:</b>		
Cost of issuing debt	-	60,349
Capital assets – not being depreciated	28,901	28,901
Depreciable capital assets, net	3,202,936	3,328,266
Total non-current assets	3,231,837	3,417,516
<b>Total assets</b>	3,399,186	3,564,491
<b>Current liabilities:</b>		
Accounts payable and accrued expenses	10,905	13,931
Accrued interest payable	23,800	43,648
Long-term liabilities – due within one year:		
Compensated absences	9,179	15,254
Bonds payable	55,000	55,000
Total current liabilities	98,884	127,833
<b>Non-current liabilities:</b>		
Long-term liabilities – due in more than one year:		
Bonds payable	1,425,000	1,480,000
Total non-current liabilities	1,425,000	1,480,000
<b>Total liabilities</b>	1,523,884	1,607,833
<b>Net position:</b>		
Net investment in capital assets	1,751,837	1,822,167
Restricted for debt service	131,262	131,262
Unrestricted	(7,797)	3,229
<b>Total net position</b>	\$ 1,875,302	1,956,658

See accompanying notes to the basic financial statements

**Lake Hemet Municipal Water District**  
**Individual Non-Major Fund – Statements of Revenues, Expenses and**  
**Changes in Net Position – Garner Valley**  
**For the Fiscal Years Ended June 30, 2013 and 2012**

	<b>2013</b>	<b>2012</b>
<b>Operating revenues:</b>		
Water consumption sales:		
Domestic water sales	\$ 285,440	233,593
Total operating revenues	285,440	233,593
<b>Operating expenses:</b>		
Source of supply	10,795	5,593
Pumping	72,328	66,259
Treatment	17,586	23,776
Transmission and distribution	8,338	14,170
General and administrative	11,576	107,419
Total operating expenses	120,623	217,217
Operating income before depreciation expense	164,817	16,376
Depreciation expense	(140,125)	(140,879)
<b>Operating income (loss)</b>	24,692	(124,503)
<b>Non-operating revenue(expense):</b>		
Property taxes and assessments	188,275	156,913
Investment earnings	419	615
Interest expense	(53,037)	(99,627)
Amortization of issuance costs	(60,349)	(3,353)
Other non-operating revenues(expense), net	9,060	(11,052)
Total non-operating revenues(expenses), net	84,368	43,496
<b>Inter-fund transfers:</b>	35,419	35,419
Total inter-fund transfers	(190,416)	72,171
<b>Change in net position</b>	(81,356)	(8,836)
<b>Net position, beginning of year</b>	1,956,658	1,965,494
<b>Net position, end of year</b>	\$ 1,875,302	1,956,658

See accompanying notes to the basic financial statements

**Lake Hemet Municipal Water District**  
**Individual Non-Major Fund – Schedule of Capital Assets – Garner Valley**  
**For the Fiscal Years Ended June 30, 2013 and 2012**

Changes in capital assets for the year were as follows:

	<u>Balance 2012</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2013</u>
Non-depreciable assets:				
Land	\$ 6,588	-	-	6,588
Construction-in process	22,313	-	-	22,313
Total non-depreciable assets	<u>28,901</u>	<u>-</u>	<u>-</u>	<u>28,901</u>
Depreciable assets:				
Formation costs	112		-	112
Dams and water study	15,572		-	15,572
Dams, wells & reservoirs	408,627		-	408,627
Pumping & purification	374,505	14,795	-	389,300
Distribution & transmission	3,265,043	-	-	3,265,043
Fire hydrants, services & meters	287,995	-	-	287,995
Buildings, structures and grounds	99,084		-	99,084
Total depreciable assets	<u>4,450,938</u>	<u>14,795</u>	<u>-</u>	<u>4,465,733</u>
Accumulated depreciation:	<u>(1,122,672)</u>	<u>(140,125)</u>	<u>-</u>	<u>(1,262,797)</u>
Total depreciable assets, net	<u>3,328,266</u>	<u>(125,330)</u>	<u>-</u>	<u>3,202,936</u>
Total capital assets, net	<u>\$ 3,357,167</u>	<u>(125,330)</u>	<u>-</u>	<u>3,231,837</u>

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# **Report on Internal Controls and Compliance**







Charles Z. Fedak, CPA, MBA  
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## **Independent Auditor's Report on Internal Control Over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

Board of Directors  
Lake Hemet Municipal Water District  
Hemet, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Lake Hemet Municipal Water District (District), as of and for the years June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated December 19, 2013.

### **Internal Control Over Financial Reporting**

In planning and performing our audits of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Independent Auditor's Report on Internal Controls Over Financial Reporting  
And on Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards*, (continued)**

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the district's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Charles Z. Fedak & Company CPAs - An Accountancy Corporation*

**Charles Z. Fedak & Company, CPAs - An Accountancy Corporation**  
Cypress, California  
December 19, 2013