

LEE LAKE WATER DISTRICT
ANNUAL FINANCIAL REPORT

For the Fiscal Years Ended
June 30, 2014 and 2013

Lee Lake Water District
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June 30, 2014 and 2013

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Lee Lake Water District
Corona, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of the Lee Lake Water District (the "District"), as of and for the years ended June 30, 2014 and 2013, 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 audit. We conducted our audit 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's

preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of the Lee Lake Water District, as of June 30, 2014 and 2013, and the changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 – 11 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 an opinion on the financial statements that collectively comprise the District's basic financial statements. The schedule listed in the Supplementary Information section of the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule listed in the Supplementary Information section of the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other

records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule listed in the Supplementary Information section of the table of contents is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated November 17, 2014 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 the 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.

Van Lant & Fankhanel, LLP

November 17, 2014

LEE LAKE WATER DISTRICT
Management's Discussion and Analysis
June 30, 2014

Our discussion and analysis of Lee Lake Water District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2014. Please read it in conjunction with the District's financial statements, which begin on page 12.

Financial Highlights

- The District's net position increased \$ 4,386,906 or 6.0 percent in the current year as a result of \$ 899,345 from operations and \$3,487,561 from connection fees for a new development.
- Current assets and other restricted assets increased by \$ 2,751,500 mainly due to the net effect of an increase in current assets of \$173,371 and a increase in restricted assets of \$2,578,129.
- Current year operating revenues increased by \$4,039,809 due to increases in water service fees and new development connection fees, while operating expenses increased by \$462,642 due mainly to higher water purchase fees of \$228,221.
- Capital asset contributions received from developers were zero in the current year and zero in the prior year, due to no granting of completed facilities within housing developments in the District's service area.
- Total revenues were \$11.9 million and \$ 7.9 million and total expenses were \$7.8 million and \$7.4 million for the current year and prior year, respectively.
- See accompanying charts for revenue and expense details, as well as capital expenditures.

Using This Annual Report

This annual report consists of a series of financial statements. The statements of net position and statements of revenues, expenses, and changes in net position (on pages 12 through 15) provide information about the activities of the District as a whole and present a longer-term view of the District's finances.

Reporting on the District as a Whole

Our analysis of the District as a whole begins on page 4. One of the most important questions asked about the District's finances is, "Is the District as a whole better off or worse off as a result of the year's activities?" The statements of net position and the statements of revenues, expenses, and changes in net position, report information about the District as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities 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 cash is received or paid.

LEE LAKE WATER DISTRICT
Management's Discussion and Analysis
(Continued)
June 30, 2014

These financial statements report the District's net position and changes in them. You can think of the District's net position – the difference between assets and liabilities – 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. You will need to consider other non financial factors, such as changes in the District's property tax base and the condition of the District's water and sewer facilities, to assess the overall health of the District.

The District reports in the statements of net position and the statements of revenues expenses, and changes in net position two types of activities, water and sewer services. All District activities are reported in these statements.

The District as a Whole

The District's net position increased to \$75.6 million from \$71.2 million. Our analysis below focuses on the net position (Table 1) and the changes in net position (Table 2) of the District's activities.

Table 1
Net position (in Millions)
June 30

	2014	2013	2012
Capital assets	\$56.2	\$ 52.2	\$ 52.0
Current and other restricted assets	23.2	20.5	20.2
Total assets	<u>79.5</u>	<u>72.7</u>	<u>72.2</u>
Total liabilities	<u>3.9</u>	<u>1.5</u>	<u>1.6</u>
Net position			
Invested in capital assets, net of related debt	<u>56.3</u>	<u>52.2</u>	<u>52.0</u>
Unrestricted	<u>20.0</u>	<u>19.0</u>	<u>18.6</u>
Total net position	<u>\$76.3</u>	<u>\$ 71.2</u>	<u>\$70.5</u>

The net position increased by \$4,386,906 in 2014, \$ 656,895 in 2013 and \$ 1,516,987 in 2012. Unrestricted net position (the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements) increased by \$173,371. This increase arose primarily as a result of an increase in income from residential and commercial developments.

LEE LAKE WATER DISTRICT
Management's Discussion and Analysis
(Continued)
June 30, 2014

Table 2
Changes in Net position (in millions)
June 30

	2014	2013	2012
Operating revenues	\$ 11.9	\$7.9	\$7.7
Operating expenses	7.8	7.3	6.4
Operating income (loss)	4.1	.6	1.3
Non-operating revenues, net	.2	.1	.2
Capital contributions	-	-	-
Change in net position	\$ 4.3	\$.7	\$ 1.5

The District's operating revenues increased by 50.8 percent in the current year. Operating expenses increased by 6.3 percent. The factors driving these results include:

- Operating revenues increased by \$ 4,039,809. The increase was due to water connection fees paid on a new development for 1,413 homes, and service fees due to water usage. . Operating expenses increased by 6.3% due to increases in water purchased expense and depreciation.
- The District had 4,611 active water services at June 30, 2014 as compared to 4,547 active services at June 30, 2013 and 4,485 active services at June 30, 2012. This represents a net increase of 64 active meters or 1.4 percent.
- Capital asset contributions by developers were zero in 2014, zero in 2013, and \$4.15 million in 2012, as a result of the completion and dedication of new water and sewer facilities within the new housing developments inside the District.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2014, the District had \$56.2 million invested in a broad range of capital assets including land, water reclamation facilities, reservoirs, water transportation facilities, water and sewer mains, and sewage collection, treatment, and disposal systems, and buildings and equipment (see Table 3 below).

