

DRAFT

November 13, 2014

Board of Directors
Moulton Niguel Water District
Laguna Niguel, California

We have audited the financial statements of the Moulton Niguel Water District (the District) for the year ended June 30, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 6, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practice

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in the notes to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2014. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.



Board of Directors
Moulton Niguel Water District

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 13, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We were engaged to report on the supplementary information section and the statistical section, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

The following new Governmental Accounting Standards Board (GASB) pronouncements were effective for fiscal year 2013-2014 audit:

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* - The District early implemented this pronouncement in fiscal year 2012-13.

GASB Statement No. 66, *Technical Corrections* - The District properly implemented this pronouncement.



Board of Directors
Moulton Niguel Water District

GASB Statement No. 67, *Financial Reporting for Pension Plans – An Amendment of GASB of GASB Statement No. 25* - The District was not affected by this pronouncement at this time.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* - The District was not affected by this pronouncement at this time.

The following Governmental Accounting Standards Board (GASB) pronouncements are effective in your next fiscal year 2014-2015 audit and should be reviewed for proper implementation by management:

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement no. 27*.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to Measurement Date*.

Restriction on Use

This information is intended solely for the use of the Board of Directors and management of the Moulton Niguel Water District, and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Brea, California

DRAFT

INDEPENDENT AUDITORS' 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
Moulton Niguel Water District
Laguna Niguel, 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 Moulton Niguel Water District, (the District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 13, 2014.

Internal Control over Financial Reporting

In planning and performing our audit 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 opinions 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 audit, 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*.



Board of Directors
Moulton Niguel Water District

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lance, Soll & Loughard, LLP

Brea, California
November 13, 2014

LSL 

CERTIFIED PUBLIC ACCOUNTANTS



A Division of LSL, CPAs
vilmure, peeler & boucher

MNWD FY 2014 Results of the Audit

Comprehensive Annual Financial Report

- Three letters are provided to summarize the results of our audit
 - Audit Communication Letter
 - Report on Internal Control
 - Opinion Letter

Audit Communication Letter

- Twice a Year
 - Audit Standard (SAS 114)
 - Planning Stages
 - Conclusion

Audit Communication Letter Conclusion

- Significant Audit Findings
 - Changes in accounting practices, policies, or unusual transactions that effect the financial statements
 - None noted
 - Large estimates that effect the financial statements
 - Only estimates used are the estimated life use for capital assets
 - None noted
 - Difficulties Encountered in Performing the Audit
 - Corrected and Uncorrected Misstatements
 - Disagreements with Management
 - Management Consultations with Other Independent Accountants
 - None noted

Audit Communication Letter Conclusion

- Other Matters
 - Discusses our procedures for Required Supplemental Information, such as the Management Discussion and Analysis (MD&A).
 - Management prepares the MD&A to discuss the current year activity.
 - We tie these to the financial statements.
 - Discusses our procedures for supplemental schedules, such as the Introductory Section and Statistical Section
 - The introductory section is non-financial information and this is prepared by Management.
 - The statistical information is historical data information
 - These are not part of our auditing procedures.

Audit Communication Letter Conclusion

- Upcoming GASB Pronouncements
 - GASB 68 – Pension Plans for Employers
 - These will have a material effect on the financial statements.
 - District participates in a cost-sharing multiple employer plan because of a state mandate for all plans will less then 100 active employees.
 - GASB 68 requires you to record the Districts proportionate share of the pension plan.
 - Pre-GASB 68, only show the contribution amount and contribution rate of the plan each year.

Report on Internal Control

- Once a year
 - Audit Standard (SAS 115)
 - Conclusion

Report on Internal Control FY 2014 Results

- Internal Control Over Financial Reporting
 - Purpose is to considering internal control not audit internal controls
 - Risk Assessments
 - Directs testing and audit performance
 - Definitions of deficiencies in internal control
 - The design or operation doesn't allow management or employees to catch errors, prevent errors, or correct errors.
 - Significant – warrant attention to Board.
 - Material weakness – warrant attention and error was material to financial statements.
 - We had no deficiencies that came to our attention.

Audit Opinion

FY 2014 Results

- Independent Auditor's Report – Page 1 of CAFR
 - Report on Financial Statements
 - FINANCIAL SECTION
 - Management's Responsibility for the Financial Statements.
 - Make sure the design, implementation, and maintenance of the internal controls that are relevant to financial reporting will provide accurate financial statements free from material misstatements.

