

**MUNICIPAL WATER DISTRICT
OF ORANGE COUNTY**

**FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2015**

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Independent Auditors' Report



INDEPENDENT AUDITORS' REPORT

Board of Directors
Municipal Water District of Orange County
Fountain Valley, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Municipal Water District of Orange County (District), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments, the 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District, as of June 30, 2015, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the financial statements, the District adopted Governmental Accounting Standards Board (GASB) Statements No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date— an amendment of GASB Statement No. 68*, effective July 1, 2014. 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, schedule of funding progress for the other post-employment benefit plan, and schedule of the District's proportionate share of the net pension liability and schedule of contributions for the cost sharing retirement plan (required supplementary information) on pages 3 through 9 and 34 through 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.

Prior-Year Comparative Information

We have previously audited the 2014 financial statements of the District, and we expressed an unmodified audit opinion on the financial statements in our report dated December 3, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2015, 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.



Laguna Hills, California
November 25, 2015

Management's Discussion and Analysis
(Unaudited)

**MUNICIPAL WATER DISTRICT OF ORANGE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015**

The following is a brief discussion of the Municipal Water District of Orange County's (District) activities and financial performance for the year ended June 30, 2015. Please read in conjunction with the District's basic financial statements and accompanying notes which follow this section.

FINANCIAL HIGHLIGHTS

- The District's revenues were \$210.6 million in FY 2014-15, compared to \$213.2 million in the prior fiscal year, a 1.2% decrease.
- The District's expenses were \$209.5 million in FY 2014-15, compared to \$212.5 million in the prior fiscal year, a 1.4% decrease.
- The District's assets at June 30, 2015 were \$40.4 million, a 23.5% decrease compared to total assets of \$52.8 million at June 30, 2014.
- The District's liabilities at June 30, 2015 were \$34.6 million, a 26.0% decrease compared to total liabilities of \$46.8 million at June 30, 2014.
- The District's net position at June 30, 2015 was \$5.6 million, a 7.1% decrease compared to net position of \$6.0 million at June 30, 2014.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus applied. The accompanying financial statements are reported using the economic resources measurement focus, and the accrual basis of accounting.

Under the economic resources measurement focus all assets, deferred inflows and outflows of resources, and liabilities (whether current or noncurrent) associated with these activities are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The District's financial statements, prepared in accordance with generally accepted accounting principles (GAAP), offer key, high-level financial information about District activities during the reporting period. The financial statements of the District consist of three interrelated statements designed to provide the reader with relevant information on the District's financial condition and operating results. These statements offer short-term and long-term financial information about the District's activities utilizing the full accrual basis of accounting.

The *Statement of Net Position* includes all of the District's assets and deferred outflows of resources, less liabilities and deferred inflows of resources, with the difference being reported as Net Position. It also provides the basis for computing rate of return, evaluating the capital structure of the District, and assessing the liquidity and financial flexibility of the District.

**MUNICIPAL WATER DISTRICT OF ORANGE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
JUNE 30, 2015**

All of the current year's revenues and expenses are accounted for in the *Statement of Revenues, Expenses, and Changes in Net Position*. This statement measures the District's operations over the past year and can be used to determine whether the District has successfully recovered all its projected costs through its rates and other service related charges.

The final required financial statement is the *Statement of Cash Flows* which presents information about the District's cash receipts and cash payments during the reporting period classified as cash receipts, cash payments, and net changes in cash resulting from operations, and investing, non-capital financing, and capital and related financing activities. This statement also provides comparative information on the sources and uses of the District's cash 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, as a whole, financially better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the District's activities in a way that will help answer this question. These two statements report the net position of the District and changes in them. You can think of the District's net position (the difference between assets plus deferred outflows of resources, and liabilities plus deferred inflows of resources) as one way to measure 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, you will need to consider other non-financial factors, such as changes in economic conditions, population growth, changes in rates and charges and new or changed government legislation or accounting standards.

**MUNICIPAL WATER DISTRICT OF ORANGE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
JUNE 30, 2015**

STATEMENT OF NET POSITION

Net position is the difference between assets plus deferred outflows of resources, less liabilities plus deferred inflows of resources, and may serve over time as a useful indicator of a government's financial position. The following is a summary of the District's Statement of Net Position.

**Table 1
Condensed Statements of Net Position
(In thousands of dollars)
June 30:**

	<u>2015</u>	<u>2014</u>	<u>Variance</u>	<u>Total Percent Change</u>
Current Restricted Assets	\$ 3,876	\$ 2,845	\$ 1,031	36.2%
Current Unrestricted Assets	35,500	48,854	(13,354)	(27.3%)
Capital Assets	929	1,063	(134)	(12.6%)
Other Assets	93	37	56	151.4%
Total Assets	<u>40,398</u>	<u>52,799</u>	<u>(12,401)</u>	<u>(23.5%)</u>
Deferred Outflows of Resources	<u>356</u>	<u>-</u>	<u>356</u>	<u>100%</u>
Liabilities Payable from Restricted				
Current Assets	2,826	1,835	991	54.0%
Liabilities Payable from Unrestricted				
Current Assets	30,430	44,936	(14,506)	(32.3%)
Noncurrent Unrestricted Liabilities	1,360	-	1,360	100.0%
Total Liabilities	<u>34,616</u>	<u>46,771</u>	<u>(12,155)</u>	<u>(26.0%)</u>
Deferred Inflows of Resources	<u>535</u>	<u>-</u>	<u>535</u>	<u>100%</u>
Net Position:				
Investment in Capital Assets, Net of Related Debt	929	1,063	(134)	(12.6%)
Restricted for Trustee Activities	1,050	1,010	40	4.0%
Unrestricted	3,624	3,955	(331)	(8.4%)
Total Net Position	<u>\$ 5,603</u>	<u>\$ 6,028</u>	<u>\$ (425)</u>	<u>(7.1%)</u>

As can be seen from the table above, net position decreased by \$425 thousand from Fiscal Year 2014 to 2015. This decrease is the result of the following:

- Current Restricted Assets increased by \$1 million due to more funded conservation efforts.
- Current Unrestricted Assets decreased by \$13.4 million due to Water Sales down by \$6.7 million from ongoing water use efficiency efforts, mandatory reduction in water use in the latter part of the fiscal year and the MET metering error of \$7.8 million from FY 2013/2014. Offsetting these reductions is a \$1 million increase in our investments.