LEE LAKE WATER DISTRICT
Management's Discussion and Analysis
(Continued)
June 30, 2014

Table 3
Capital Assets at Year-End (in millions)
June 30

	2014	2013	2012
Land	\$.9	\$.9	\$.9
Water capacity rights	13.5	8.5	8.5
Construction in progress	.5	.9	.8
Capital assets (net of depreciation)	41.3	42.0	41.8
	\$ 56.2	\$ 52.3	\$ 52.0

Debt

At June 30, 2014, the District had no long-term debt.

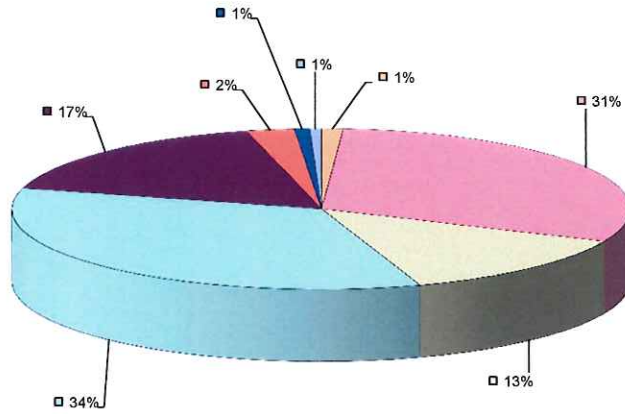
Factors Bearing on the District's Future

The District is currently experiencing very little growth in residential housing within its service area. In the 2013-2014 fiscal year, the customer base increased only by 1.4 percent. New and planned residential communities totaling approximately 2,213 residences are projected to be completed in the future. This new growth will increase the size of the District's customer base. These planned residential communities are in various stages of construction and planning. As water and sewer facilities are completed and accepted by the District, the facilities will become part of the District's capital assets and subject to operation by the District.

Contacting the District's Financial Management

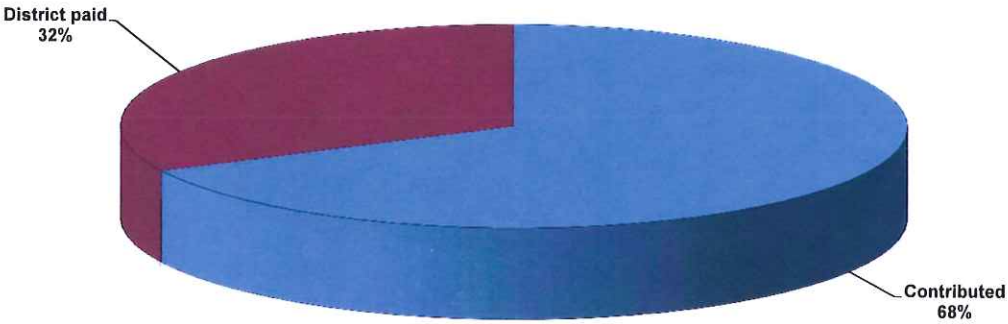
The financial report is designed to provide our citizens, taxpayers, and customers with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Manager at: Lee Lake Water District, 22646 Temescal Canyon Road, Temescal Canyon, California 92883.

Lee Lake Water District
Capital Assets
June 30, 2014



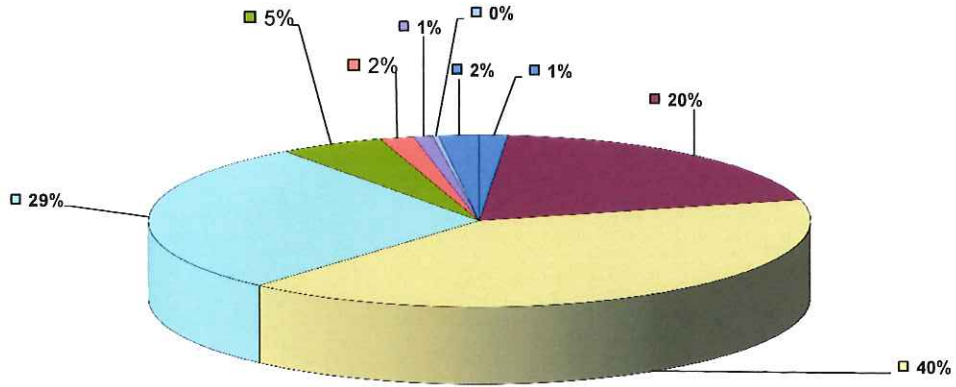
- Land
- Water reclamation facility
- Reservoirs & water transportation facilities
- Water & sewer mains
- Water capacity rights
- Equipment
- Office building improvements
- Construction in progress