Audit Opinion

FY 2014 Results

- Independent Auditor's Report – Page 1 of CAFR
 - Auditor's Responsibility
 - Express an opinion on the financial statements
 - Follow the auditing standards set forth by the United States of America and special audit standards for Government.
 - Audit involves auditor judgment for procedures, risk assessments based on internal controls in place by management.

Audit Opinion

FY 2014 Results

- Independent Auditor's Report – Page 2 of CAFR
 - Opinion
 - Unmodified – “Clean”
 - Other Matters
 - Required Supplemental Information (RSI)
 - Management Discussion and Analysis (MD&A)
 - Required by GASB to be presented
 - Limited procedures are performed
 - Tie the financial information to the financial statements

Audit Opinion FY 2014 Results

- Independent Auditor's Report – Page 2 of CAFR
 - Other Matters (continued)
 - Other Information
 - INTRODUCTORY SECTION
 - SUPPLEMENTAL INFORMATION
 - STATISTICAL SECTION
 - No audit procedures applied
 - Not covered in our opinion
 - Other Reporting Required by Government Auditing Standards – **Page 3 of CAFR**
 - Notifying you of the separate letter we issued on Internal Controls

FY 2014 Results

Questions



LSL 

CERTIFIED PUBLIC ACCOUNTANTS

vpb **A Division of LSL, CPAs**
vilmure, peeler & boucher

LANCE, SOLL & LUNGHARD, LLP / Orange County / Temecula Valley / Los Angeles County / Silicon Valley

www.LSLCPAS.com

Rate Study Board Update

November 19, 2014



Moulton Niguel Water
Leading the Way in Service

Tier Width Changes

- Commercial, Irrigation, Recycled Water

	Current	Proposed
Tier 1	20 ccf	Allocation
Tier 2	20 ccf - allocation	100% - 125% total allocation
Tier 3	100% - 110% total allocation	125% - 150% total allocation
Tier 4	110% - 120% total allocation	>150% total allocation
Tier 5	>120% total allocation	

- Example: *Budget 40 ccf*

	Current	Proposed
Tier 1	20 ccf (20)	40 ccf (40)
Tier 2	40 ccf – 20 ccf = 20 ccf (40)	25% of 40 ccf = 10 ccf (50)
Tier 3	10% of 40 ccf = 4 ccf (44)	25% of 40 ccf = 10 ccf (60)
Tier 4	10% of 40 ccf = 4 ccf (48)	> 60 ccf usage
Tier 5	> 48 ccf usage	

Large Customer Impacts

Customer	Current Monthly Bill (\$)	Impact (\$)	Percent Change
COMM ASSN	83,167.91	(4,044.16)	-5%
COUNTRY CLUB 1	21,164.26	(487.44)	-2%
GOLF CLUB	10,448.65	(557.71)	-5%
CITY OF DANA POINT	1,209.66	40.52	3%
CITY OF LAGUNA HILLS	25,351.68	(3,191.24)	-13%
CITY OF LAGUNA NIGUEL	31,937.74	(5,682.84)	-18%
CITY OF MISSION VIEJO	29,882.65	(4,692.81)	-16%
COUNTRY CLUB 2	18,545.42	(996.23)	-5%
COUNTRY CLUB 3	20,548.78	(2,834.53)	-14%

Note: Represents irrigation and recycled water customers, i.e. no sewer impacts included

Largest Customers Water + Sewer

	Current Average Monthly Bill (\$)	Impact (\$)	% Impact	Notes
SFR	674.71	(98.53)	-15%	
	670.06	19.01	3%	Large Lot 2 inch Meter In Budget
MFR	7,001.89	(3,933.03)	-56%	Decrease from Wastewater = No Longer Billed on Usage
	8,096.91	(1,608.75)	-20%	
Commercial	20,190.39	(3,933.03)	-19%	
	21,932.08	(1,608.75)	-7%	

GPCD

- Current – 65 GPCD
Proposed – 60 GPCD
- Current multi-family usage (primarily indoor)
 - Average – 55 GPCD
 - Median – 46 GPCD
 - 72% customers use less than 60 GPCD
- Agency Survey
 - 60 GPCD** – El Toro WD, Laguna Beach CSD, Western MWD, Eastern MWD, Corona Dept Water & Power, Rancho California WD
 - 55 GPCD** – San Juan Capistrano, San Clemente, East Orange County WD
 - 50 GPCD** – Irvine Ranch WD