**MUNICIPAL WATER DISTRICT OF ORANGE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
JUNE 30, 2015**

- In accordance with GASB 68 Deferred Outflows and Inflows of Resources, Net Pension Liability (as Noncurrent Unrestricted Liabilities), and a restatement of beginning net position are reported in relation to the District's pension plan with CalPERS. Refer to Note 10 and Note 11.
- Liabilities Payable from Unrestricted Current Assets decreased \$14.5 million due to lower water sales and MET metering error last year.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

While the Statement of Net Position shows the financial position at year-end, the Statement of Revenues, Expenses, and Changes in Net Position provides information as to the nature and source of these changes in Net Position. The District reported an increase in net position of \$1,161 thousand for the year ended June 30, 2015, as compared to an increase of \$663 thousand for the year ended June 30, 2014. The following is a summary of the change in the District's net position.

**Table 2
Condensed Statements of Revenues,
Expenses and Changes in Net Position
(In thousands of dollars)
Year Ended June 30:**

	<u>2015</u>	<u>2014</u>	<u>Variance</u>	<u>Total Percent Change</u>
Operating Revenues	\$ 196,165	\$ 202,415	\$ (6,250)	(3.1%)
Special Projects Revenue	14,260	2,316	\$ 11,944	515.7%
Non-operating Revenues	210	322	(112)	(34.8%)
Special Item	-	8,144	(8,144)	(100.0%)
Total Revenues	<u>210,635</u>	<u>213,197</u>	<u>(2,562)</u>	<u>(1.2%)</u>
Operating Expense	195,068	201,798	(6,730)	(3.3%)
Special Projects Expense	14,260	2,316	11,944	515.7%
Depreciation Expense	146	145	1	0.7%
Non-operating Special Item Expense	-	8,275	(8,275)	(100.0%)
Total Expenses	<u>209,474</u>	<u>212,534</u>	<u>(3,060)</u>	<u>(1.4%)</u>
Change in Net Position	1,161	663	498	75.1%
Beginning Net Position, as restated	<u>4,442</u>	<u>5,365</u>	<u>(923)</u>	<u>(17.2%)</u>
Ending Net Position	<u>\$ 5,603</u>	<u>\$ 6,028</u>	<u>\$ (425)</u>	<u>(7.1%)</u>

The source of change in net position is due to the following:

- Operating Revenues and Expenses are lower due to reduced water sales.
- Special Projects & Grants Revenue and Expenses increased \$12 million primarily due to the issuance of Turf Removal rebates.
- Special Item Revenue and Expense was from the OC-88 MET water metering error discovered in 2014. This item did not re-occur in the current year.
- In accordance with GASB 68 the District's beginning net position was restated by \$1.6 million. Refer to Note 11.

**MUNICIPAL WATER DISTRICT OF ORANGE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
JUNE 30, 2015**

CAPITAL ASSETS

The following is a summary of the District's capital assets at June 30, 2015 and June 30, 2014.

**Table 3
Capital Assets
(In thousands of dollars)
June 30:**

	<u>FY 2015</u>	<u>FY 2014</u>	<u>Variance</u>	<u>Total Percent Change</u>
Leasehold Improvements	\$ 3,027	\$ 3,015	\$ 12	0.4%
Furniture & Fixtures	437	535	(98)	(18.3%)
Subtotal	<u>3,464</u>	<u>3,550</u>	<u>(86)</u>	<u>(2.4%)</u>
Less Accumulated Depreciation	<u>(2,535)</u>	<u>(2,487)</u>	<u>(48)</u>	<u>1.9%</u>
Net Capital Assets	<u>\$ 929</u>	<u>\$ 1,063</u>	<u>\$ (134)</u>	<u>(12.6%)</u>

The District replaced carpet in a few offices and painted. We also disposed of obsolete assets from our triennial audit of capital assets. Additional information regarding capital assets can be found in Notes 1 and 4 of the notes to financial statements.

DEBT ADMINISTRATION

The District had no debt outstanding as of June 30, 2015. No new long-term debt was incurred in the year ended June 30, 2015, and the District does not plan to issue new debt in the year ending June 30, 2016.

**MUNICIPAL WATER DISTRICT OF ORANGE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
JUNE 30, 2015**

BUDGETARY HIGHLIGHTS

The District is governed by a Board of Directors consisting of seven elected members. The Board adopts an annual appropriated budget prior to the start of the fiscal year. The Budget may be revised by Board action during the fiscal year. An actual vs. budget comparison statement for FY 2014-15 is presented in Table 4 to demonstrate compliance with the adopted budget.

**Table 4
FY 2015 Actual vs. FY 2015 Budget
(In thousands of dollars)
Year Ended June 30, 2015:**

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>	<u>Total Percent Change</u>
Revenues:				
From Operations	\$ 210,425	\$ 193,688	\$ 16,737	8.6%
Non-operating Revenues	210	145	65	44.8%
Total Revenues	<u>210,635</u>	<u>193,833</u>	<u>16,802</u>	<u>8.7%</u>
Expenses:				
From Operations				
Cost of Water	188,196	181,841	(6,355)	(3.5%)
Other Operating	21,132	11,896	(9,236)	(77.6%)
Depreciation	146	150	4	2.7%
Total Expenses	<u>209,474</u>	<u>193,887</u>	<u>(15,587)</u>	<u>(8.0%)</u>
Change In Position	<u>\$ 1,161</u>	<u>\$ (54)</u>	<u>\$ 1,215</u>	<u>(2,250.0%)</u>

The variances on the budget to actual are as follows:

- Revenues from Operations were \$16.7 million higher than budget due to the Turf Removal Program exponentially increasing due to the drought and the incentives being offered by MET and participating agencies increasing the rebate amount. Part of that amount is the \$6.4 million from the increase in the volume of water sold to member agencies.
- Expenses from Cost of Water purchased were \$6.4 million higher than budget due to higher water volume purchases from Metropolitan.
- Expenses from Other Operating were higher \$9.2 million higher mainly due to the Turf Removal Program.

**MUNICIPAL WATER DISTRICT OF ORANGE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
JUNE 30, 2015**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The District's Board of Directors and management considered many factors during preparation and approval of the annual budget for FY 2015-16. The budgeted operating expenses total \$165.4 million and operating and non-operating revenues total \$165.5 million.