Lee Lake Water District
Percentage of Capital Assets Contributed
June 30, 2014



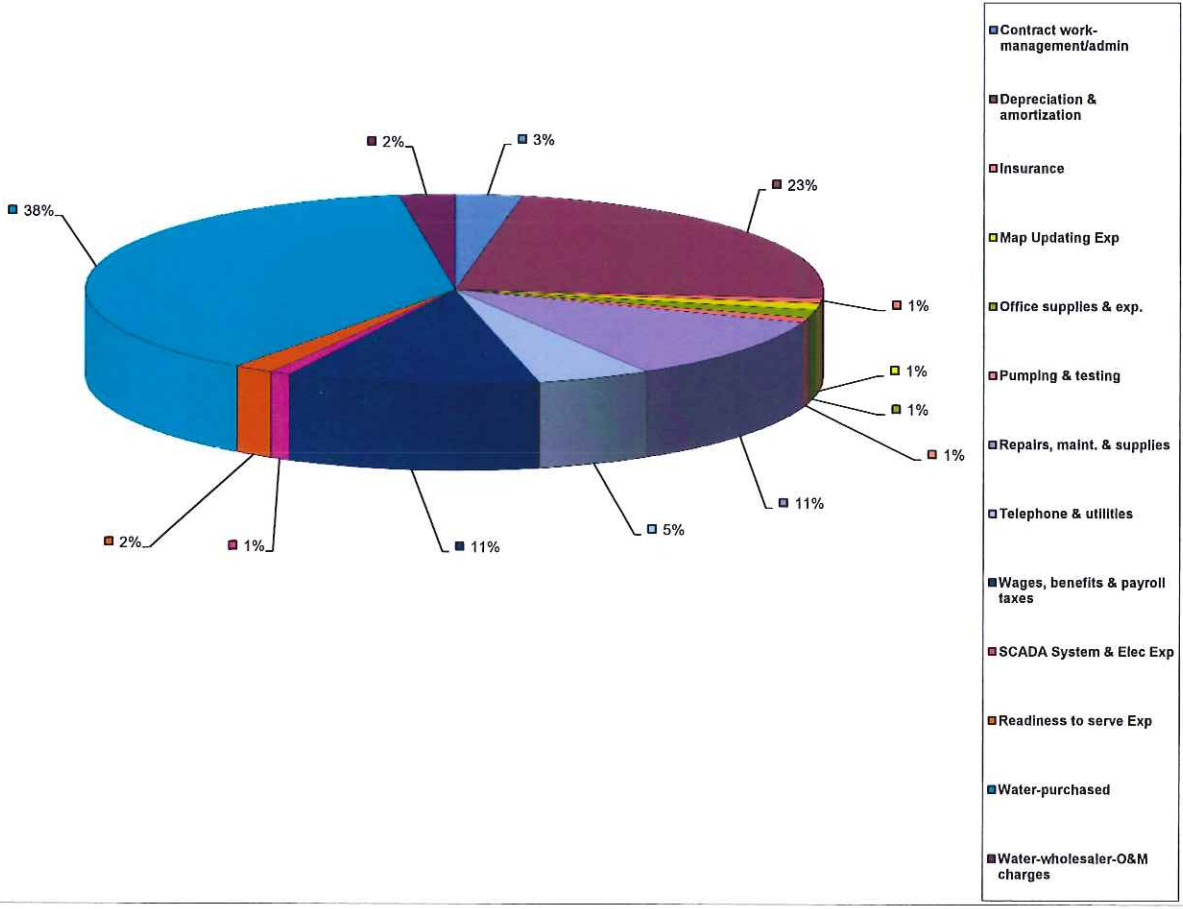
■ Contributed ■ District paid

Lee Lake Water District
 Operating Revenue
 Year ended June 30, 2014



- | | |
|-----------------------------------|---------------------------------|
| ■ Standby charges | ■ Sewer service fees |
| ■ Water service fees | ■ Connection fees |
| ■ Recycled/Nonpotable water sales | ■ MWD Readiness to serve charge |
| ■ Property Taxes | ■ Interest income |
| ■ Other | |