Historically, the District has recouped the cost of water purchased from the resale of imported water to the District's 28 member water agencies located in Orange County. In addition MWDOC has charged both a per acre-foot surcharge and a per retail meter charge to cover its operating budget. In past history, the District's operating revenue has been approximately 65% from per retail connection charges, and 35% from per acre-foot charges. Beginning in 2011-12, MWDOC began transitioning from the two-component rate structure to one involving only a single component. Over a five year period, ending in 2015-16, MWDOC has been transitioning from a water rate structure involving a variable per acre-foot charge and a fixed per retail meter charge to an 100% per retail meter charge. In addition MWDOC's agencies will still also pay for the direct resale cost of imported water.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is intended to provide the Board of Directors, customers, taxpayers, creditors, and other interested parties with a general overview of the District's financial operations and condition at the year ended June 30, 2015, and to demonstrate the District's accountability for the funds it receives. If you have questions about this report or need additional information, you may contact the Municipal Water District of Orange County, Finance Dept., at 18700 Ward Street, Fountain Valley, California 92708, (714) 963-3058, www.mwdoc.com.

Basic Financial Statements

Statement of Net Position
Statement of Revenues, Expenses and Changes in Net Position
Statement of Cash Flows

MUNICIPAL WATER DISTRICT OF ORANGE COUNTY
Statement of Net Position
June 30, 2015
(with comparative data as of June 30, 2014)

<u>ASSETS</u>	<u>2015</u>	<u>2014</u>
Current Assets:		
Restricted Assets:		
Cash and Cash Equivalents (Note 2)	\$ 2,474,168	\$ 1,618,696
Accounts Receivable Other	1,400,372	1,225,345
Accrued Interest Receivable	995	833
Total Restricted Assets	3,875,535	2,844,874
Unrestricted Assets:		
Cash and Cash Equivalents (Note 2)	165,596	5,469,048
Investments (Note 2)	3,115,157	2,161,125
Accounts Receivable:		
Water Sales	26,409,818	33,152,443
Other	5,622,854	7,967,970
Accrued Interest Receivable	30,658	29,393
Deposits and Prepaid Expenses	156,401	74,530
Total Unrestricted Assets	35,500,484	48,854,509
Total Current Assets	39,376,019	51,699,383
Noncurrent Assets:		
Unrestricted Assets:		
Capital Assets, Net (Note 4)	929,243	1,063,125
Net Other Post Employment Benefits (OPEB) Asset (Note 8)	92,806	37,041
Total Noncurrent Assets	1,022,049	1,100,166
TOTAL ASSETS	40,398,068	52,799,549
 <u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Deferred amount related to pensions (Note 10)	355,780	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	355,780	-

See accompanying notes to basic financial statements.

MUNICIPAL WATER DISTRICT OF ORANGE COUNTY
Statement of Net Position (Continued)
June 30, 2015
(with comparative data as of June 30, 2014)

	<u>2015</u>	<u>2014</u>
<u>LIABILITIES</u>		
Current Liabilities:		
Payable from Restricted Assets		
Accrued Liabilities	\$ 519,213	\$ 641,303
Advances from Participants	1,123,166	1,189,020
Unearned Revenue (Note 6)	1,179,095	-
Due to Participants (Note 5)	4,746	4,665
Total Payable from Restricted Assets	2,826,220	1,834,988
Unrestricted Liabilities:		
Accounts Payable, Metropolitan Water District of Southern California	29,320,297	36,423,492
Accounts Payable - Other	-	7,812,706
Accrued Liabilities	1,109,940	700,196
Total Unrestricted Liabilities	30,430,237	44,936,394
Total Current Liabilities	33,256,457	46,771,382
Noncurrent Liabilities:		
Unrestricted Liabilities:		
Net Pension Liability (Note 10)	1,360,017	-
Total Noncurrent Liabilities	1,360,017	-
TOTAL LIABILITIES	34,616,474	46,771,382
 <u>DEFERRED INFLOWS OF RESOURCES</u>		
Deferred amount related to pensions (Note 10)	534,451	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	534,451	-
 <u>NET POSITION</u>		
Net Investment in Capital Assets	929,243	1,063,125
Restricted for Trustee Activities	1,049,315	1,009,886
Unrestricted	3,624,365	3,955,156
TOTAL NET POSITION	\$ 5,602,923	\$ 6,028,167

See accompanying notes to basic financial statements.

MUNICIPAL WATER DISTRICT OF ORANGE COUNTY
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2015
(with comparative data as of June 30, 2014)

	<u>2015</u>	<u>2014</u>
Operating Revenues:		
Water Sales	\$ 196,165,166	\$ 202,415,070
Special Projects Revenue	13,678,299	1,507,206
Federal Grant Revenue	325,874	743,515
State Grant Revenue	255,956	64,809
Total Operating Revenues	210,425,295	204,730,600
Operating Expenses:		
Cost of Water Sold	188,196,586	195,659,855
Salaries and Employee Benefits	4,092,711	4,024,953
General and Administrative	2,778,997	2,113,668
Special Project Expenses (Note 6)	14,260,129	2,315,530
Depreciation	145,718	144,701
Total Operating Expenses	209,474,141	204,258,707
Operating Income	951,154	471,893
Nonoperating Revenues:		
Investment Income	77,496	95,407
Other Income	132,553	226,202
Total Non-Operating Revenues	210,049	321,609
Income Before Special Items	1,161,203	793,502
Special Items:		
Refund from Metropolitan Water District of Southern California	-	8,144,234
Distributions to Member Agencies	-	(8,274,842)
Total Special Items	-	(130,608)
Change in Net Position	1,161,203	662,894
NET POSITION - BEGINNING OF YEAR, AS RESTATED (NOTE 11)	4,441,720	5,365,273
NET POSITION - END OF YEAR	\$ 5,602,923	\$ 6,028,167

See accompanying notes to basic financial statements.

MUNICIPAL WATER DISTRICT OF ORANGE COUNTY
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2015
(with comparative data as of June 30, 2014)

	<u>2015</u>	<u>2014</u>
Cash Flows from Operating Activities:		
Cash received from member agencies-water deliveries	\$ 202,907,791	\$ 197,450,806
Cash payments to Metropolitan Water District of Southern California	(195,299,781)	(190,184,845)
Cash payments for salaries and employee benefits	(4,153,774)	(4,077,650)
Cash payments for general and administrative expenses	(7,961,175)	(2,424,640)
Cash received from special projects	15,142,107	2,805,256
Cash payments for special projects	(14,325,983)	(2,490,559)
	<u>(3,690,815)</u>	<u>1,078,368</u>
Cash Flows from Noncapital and Related Financing Activities:		
Other income	132,553	226,202
(Proceeds from)/Payments to RPOI participants (Note 5)	81	(1,424,728)
	<u>132,634</u>	<u>(1,198,526)</u>
Cash Flows from Capital and Related Financing Activities:		
Acquisition of capital assets	(11,836)	(225,285)
	<u>(11,836)</u>	<u>(225,285)</u>
Cash Flows from Investment Activities:		
Investment income	66,758	107,616
Investments sold (purchased)	(944,721)	206,720
	<u>(877,963)</u>	<u>314,336</u>
Net decrease in cash and cash equivalents	(4,447,980)	(31,107)
Cash and cash equivalents at beginning of year	7,087,744	7,118,851
	<u>\$ 2,639,764</u>	<u>\$ 7,087,744</u>
Financial Statement Presentation:		
Cash and Cash Equivalents (Restricted)	\$ 2,474,168	\$ 1,618,696
Cash and Cash Equivalents (Unrestricted)	165,596	5,469,048
	<u>\$ 2,639,764</u>	<u>\$ 7,087,744</u>
Totals	<u>\$ 2,639,764</u>	<u>\$ 7,087,744</u>

See accompanying notes to basic financial statements.

MUNICIPAL WATER DISTRICT OF ORANGE COUNTY
Statement of Cash Flows (Continued)
For the Fiscal Year Ended June 30, 2015
(with comparative data as of June 30, 2014)

	<u>2015</u>	<u>2014</u>
Reconciliation of Operating Income to Net Cash Provided for Operating Activities		
Operating Income	\$ 951,154	\$ 471,893
Adjustments to Reconcile Operating Income to Net Cash Provided (used) by Operating Activities:		
Depreciation	145,718	144,701
Pension expense	240,306	-
Change in Assets and Liabilities:		
(Increase)/Decrease in accounts receivable - water deliveries	6,742,625	(4,964,264)
(Increase)/Decrease in accounts receivable - other and other assets	2,345,116	(21,200)
(Increase) in deposits and prepaid expenses	(81,871)	(6,782)
(Increase) in OPEB asset	(55,765)	-
(Increase)/Decrease in accounts receivable - special projects	(175,027)	158,198
(Increase) in deferred outflows related to contributions subsequent to the measurement date	(288,065)	-
Increase/(Decrease) in accrued and other liabilities	409,744	(335,689)
(Decrease) portion of accrued liabilities for special item	(7,812,706)	(130,608)
Increase/(Decrease) in restricted accrued liabilities	(122,090)	259,081
(Decrease) in advances from participants	(65,854)	(44,782)
Increase in unearned revenue for special projects	1,179,095	-
Increase/(Decrease) in accounts payable to Metropolitan Water District of Southern California	(7,103,195)	5,547,820
Total Adjustments	(4,641,969)	606,475
Net Cash Provided by Operating Activities	<u>\$ (3,690,815)</u>	<u>\$ 1,078,368</u>

See accompanying notes to basic financial statements.

Notes to Financial Statements

Municipal Water District of Orange County

Notes to Basic Financial Statements

For the Year Ended June 30, 2015

(1) Organization and Summary of Significant Accounting Policies

Reporting Entity

The Municipal Water District of Orange County (the District) was formed as a municipal water district on January 11, 1951 under the Municipal Water District Act of 1911. The District is a wholesale water supplier and resource planning agency that serves all of Orange County through 28 cities and water agencies (except the Cities of Anaheim, Fullerton, and Santa Ana which are independent member agencies of the Metropolitan Water District of Southern California ("Metropolitan)). As a public agency member of the Metropolitan, the District purchases imported water from Metropolitan and provides the water to the District's 28 member agencies, which provide retail water services to approximately 2.3 million residents with the District's service area of approximately 600 square miles. The District's primary sources of water from Metropolitan are the California State Water Project (SWP) and the Colorado River Aqueduct.

The District is an independent special district of the State of California governed by an elected seven-member board. On January 2001, the District merged with the Coastal Municipal Water District (Coastal) under the recommendation of the Local Agency Formation Commission of Orange County (LAFCO) as part of an effort to streamline local government. The consolidation of the two agencies allows the new district to more efficiently provide wholesale water services at an improved efficiency for the benefit of residents living throughout the service area.

The District's reporting entity includes the accounts of the District and the Municipal Water District of Orange County Water Facilities Corporation (WFC). Formed as a separate California nonprofit corporation on April 20, 1978 to assist in the financing of the Allen-McColloch Pipeline (AMP) and the Flow Augmentation Project (FAP), the WFC has no employees (see Note 5). The WFC is governed by a seven-member board comprised of the District's board members. The WFC had no activity or balances for the year ended June 30, 2015 and is kept active for potential future financing arrangements. WFC is a blended component unit of the District and the District has operational responsibility for WFC.

Basic Financial Statements

The District's basic financial statements consist of the Statement of Net Position the Statement of Revenues, Expenses and Changes in Net Position, the Statement of Cash Flows, and the Notes to the Basic Financial Statements.

Basis of Presentation

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

Municipal Water District of Orange County

Notes to Basic Financial Statements

For the Year Ended June 30, 2015

The District's basic financial statements have been prepared on the accrual basis of accounting, and are presented on an economic measurement focus reporting all economic resources and obligations for the period ended June 30, 2015.

Net Position

In the Statement of Net Position, net position is classified in the following categories:

- Net investment in capital assets – This amount consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets as applicable.
- Restricted net position – This amount consists of restricted assets reduced by liabilities. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported. Or a resource subject to constraints that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net position – This amount is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

When both restricted and unrestricted resources are available, it is the District's policy to use restricted resources first and then unrestricted resources as they are needed.

Operating and Non-Operating Revenues and Expenses

The District's primary purpose is to provide a dependable wholesale supply of imported water for its 28 member agencies. Accordingly, operating revenues, such as water sales result from exchange transactions, associated with the principal activity of the District, the purchase and resale of imported water to the District's member agencies.

Revenues from federal and state grants, reimbursements from participants and special projects (see Note 6), as well as special projects expenses are defined as operating revenues and expenses, respectively. Non-operating revenues consist of investment income and other miscellaneous income.

Water Sales and Cost of Water Sold

Historically, the District's primary source of revenue has been from the resale of imported water to the District's 28 member agencies located in Orange County. Based on Metropolitan's cost of water, each year Metropolitan's Board of Directors approves water rates comprised of a per retail connection charge, readiness to serve charge and a per acre-foot charge. Metropolitan's rates are based on cost of service studies performed on a biennial basis. Water rates are not subject to regulation by the California Public Utilities Commission or by any other local, state, or federal agency. Revenue from sales of water is recognized on the accrual basis as water is delivered.