**Lee Lake Water District
Operating Expenses
Year ended June 30, 2014**



BASIC FINANCIAL STATEMENTS

Lee Lake Water District
Statement of Net Position
June 30, 2014 and 2013

	2014	2013
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 19,010,159	\$ 18,947,490
Accounts Receivable:		
Utility	873,183	799,438
Other	30,113	30,711
Accrued Interest Receivable	7,856	8,628
Prepaid Expenses	57,706	20,317
Inventory	65,260	64,322
Total Current Assets	20,044,277	19,870,906
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	3,197,004	618,875
Capital Assets Not Being Depreciated:		
Land	902,118	902,118
Water Capacity Rights	13,503,639	8,452,438
Construction in Progress	481,590	909,477
Capital Assets, Net of Accumulated Depreciation	41,343,209	41,974,003
Total Noncurrent Assets	59,427,560	52,856,911
Total Assets	79,471,837	72,727,817
LIABILITIES		
Current Liabilities:		
Accounts Payable	190,695	508,193
Payable to Other Governmental Agencies	395,784	307,365
Due to Agency Fund	2,610,636	-
Accrued Salaries and Refunds	44,563	48,318
Related Party Payable	46,003	34,184
Excess Sewer Capacity Deposits	120,403	98,613
Other Deposits	465,965	520,262
Total Current Liabilities	3,874,049	1,516,935
NET POSITION		
Net Investment in Capital Assets	56,230,556	52,238,036
Unrestricted	19,367,232	18,972,846
Total Net Position	\$ 75,597,788	\$ 71,210,882

The accompanying notes are an integral part of this statement.

Lee Lake Water District
Statement of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2014 and 2013

	2014	2013
OPERATING REVENUES		
Standby Charges	\$ 171,170	\$ 172,287
Sewer Service Fees	2,412,458	2,367,271
Water Service Fees	5,573,565	5,015,819
Connection Fees	3,487,561	238,048
Service Meter Income	5,820	24,800
Other	336,299	128,839
Total Operating Revenues	11,986,873	7,947,064
OPERATING EXPENSES		
Annual Assessment Processing	11,394	11,398
Bank Charges	20,467	17,095
Computer System	24,461	23,808
Community Outreach	9,685	10,648
Contract Work - Management and Administrative	223,421	209,999
Contract Work - Operations and Engineering	60,748	181,013
Depreciation and Amortization	1,774,774	1,644,817
Director Fees	7,678	10,231
Insurance	62,411	85,940
Legal and Accounting	31,952	29,720
Map Updating	87,481	23,540
Miscellaneous	6,133	150,527
Office Equipment Rental	12,495	13,169
Office Supplies and Expenses	101,513	60,413
Operating Study	16,467	16,677
Permits	32,336	33,520
Plan Check/Inspection Fees and Studies	7,260	23,659
Pumping and Testing	84,859	95,936
Repairs, Maintenance, and Supplies	814,610	616,512
Telephone and Utilities	381,331	320,388
Wages, Employee Benefits, and Payroll Taxes	908,508	866,553
Water - Purchased	3,167,797	2,939,576
Total Operating Expenses	7,847,781	7,385,139
Operating Income (Loss)	4,139,092	561,925
NON-OPERATING REVENUES (EXPENSES)		
Property Taxes	116,131	120,316
Interest Income	34,313	34,235
Loss on Disposal of Capital Asset	(4,212)	(121,342)
Other	101,582	61,761
Total Non-Operating Revenues (Expenses)	247,814	94,970
Change in Net Position	4,386,906	656,895
Net Position - Beginning of Year	71,210,882	70,553,987
Net Position - End of Year	\$ 75,597,788	\$ 71,210,882

The accompanying notes are an integral part of this statement.

Lee Lake Water District
Statement of Cash Flows
For the Years Ended June 30, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	\$ 11,913,726	\$ 7,941,949
Payments to Employees	(912,263)	(866,063)
Payments to Suppliers	(5,420,086)	(4,848,388)
Other Revenue	101,582	61,761
Net Cash Provided (Used) By Operating Activities	5,682,959	2,289,259
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property Taxes	116,131	120,316
Net Cash Provided (Used) by Noncapital Financing Activities	116,131	120,316
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of Capital Assets	(5,771,506)	(1,750,871)
Net Cash Provided (Used) By Capital and Related Financing Activities	(5,771,506)	(1,750,871)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on Cash and Cash Equivalents	35,085	38,187
Net Cash (Used) Provided By Investing Activities	35,085	38,187
Net (Decrease) Increase in Cash and Cash Equivalents	62,669	696,891
Cash and Cash Equivalents - Beginning of Year	18,947,490	18,250,599
Cash and Cash Equivalents - End of Year	\$ 19,010,159	\$ 18,947,490

The accompanying notes are an integral part of this statement.