Municipal Water District of Orange County

Notes to Basic Financial Statements

For the Year Ended June 30, 2015

Over the years, the District's revenue has been approximately 65% from a per retail connection charges, and 35% from per acre-foot charges. In June 2010, MWDOC and its member agencies came to an agreement on changes to MWDOC's structure of charging for its services. First, MWDOC agreed to segregate our services between "Core" services and "Choice" services to give our agencies more "choices" to the services received. It was also agreed that, in addition to the cost of water and other charges from Metropolitan, MWDOC would transition its method of charging for "Core" services in the following manner. Commencing in fiscal year 2011 -12, MWDOC began transitioning to a 100% fixed charge. In the first year of this process, 80% of MWDOC's water rate charges for its operating budget would be fixed, and 20% would be based on water sales charges. Each year for the subsequent four years, MWDOC would increase the amount on fixed charges by 5%, reaching 100% in fiscal year 2015-16. Choice services would be charged directly to the agencies as a "fee for service" on a subscription basis. The settlement agreement that established this fixed charge basis for the operating budget expires at the end of fiscal year 2015-16. The member agencies also pay for the resale of imported water in addition to the other charges noted.

Investments

The District's investment policy and delegation of investment authority, is reviewed and approved each year by the Board of Directors. The investment policy authorizes the Treasurer to invest, reinvest, sell or exchange permitted fixed income securities in accordance with the California Government Code. The District accounts for investments in debt securities at fair market value (the value at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale). Investment income from restricted assets remains restricted.

Cash and Cash Equivalents

Cash and cash equivalents are defined as cash and short-term, highly liquid investments (i.e., Local Agency Investment Fund and Orange County Investment Pool) which are readily convertible to cash and mature within ninety (90) days of original purchase.

Accounts Receivable

The District extends credit to customers in the normal course of operations. Management believes all accounts receivable are collectible. In the event any accounts receivable are determined they are uncollectible, an allowance is recorded.

Capital Assets

Capital Assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and useful life greater than one (1) year. Upon retirement, sale or other disposition of capital assets, the cost and related accumulated depreciation are removed from respective accounts and any gains or losses are recognized. Depreciation is computed using the straight-line method over the estimated useful life of the asset, which range from 3 to 5 years for furniture, fixtures, and equipment, and up to 30 years for leasehold improvements.

Municipal Water District of Orange County

Notes to Basic Financial Statements

For the Year Ended June 30, 2015

Deposits and Prepaid Expenses

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

Deferred Outflows and Inflows of Resources

The District reported deferred outflows and inflows of resources related to pensions. A deferred outflow of resources is a consumption of net position by the District that is applicable to a future reporting period. A deferred inflow of resources represents an acquisition of net position by the District that is applicable to a future period. Refer to Note 10 for items identified as deferred inflows and outflows as of June 30, 2015.

Compensated Absences

As vacation leave is a vested employee benefit, the District is obligated to compensate employees for all earned but unused vacation days. Employee vacation days are accrued each pay period and reported as accrued liabilities. Depending on the length of employment, employees earn a minimum of 10 to a maximum of 21 vacation days per year. Accumulated vacation days may not exceed 2 times the number of days earned per year without prior approval of the General Manager. Sick leave time is a non-vested employee benefit (i.e. accumulated sick leave is not payable in the event of employee termination); is considered a contingent liability and is not reflected in the accompanying financial statements.

Unearned Revenue

Unearned revenue represents grant revenues received in advance of the recognition of the related expense. Refer to Note 6 for items identified as of June 30, 2015.

Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Municipal Water District of Orange County's (District) California Public Employees Retirement System (CalPERS) plans and additions to and deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United State requires management to make estimates and assumptions that could affect certain reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates. Also, the preparation of the financial statements inherently requires rounding of amounts and estimates. Management believes that any differences due to rounding are not material.

Municipal Water District of Orange County

Notes to Basic Financial Statements

For the Year Ended June 30, 2015

Budgetary Policy and Control

The District Administrative Code requires that a budget be prepared each year under direction of the General Manager based on estimates of revenues and expected expenditures. The District's Board of Directors adopted an annual budget of expenditures for the period ended June 30, 2015. All amendments to the budget, or transfers of operating budget appropriations to or from reserve accounts, require Board approval. The General Manager is authorized to transfer budget amounts within programs. The legal level of budgetary control is at the total fund level.

New Accounting and Reporting Requirements

For the fiscal year beginning July 1, 2014 the District was required to apply the following GASB Statements:

GASB Statement No. 68 – In June 2012, 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 interperiod equity, and creating additional transparency. The Statement is effective for periods beginning after June 15, 2014, or the 2014-2015 fiscal year. The District implemented this pronouncement effective July 1, 2014.

GASB Statement No. 71 – In November 2013, GASB issued Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, Accounting and Financial Reporting for Pensions. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The Statement is effective for periods beginning after June 15, 2014, or the 2014-2015 fiscal year. The District implemented this pronouncement effective July 1, 2014.

Effective in Future Years

GASB Statement No. 72 – On March 2, 2015, GASB released Statement No. 72 - *Fair Value Measurement and Application*, which would generally require state and local governments to measure investments at fair value. GASB's goal is to enhance comparability of governmental financial statements by requiring fair value measurement for certain assets and liabilities using a consistent definition and accepted valuation techniques. This standard expands fair value disclosures to provide comprehensive information for financial statement users about the impact of fair value measurements on a government's financial position. The requirements are effective for financial statements for periods beginning after June 15, 2015, with early application encouraged. The District has not yet determined the effect on the financial statements.

Municipal Water District of Orange County

Notes to Basic Financial Statements
For the Year Ended June 30, 2015

GASB Statement No. 73 - In June, 2015, GASB released Statement No. 73 *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* – effective for fiscal years beginning after June 15, 2015. The District has not yet determined the effect on the financial statements.

GASB Statement No. 74 - In June, 2015, GASB released Statement No. 74 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* – effective for fiscal years beginning after June 15, 2016. This statement applies to OPEB plans and basically parallels GASB Statement 67 and replaces GASB Statement 43. The District has not yet determined the effect on the financial statements.

GASB Statement No. 75 - In June, 2015, GASB released Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* – effective for fiscal years beginning after June 15, 2017. This statement applies to government employers who provide OPEB plans to their employees and basically parallels GASB Statement 68 and replaces GASB Statement 45. The District has not yet determined the effect on the financial statements.

GASB Statement No. 76 – In June 2015, GASB released Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this statement is to reduce the GAAP hierarchy to two categories of authoritative GAAP from the four categories under GASB Statement No. 55. The Statement is effective for fiscal years beginning after June 15, 2015. The District has not yet determined the effect on the financial statements.

GASB Statement No. 77 – In August 2015, GASB released Statement No. 77, *Tax Abatement Disclosures*. The Statement requires state and local governments to disclose information about tax abatement agreements. The Statement is effective for fiscal years beginning after December 15, 2015. The District has not yet determined the effect on the financial statements.

(2) Cash and Investments

Cash and investments at June 30, 2015, are classified in the accompanying financial statements as follows:

Statement of net position:	
Cash and cash equivalents (restricted)	\$ 2,474,168
Cash and cash equivalents (unrestricted)	165,596
Investments (unrestricted)	<u>3,115,157</u>
Total Cash and Investments	<u>\$ 5,754,921</u>

Cash and investments as of June 30, 2015 consist of the following:

Cash on hand	\$ 500
Deposits with financial institutions	34,772
Investments	<u>5,719,649</u>
Total Deposits and Investments	<u>\$ 5,754,921</u>

Municipal Water District of Orange County

Notes to Basic Financial Statements

For the Year Ended June 30, 2015

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

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	None	None	None
U.S. Government Sponsored Entities Securities	5 years	None	None
Corporate Securities	5 years	30%	None
Corporate Securities (Reserve Fund)	5 years	20%	None
Commercial Paper	270 days	20%	10%
Negotiable Certificates of Deposit	None	20%	None
Bankers' Acceptances	None	20%	20%
Repurchase Agreements	None	10%	None
Money Market Mutual Funds	N/A	20%	10%
County Investment Pool	N/A	None	None
State Investment Pool	N/A	None	None

Disclosures Relating to Interest Rate Risk

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

Investment Type		Remaining Maturity (in Months)		
		12 Months or Less	13 to 24 Months	25-60 Months
Negotiable Certificate of Deposits	\$ 1,102,582	\$ -	\$ 100,407	\$ 1,002,175
Corporate Securities	1,262,245	1,262,245	-	-
Federal Agency Issues*	750,330	-	-	750,330
Orange County Investment Pool	2,604,448	2,604,448	-	-
State Investment Pool	44	44	-	-
	<u>\$ 5,719,649</u>	<u>\$ 3,866,737</u>	<u>\$ 100,407</u>	<u>\$ 1,752,505</u>

*Security is callable, but classified above according to original maturity date

Municipal Water District of Orange County

Notes to Basic Financial Statements

For the Year Ended June 30, 2015

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 or District's investment policy, or debt agreements, and the actual rating by Standard and Poor's (S&P) as of the year end of each investment type. The District purchases all investments at the minimum rating but some investments' ratings may downgrade during its life but it is the District's policy to hold investments until their maturity.

Investment Type		Minimum Legal Rating	Ratings as of Year End				
			AAAm	AA+	A-	AA-	Not Rated
Negotiable Certificate of Deposits	\$ 1,102,582	N/A	\$ -	\$ -	\$ -	\$ -	\$ 1,102,582
Corporate Securities	1,262,245	A	-	-	755,570	506,675	-
Federal Agency Issues	750,330	A	-	750,330	-	-	-
Orange County Investment Pool	2,604,448	N/A	2,604,448	-	-	-	-
State Investment Pool	44	N/A	-	-	-	-	44
	<u>\$ 5,719,649</u>		<u>\$ 2,604,448</u>	<u>\$ 750,330</u>	<u>\$ 755,570</u>	<u>\$ 506,675</u>	<u>\$ 1,102,626</u>

** Investments conformed to District's investment Policy at time of acquisition

Concentration of Credit Risk

The District's investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. At June 30, 2015 the District had investments in more than one issuer (other than U.S. Treasury securities, mutual funds, external investment pools) that represented 5% or more of total District investments as follows:

<u>Issuer</u>	<u>Amount</u>	<u>Percent of Portfolio</u>
MetLife Global Funding	\$506,675	8.86%
Morgan Stanley	\$504,535	8.82%
Federal Home Ln Mtg Corp	\$500,050	8.74%

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits:

Municipal Water District of Orange County

Notes to Basic Financial Statements

For the Year Ended June 30, 2015

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 agency. The Government Code also allows financial institutions to secure public agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2015 the District's deposits with financial institutions are covered by FDIC up to \$250,000 the remaining amounts of \$2,746,007 were collateralized as described above.

Investment in State and County Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California, and in the Orange County Investment Pool (OCIP) under the oversight of the Orange County Treasurer. The fair market value of the District's investment in these pools are reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair market value provided by LAIF and OCIP for the entire LAIF and OCIP portfolios (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF and OCIP, which are recorded on an amortized cost basis.

LAIF is a governmental investment pool managed and directed by the California State Treasurer and is not registered with the Securities and Exchange Commission. An oversight committee comprised of California State officials and various participants provides oversight to the management of the fund. The daily operations and responsibilities of LAIF fall under the auspices of the State Treasurer's office.

The Agency is a participant in the County Treasurer's Orange County Investment Pool (OCIP). The OCIP is an external investment pool, and is not registered with the Securities Exchange Commission (SEC). The County Treasury Oversight Committee conducts OCIP oversight. Cash on deposit in the OCIP at June 30, 2015, is stated at fair value. The OCIP values participant shares on an amortized cost basis during the year and adjusts to fair value at year-end. For further information regarding the OCIP, refer to the County of Orange Comprehensive Annual Financial Report.

(3) Restricted Assets

Restricted assets are monies held in restricted funds or accounts by the District for the benefit of member agencies, including a rate stabilization fund. As of June 30, 2015, \$3,875,535 was reported as restricted assets related to trustee and member agency activities.

Municipal Water District of Orange County

Notes to Basic Financial Statements

For the Year Ended June 30, 2015

(4) Capital Assets

The following is a summary of capital assets at June 30, 2015 with changes therein:

	2014	Additions	Deletions	2015
Furniture and fixtures	\$ 535,373	\$ -	\$ (98,462)	\$ 436,911
Leasehold improvements	3,015,137	11,836	-	3,026,973
	<u>3,550,510</u>	<u>11,836</u>	<u>(98,462)</u>	<u>3,463,884</u>
Less accumulated depreciation	(2,487,385)	(145,718)	98,462	(2,534,641)
Net Capital Assets	<u>\$ 1,063,125</u>	<u>\$ (133,882)</u>	<u>\$ -</u>	<u>\$ 929,243</u>

(5) Due to Participants/Trustee Activities

Since 1978, the District has acted as trustee for certain member agencies in the financing, construction and operation of a water pipeline system and related facilities necessary to improve water quality and provide capacity to accommodate new development in the southeastern portion of the District's service area. The original 1979 pipeline project consisted of the construction of a 26-mile pipeline, which was augmented in 1989 with the construction of a 3-mile parallel pipeline and flow control facility. Together these projects, known as the Allen-McColloch Pipeline (AMP) and the Flow Augmentation Project (FAP), were funded through tax-exempt bonds originally issued by WFC and cash participation by some participating agencies.