Lee Lake Water District
Statement of Cash Flows - Continued
For the Years Ended June 30, 2014 and 2013

	2014	2013
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ 4,139,092	\$ 561,925
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	1,774,774	1,644,817
Other Revenue	101,582	61,761
Change in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable:		
Utility	(73,745)	(20,031)
Other	598	14,916
(Increase) Decrease in Prepaids	(37,389)	(20,317)
(Increase) Decrease in Inventory	(938)	(4,052)
Increase (Decrease) in Accounts Payable	(317,498)	16,779
Increase (Decrease) in Payable to Other Governmental Agencies	88,419	32,906
Increase (Decrease) in Accrued Salaries and Refunds	(3,755)	490
Increase (Decrease) in Related Party Payable	11,819	65
	<u>\$ 5,682,959</u>	<u>\$ 2,289,259</u>
SCHEDULE OF NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets on account	\$ -	\$ 258,988

The accompanying notes are an integral part of this statement.

Lee Lake Water District
Statements of Fiduciary Assets and Liabilities
Agency Fund
June 30, 2014 and 2013

	2014	2013
ASSETS		
Cash and Investments with Fiscal Agent	\$ 12,479,330	\$ 14,171,115
Due from Water District	2,610,636	-
Total Assets	\$ 15,089,966	\$ 14,171,115
LIABILITIES		
Due to Bondholders	\$ 15,089,966	\$ 14,171,115
Total Liabilities	\$ 15,089,966	\$ 14,171,115

The accompanying notes are an integral part of this statement.

Lee Lake Water District
Notes to Financial Statements
June 30, 2014 and 2013

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The reporting entity includes the accounts of the general District and the related improvement districts located within the service area of the general District. The District is a special district created for the purpose of providing water, water treatment, and sewage disposal services to customers within its service area. The District has a contract to purchase a majority of their water from Western Municipal Water District. In a past year, the District's board of directors ratified the formation of the Lee Lake Water District Financing Corporation to facilitate the issuance of certificates of participation. The certificates may be issued to assist in the financing of costs of design and engineering of certain sewer system and water system improvements. Although the Financing Corporation qualifies as a component unit for inclusion within these financial statements, the certificates have not been issued and there has been no other activity to record in these financial statements to date.

Basis of Accounting and Measurement Focus

As a governmental agency, the District is subject to accounting and reporting standards established by the Governmental Accounting Standards Board (GASB). As the majority of revenues consist of water sales and related services, the District as a whole, for financial statements purposes, is classified as a proprietary fund. Separate financial statements are provided for the proprietary fund and the agency fund. The District uses the accrual basis of accounting. The financial activities of the District are accounted for using the economic resources measurement focus. Under this method, all assets and liabilities associated with its operations are included on the statement of net position; revenues are recorded when earned and become measurable; and expenses are recorded when liabilities are incurred.

The District reports its water and sewer operations as a single enterprise fund. Additionally, the District reports an agency fund to account for money received by the District as an agent for individuals, other governments and other entities. Specifically, the District accounts for activities of the Community Facilities Districts in the agency fund. The agency fund is reported using the accrual basis of accounting.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all short-term debt securities purchased with an original maturity of three months or less to be cash equivalents. The District invests funds with the State of California Pooled Local Agency Investment Fund (LAIF). Due to the high liquidity of this investment, the funds are classified as a cash equivalent. Fair value in external investments pools such as LAIF are determined based on the District's pro rate share of the fair value of the Pool's underlying portfolio. Some of the cash and cash equivalents have been classified as restricted in accordance with applicable standards, and are not included in the statement of cash flows.

Lee Lake Water District
Notes to Financial Statements
June 30, 2014 and 2013

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Inventory

Inventory consists of supplies and excess Equivalent Dwelling Units (EDUs) and is recorded at the lower of cost (first-in, first-out) or market.

Capital Assets

The District records the acquisition of capital assets and additions, improvements, and other capital outlays that significantly extend the life of an asset. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate.

Capital assets include contributed assets. Contributed assets are recorded at the fair market value or, if fair market value cannot be determined, the estimated cost of the contribution at the date of donation. Capital assets purchased by the District are carried at cost. Assets are depreciated using the straight-line method of depreciation over their estimated useful lives ranging from five to fifty years.

Revenue and Expenses

Revenues and expenses are distinguished between operating and nonoperating items. Operating revenues generally result from providing services in connection with the District's principal ongoing operations. The principal operating revenues of the District are fees in connection with providing water and sewer services to customers.

Operating expenses include the costs of providing water and sewer services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

Property Taxes

Property taxes are assessed and collected each fiscal year according to the following property tax calendar:

Lien Date	March	
Levy Date	July 1 to June 30	
Due Date	November 1	1st Installment
	March 1	2nd Installment
Collection Date	December 10	1st Installment
	April 10	2nd Installment

Lee Lake Water District
Notes to Financial Statements
June 30, 2014 and 2013

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The District assesses its property taxes through the County tax rolls. Property taxes are recognized as revenue in the period for which the taxes are levied.

Reclassification

Certain reclassifications have been made to prior fiscal year amounts to conform with the current fiscal year financial statement presentations.

Use of Estimates

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense) until then. The District currently has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District currently has no items that qualify for reporting in this category.

Net Position

The difference between assets and liabilities is reported as net position. Net position is classified as either net investment in capital assets, restricted, or unrestricted.

Net investment in capital assets, consist of capital assets, net of accumulated depreciation and reduced by the outstanding principal of related debt. Restricted net position reflects the carrying value of assets less related liabilities that have external constraints placed on them by creditors, grantors, contributors, laws, or regulations of other governments, or through constitutional provisions, or enabling legislation. Unrestricted net position represents the remaining fund equity balance.

Lee Lake Water District
Notes to Financial Statements
June 30, 2014 and 2013

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Net Position Flow Assumption

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g. restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the statement of net position, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the District's policy to consider restricted net position to have been depleted before unrestricted net position.

2) CASH AND INVESTMENTS

Cash and investments as of June 30, 2014 and June 30, 2013 are classified in the accompanying financial statements as follows:

	2014	2013
Statement of Net Position:		
Cash and Cash Equivalents	\$ 19,010,159	\$ 18,947,490
Restricted Cash and Cash Equivalents	3,197,004	618,875
Total Cash and Investments - Statement of Net Position	\$ 22,207,163	\$ 19,566,365
Statement of Fiduciary Assets and Liabilities:		
Cash and Investments with Fiscal Agent	\$ 12,479,330	\$ 14,171,115

Cash and investments as of June 30, 2014 and June 30, 2013 consist of the following:

	2014	2013
Cash on Hand	\$ 400	\$ 400
Deposit with Financial Institutions	7,958,305	5,352,591
Investments in LAIF	14,248,458	14,213,374
Total Cash and Investments	\$22,207,163	\$ 19,566,365
Cash and Investments with Fiscal Agent:		
Money Market Funds	\$12,479,330	\$ 14,171,115
Total Cash and Investments with Fiscal Agent	\$12,479,330	\$ 14,171,115

Lee Lake Water District
Notes to Financial Statements
June 30, 2014 and 2013

2) CASH AND INVESTMENTS - Continued

Investments Authorized by the District's Investment Policy

The District's investment policy authorizes investment in the local government investment pool administered by the State of California (LAIF). The District's investment policy does not contain any specific provisions intended to limit the District's exposure to interest rate risk, credit risk, and concentration of credit risk. Investment of debt proceeds held by bond trustees is governed by the provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's investment policy.

Disclosures Relating to Interest Rate Risk

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

Information about the sensitivity of the fair values of the District's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity as of June 30, 2014:

		Remaining Maturity (in Months)			
		12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months
LAIF	\$14,248,458	\$14,248,458	\$ -	\$ -	\$ -
Cash and Investments with Fiscal Agent:					
Money Market Funds	<u>12,479,330</u>	<u>12,479,330</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$26,727,788</u>	<u>\$26,727,788</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

Lee Lake Water District
Notes to Financial Statements
June 30, 2014 and 2013

2) CASH AND INVESTMENTS - Continued

Disclosures Relating to Credit Risk - Continued

Investment Type		Minimum Legal Rating	Exempt From Disclosure	Rating as of Year End		
				AAA	AA	Not Rated
LAIF	\$14,248,458	N/A	\$ -	\$ -	\$ -	\$14,248,458
Cash and Investments with Fiscal Agent:						
Money Market Funds	<u>12,479,330</u>	AA	-	<u>12,479,330</u>	-	-
Total	<u>\$26,727,788</u>		<u>\$ -</u>	<u>\$12,479,330</u>	<u>\$ -</u>	<u>\$14,248,458</u>

Concentration of Credit Risk

The investment policy of the District contains no limitation on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer that represent 5% or more of total District investments (other than U.S. Treasury securities, mutual funds and external investment pools).

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 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, 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.

As of June 30, 2014 and June 30, 2013, the District had deposits with financial institutions in excess of federal depository insurance limits of \$7,708,305 and \$5,102,591, respectively, which were collateralized by securities held by the pledging Financial Institution's Agent but not in the District's name.

Lee Lake Water District
Notes to Financial Statements
June 30, 2014 and 2013

2) CASH AND INVESTMENTS - Continued

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency 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 the 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.

All temporary investments are with the Local Agency Investment Fund (LAIF) administered by the State Treasurer's Office. The yield of LAIF for the quarter ended June 30, 2014 was 0.228%. The estimated amortized cost and fair value of the LAIF Pool at June 30, 2014 was \$64,850,840,279 and \$64,870,214,443, respectively. The District's share of the Pool at June 30, 2014 was approximately .022 percent.

The LAIF is a special fund of the California State Treasury through which local governments may pool investments. Each local government may invest up to \$50,000,000 in the Fund. Investments in LAIF are highly liquid, as deposits can be converted to cash within twenty-four hours without loss of interest. Investments in LAIF are secured by the full faith and credit of the State of California. Included in LAIF's investment portfolio are certain derivative securities or similar products in the form of asset-backed securities totaling \$1,205,901,000. LAIF's (and the District's) exposure to risk (credit, market or legal) is not currently available.