In 1995, the Metropolitan acquired the AMP and FAP pipelines and related facilities. At the same time, all participating agencies agreed upon a Revised Percentage of Investment (RPOI) formula for sharing of revenue from Metropolitan and other participants for capacity swaps until the final payment of all outstanding debt or liabilities in 2016, or sooner.

As trustee, the District records current year transactions to receive payments from the financing member agencies, and to make payments to member agencies which paid cash. For the year ended June 30, 2015, The District received \$4,746 from certain AMP member agencies, and disbursed \$4,665 by the RPOI formula. As of June 30, 2015, the balance of \$4,746 included in "Due to Participants" is to be disbursed to the AMP member agencies in the first quarter of the following fiscal year.

(6) Special Projects Revenue and Expenses, Receivables, and Unearned Revenue

The District receives revenues from member agencies, as well as grants from federal and state agencies, to the benefit of the District's ratepayers for a variety of programs and projects, including water conservation education, water use efficiency, and desalinization feasibility studies. As stipulated in executed grant agreements, the District is reimbursed by the granting agency for eligible grant project expenses which are first incurred by the District. For eligible District-Incurred grant expenses not reimbursed by the end of the District's fiscal year, the District accrues revenue for unreimbursed grant funds due the District. As of June 30 2015, the District accrued \$1,339,912 of grants receivable (part of Restricted Accounts Receivable Other). The District recognized \$14,260,129 in contributions from Metropolitan and member agencies, federal and state grant revenue, and corresponding expenses, for the year ended June 30, 2015.

As of June 30, 2015, the District reported \$1,179,095 of Unearned Revenue, related to Grant and Special Projects Revenue received during year, but not yet spent.

Municipal Water District of Orange County

Notes to Basic Financial Statements
For the Year Ended June 30, 2015

(7) District Directors Retirement Plan – Defined Contribution Plan

On January 1, 1997, the Districts' Board of Directors adopted a defined contribution, private Money Purchase Pension Plan (Plan). Employee contributions were made to the Plan until the District joined the California Public Employees Retirement System (CalPERS). Effective, March 1, 2003, District employees became members of CalPERS and employee contributions to the Plan were frozen. Currently, seven Board members participate in the Plan and contributions were made by the District on behalf of the current participants through December 31, 2014. The District was required to contribute 10.5% of a participant's gross salary, increasing to 13.5% after one year of service. This plan was amended as of January 1, 2015 where the Directors contribute their own 7.5% and the District does not contribute on their behalf. The District's Board of Directors has the authority to amend or terminate the plan at any time. All required contributions by the District were made to the Plan during the year. Participants become vested in the District's Plan 20% per year of service until they become fully vested after five (5) years of service. The District reported \$11,182 of pension expense related to the Plan for the year ended June 30, 2015. A summary of this plan's contribution and District payroll information follows:

	<u>July 1 to December 31, 2014</u>
District contributions for participants	\$11,182
District contributions as a percent of covered payroll	10.5% / 13.5%

	<u>January 1 to June 30, 2015</u>
Participants' contributions	\$ 6,817
Participants' contributions as a percent of covered payroll	7.5%

(8) Retiree Medical Plan - Other-Post-Employment Benefits

(a) Plan Description:

Effective October 1, 2011, the District established a Post Retirement Healthcare Plan (Plan), and has contributed to a Section 115 Irrevocable Exclusive Benefit Trust for the pre-funding of post-employment health care costs. Currently, the District provides health insurance for its retired employees and their dependent spouses (if married and covered on the District's plan at time of retirement), or survivors in accordance with Board resolutions. Medical coverage is provided for retired employees who are age 55 or over and who have a minimum of 10 years service with the District.

The District pays 100% of the premium for the single retiree and 80% of the married retiree and spouse until age 65. If a retiree in receipt of these benefits dies before reaching age 65, the surviving spouse will continue to receive coverage that the retiree would have been entitled to until age 65 only. When a retiree reaches age 65 and/or is eligible for Medicare, the District reimburses the retiree up to \$1,800 per calendar year for the cost of Supplemental Medical Insurance and Medicare Prescription Drug (Part D) Insurance. Retirees who complete at least 25 consecutive years of full-time service receive District-paid dental and vision benefits along with the above-mentioned medical coverage until the time of the retiree and spouse's death.

Plan benefits and contribution requirements of Plan members and the District are established, and may be amended, by the District's Board of Directors.

Municipal Water District of Orange County

Notes to Basic Financial Statements

For the Year Ended June 30, 2015

The following parties are responsible for administration of the Plan:

- Public Agency Retirement Services (PARS) serves as Trust Administrator and Consultant,
- US Bank serves as Trustee, and
- HighMark Capital Management servers as Investment Manager.

PARS issues monthly account reports to the District and HighMark publishes quarterly performance reports.

(b) Funding Policy:

The contribution requirements of Plan members and the District are established, and may be amended, by the District's Board of Directors. Currently, contributions are not required from Plan members. The District is currently funding the OPEB obligation on a pre-funding basis. For the year ended 2015, the District made a total contribution of \$186,351 of which, \$42,665 were actual health care costs for its retirees and their covered dependents.

(c) Annual OPEB Cost and Net OPEB Obligation:

The District's annual OPEB cost (expense) is calculated based on the Annual Required Contribution of the employer (ARC), an amount actuarially determined in accordance with GASB Statement 45. The most recent GASB 45 actuarial valuation is dated July 1, 2014. The ARC represents a level of funding that, if paid on an on-going basis, is projected to cover normal costs each year and to amortize any unfunded liabilities of the Plan over a period not-to-exceed 30 years.

The following table shows the components of the District's annual OPEB costs for FY 2014-15, the amount actually contributed to the Plan and changes in the District's net OPEB Asset.