Lee Lake Water District
Notes to Financial Statements
June 30, 2014 and 2013

3) CAPITAL ASSETS

Capital assets are presented as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Not Being Depreciated:				
Land	\$ 902,118	\$ -	\$ -	\$ 902,118
Water Capacity Rights	8,452,438	5,051,201	-	13,503,639
Construction in Progress	909,477	720,305	1,148,192	481,590
Total Capital Assets, Not Being Depreciated	10,264,033	5,771,506	1,148,192	14,887,347
Capital Assets, Being Depreciated:				
Water Reclamation Facility	20,899,562	1,143,980	-	22,043,542
Reservoirs	10,544,570	-	-	10,544,570
Water and Sewer Mains	27,474,239	-	-	27,474,239
Office Building Improvements	114,252	-	-	114,252
Sewage Systems (Improvement Districts)	2,381,665	-	-	2,381,665
Equipment - Water and Sewer	1,989,950	-	-	1,989,950
Administration Building	529,200	-	-	529,200
Well Systems	46,014	-	-	46,014
Total Capital Assets, Being Depreciated	63,979,452	1,143,980	-	65,123,432
Less Accumulated Depreciation:				
Water Reclamation Facility	(10,842,768)	(701,683)	-	(11,544,451)
Reservoirs	(2,141,012)	(262,406)	-	(2,403,418)
Water and Sewer Mains	(5,624,303)	(561,819)	-	(6,186,122)
Office Building Improvements	(63,686)	(6,594)	-	(70,280)
Sewage Systems (Improvement Districts)	(1,996,440)	(61,722)	-	(2,058,162)
Equipment - Water and Sewer	(1,159,862)	(160,395)	-	(1,320,257)
Administration Building	(163,468)	(19,120)	-	(182,588)
Well Systems	(13,910)	(1,035)	-	(14,945)
Total Accumulated Depreciation	(22,005,449)	(1,774,774)	-	(23,780,223)
Total Capital Assets Being Depreciated, Net	41,974,003	(630,794)	-	41,343,209
Capital Assets, Net	\$ 52,238,036	\$ 5,140,712	\$ 1,148,192	\$ 56,230,556

Lee Lake Water District
Notes to Financial Statements
June 30, 2014 and 2013

4) EXCESS SEWER CAPACITY DEPOSITS

In connection with the District's construction of its water reclamation plant, the District can offer "excess" sewer capacity to individuals outside Community Facilities Districts (CFD) 87-5 and 89-1. According to the agreement, the District shall pay to the CFDs, without interest, the reimbursement amount for the oversized sewer capacity utilized by the connection of those parties outside the CFDs. As of June 30, 2014 and 2013, the District held deposits of \$120,403 and \$98,613, respectively, from individuals interested in hooking up to the District's plant. Payment to the CFDs shall be due upon receipt of the full connection fee or commencement of service, whichever is earlier.

5) DESIGNATIONS OF DISTRICT UNRESTRICTED NET POSITION

For the amounts reported as unrestricted net position in these financial statements, the District's Board of Directors has designated \$13,602,613 to be set aside for the future major refurbishing or replacement of the wastewater utility plant as of June 30, 2014.

6) DEFINED BENEFIT PENSION PLAN

Plan Description

The District contributes to the California Public Employees Retirement System (CalPERS), a cost-sharing multiple-employer public employee 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 entities within the State of California. Benefit provisions and all other requirements are established by state statute within the Public Employees' Retirement Law. Copies of the CalPERS annual financial report may be obtained from their executive office: 400 P Street, Sacramento, California 95814.

Funding Policy

Participants are required to contribute 7% of their annual covered salary. The District contributes 4% of the contributions required of District's employees on their behalf and for their account. The District is also required to make an additional contribution at an actuarially determined rate. This rate for the fiscal year ended June 30, 2014 was 9.092% of annual covered payroll. The contribution requirements of plan members and the District are established and may be amended by CalPERS. The District's contribution to CalPERS for the years ended June 30, 2014, 2013 and 2012 was \$53,607, \$51,592, and \$44,972 respectively, and was equal to 100% of the required contribution for each year.

Lee Lake Water District
Notes to Financial Statements
June 30, 2014 and 2013

7) 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; and natural disasters for which the District carries commercial insurance. Premiums are paid annually by the District.

Claims liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. As of June 30, 2014 and June 30, 2013, there were no such liabilities to be reported.

8) DEBT WITHOUT DISTRICT COMMITMENT

The District has issued \$79,145,000 in Community Facilities District Special Tax Bonds to finance the acquisition and construction of public improvements within the Community Facilities Districts No. 1, 2, and 3. The Bonds were issued pursuant to the Mello-Roos Community Facilities Act of 1982, and are special obligations of the District payable solely from revenues derived from special taxes levied on taxable land within the Community Facilities Districts. The Bonds are not general obligations of the District. Neither the faith and credit of the District, nor of either County, nor the State or any related political subdivision, is pledged to the payment of the Bonds. Therefore, these Bonds are not reflected as debt in the District's financial statements. As of June 30, 2014, the remaining balance on the bonds was \$69,740,000.

9) COMMITMENTS AND CONTINGENCIES

Construction Commitments

The District has active construction projects as of June 30, 2014. At year-end the District's commitments are as follows:

	<u>Costs Incurred</u>	<u>Remaining Commitment</u>
Recycled Pipeline	\$ 401,532	\$ 2,098,468
Dawson Canyon Reservoir	<u>66,554</u>	<u>60,007</u>
Total	<u>\$ 468,086</u>	<u>\$ 2,158,475</u>

Lee Lake Water District
Notes to Financial Statements
June 30, 2014 and 2013

10) RELATED PARTY TRANSACTIONS

The District contracts with Dudek & Associates for management and engineering services. The services of the general manager for the District are hired under this contract. The general manager has an ownership interest in Dudek & Associates. The District owed Dudek & Associates \$46,003 and \$34,184 at June 30, 2014 and 2013, respectively, for services received.

The District incurred the following:

	June 30,	
	2014	2013
General Management	\$ 223,421	\$ 209,999
Engineering and Special Projects	170,156	219,658
Total	\$ 393,577	\$ 429,657

11) JOINT VENTURE

The District is a member of the California Finance Authority for Delinquent Special Taxes and Assessments (Authority), along with the Cities of Norco and Riverside. The Authority was established to implement and finance a program for the purchase from the member agencies of delinquent special taxes, assessments and property-related fees and charges that are collected on the secured property tax roll. The District has determined to assign to the Authority certain delinquent special taxes (levied under the Mello-Roos Community Facilities Act of 1982) in consideration of the agreement by the Authority to pay the purchase price to the District for such liens and to assume all responsibility and pay all costs in connection with the enforcement and collection of such liens. Separate financial statements for the Authority are currently not available.

12) DUE TO AGENCY FUND

The District, as a pass-through agency, held property tax assessments for the Community Facilities Districts as of June 30, 2014 of \$2,610,636. This amount represents the amounts received by the District prior to June 30, 2014 for the benefit of the Community Facilities District (Agency Fund).

SUPPLEMENTARY INFORMATION

LEE LAKE WATER DISTRICT
Organizational and Insurance Information
June 30, 2014

Organizational Information

The Lee Lake Water District (the "District") was formed December 27, 1965 for the purpose of providing irrigation, industrial, and domestic water for the District area. The District was formed and is governed by the California Water Code Section 34000. The area encompasses approximately 6,700 acres or 10-1/2 square miles of land south and east of the City of Corona following the floor of Temescal Canyon to a boundary in the vicinity of Indian Truck Trail. The District's service area is predominantly business, agricultural, unimproved, and includes residential homes as of June 30 of 4,611 for 2014, 4,547 for 2013, and 4,485 for 2012.

In February 1979, the District formed Improvement District No.1 to operate a wastewater treatment facility to serve Tract 11959 which is located at the intersection of Maitre Road and Highway 71. The facility was completed during the year ended June 30, 1984.

In August 1983, the District formed Improvement District No.2 to operate a wastewater treatment facility to serve Tract 13990 in the unincorporated area of Riverside County. A facility was completed and accepted by the District as of October 1990.

January 1992 marked the completion and the subsequent operation of the District's facilities first water reclamation facility. Those facilities include a wastewater reclamation plant sewer, and water mains. The District has expanded the water reclamation facility to 1.57 mg/day and operates six tanks and seven pressure zones to deliver potable and non-potable water.

The officers of the District and the date of expiration of terms of office are as follows:

Charles Colladay	President	November	2015
Paul Rodriguez	Vice President/Secretary	November	2017
Grant Destache	Board Member-Engineering Com	November	2017
John Butler	Board Member-Engineering Com	November	2015
Damon De Frates	Board Member-Finance Com	November	2017

Insurance

The District maintains a commercial general liability, wrongful acts, employment practices, and employment benefit liability policy with coverage in the amount of \$1,000,000 for each occurrence and aggregate coverage of \$3,000,000, fire damage coverage for any one fire of \$1,000,000, hired and non-owned auto liability coverage of \$1,000,000 per accident and excess liability coverage per occurrence/aggregate limit of insurance of \$5,000,000, and property insurance in the amount of \$22,468,981. The District also has crime coverage in the amount of \$250,000 for employee dishonesty and forgery or alteration, \$250,000 for theft, disappearance or destruction, and \$100,000 for computer fraud. As mandated by the State, the District has covered all employees with a workers' compensation policy through the State Compensation Insurance Fund.