Annual Required Contributions (ARC)	\$ 130,117
Interest on Net OPEB Obligation (Asset)	(2,222)
Adjustment to ARC	<u>2,691</u>
Annual OPEB Cost	<u>130,586</u>
Contribution made	<u>(186,351)</u>
(Increase)/Decrease in Net OPEB Obligation (Asset)	<u>(55,765)</u>
Net OPEB (Asset) at June 30, 2014	<u>(37,041)</u>
Net OPEB (Asset) at June 30, 2015	<u><u>\$ (92,806)</u></u>

Municipal Water District of Orange County

Notes to Basic Financial Statements

For the Year Ended June 30, 2015

(d) Three-Year Trend Information:

For fiscal year 2015, the District's annual OPEB cost (expense) of \$130,586 was equal to the ARC including adjustments. Information on the annual OPEB cost, Percentage of Annual OPEB Cost Contributed, and Net OPEB Obligation (Asset) are presented below:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Actual Contribution (Net of Adjustments)</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
6/30/2013	\$ 200,223	\$ 155,575	77.70%	\$ 31,956
6/30/2014	204,985	273,982	133.66%	(37,041)
6/30/2015	130,586	186,351	142.70%	(92,806)

(e) Funded Status and Funding Progress:

As of July 1, 2014, the most recent actuarial valuation date, the plan was 64.14% percent funded. The actuarial accrued liability for benefits was \$1,740,686, and the actuarial value of assets was \$1,116,390, resulting in an Unfunded Actuarial Accrued Liability (UAAL) of \$624,296. The covered payroll (annual payroll of active employees covered by the plan) was \$2,673,190 and the ratio of the UAAL to the covered payroll was 23.35%.

Actuarial valuations of an on-going plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the Plan and the annual required contributions of the District are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

(f) Actuarial Methods and Assumptions:

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

In the July 1, 2014 actuarial valuation report, the projected unit credit cost method was used. The actuarial assumptions included a 6.00% investment rate of return (net of administrative expenses), a trend rate for the fiscal year beginning 2015 of 8.00% for healthcare costs, and an inflation rate of 6.00%. The District's unfunded actuarial accrued liability was planned to be amortized by a 30 year level dollar contribution over an open period but in 2013 the District has decided to accelerate this plan to be fully funded within 10 years.

Municipal Water District of Orange County

Notes to Basic Financial Statements

For the Year Ended June 30, 2015

(9) Risk Management

The District is a member of the Association of California Water Agencies Joint Powers Insurance Authority (JPIA) (Insurance Authority). The Insurance Authority is a risk-pooling self-insurance authority, created under provisions of California Government Code Sections 6500 et. seq. The purpose of the Authority is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage for participating member agencies.

The Insurance Authority bills the District a deposit premium at the beginning of each year, which is placed in a reserve fund to cover the self-insurance portion of any claim. Settlements and/or expenses related to claims during the year are then charged to the reserve. If the balance of the reserve at the end of the year is deemed too low in relation to the amount of outstanding claims, the District is billed for additional premiums. When the claims are fully settled, any amounts remaining in the reserve are refunded to the District.

At June 30, 2015, the District participated in the self-insurance programs as follows:

Property Loss - The Insurance Authority has pooled self-insurance up to \$100,000 per occurrence and has purchased excess insurance coverage up to \$150 million. The District has a \$1,000 deductible for buildings, personal property and fixed equipment.

General, Auto and Public Officials Liability - The Insurance Authority has pooled self-insurance up to \$2 million per occurrence, and has purchased excess insurance coverage up to \$60 million.

Crime Policy/Fidelity Bond - The Insurance Authority has pooled self-insurance up to \$100,000 per occurrence and has purchased excess insurance coverage up to \$2 million. The District has a \$1,000 deductible.

The District pays annual premiums to the Insurance Authority for all coverage's. There were no instances in the past three years when a settlement exceeded the District's coverage.

Workers' Compensation – This Plan is administered through Special District Risk Management Authority (SDRMA). The Insurance Authority is self-insured up to \$2 million per occurrence and has purchased excess insurance coverage up to the statutory limit. Employer's liability is insured up to a \$5 million limit. SDRMA maintains a Self-Insured Retention that is periodically adjusted based on market conditions.

The District pays annual premiums for all coverage's. There were no instances in the past three years when a settlement exceeded the District's coverage and the District did not file any claims against any of the policies.

Municipal Water District of Orange County

Notes to Basic Financial Statements
For the Year Ended June 30, 2015

(10) Cost-Sharing Defined Benefit Plan

(a) General Information about the Pension Plan

Plan Descriptions – Effective March 1, 2013, all qualified permanent and probationary employees are eligible to participate in the District’s employee pension plan, a cost-sharing multiple employer defined benefit pension plan administered by the California Public Employees Retirement System (CalPERS). The CalPERS Plan (Plan) consists of a miscellaneous pool and a safety pool (referred to as “risk pools”), which are comprised of individual employer miscellaneous and safety rate plans, respectively. The risk pools are included within the Public Employees’ Retirement Funds C (PERF C). Benefit provisions under the Plans are established and may be amended by State statute and the District’s resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions, membership information, and related financial information can be found on the CalPERS website at: <http://www.calpers.ca.gov/index.jsp?bc=/about/forms-pubs/calpers-reports/actuarial-reports/home.xml>

Benefits Provided – CalPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees’ Retirement Law.

The Plans’ provisions and benefits in effect at June 30, 2015, are summarized as follows:

	Miscellaneous	
	Prior to January 1, 2013	On or after January 1, 2013
Hire Date		
Formula	2.0% @55	2.0% @62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	55	62
Monthly benefits, as a % of annual salary	1.426% to 2.418%	1.0% to 2.5%
Required employee contribution rates	7%	6.250%
Required employer contribution rates	11.522%	6.250%

Contributions – Section 20814(c) of the California Public Employees’ Retirement law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in rate. Funding contributions for Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rates of employees.

Contributions recognized by the pension plan from the employer for the year ended June 30, 2015 were \$288,065. The District also contributed 3% of the employee’s contribution, or \$89,451, on behalf of employees during the year. The District is phasing out contributions paid on behalf of employees by 1% per year, until completely eliminated.

Municipal Water District of Orange County

Notes to Basic Financial Statements

For the Year Ended June 30, 2015

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

As of June 30, 2015, the District's reported net pension liabilities for its proportionate share of the net pension liability of the Plan is as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous	<u>\$ 1,360,017</u>

The District's net pension liability was measured as the proportionate share of the net pension liability of the collective cost-sharing plan. The District's net pension liability was measured as of June 30, 2014, and the total pension liability for the Plan was used to calculate the net pension liability determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for the Plan as of June 30, 2013 and 2014 were as follows:

	<u>Miscellaneous</u>
Proportion - June 30, 2013	0.02305%
Proportion - June 30, 2014	0.02186%
Change - Increase (Decrease)	-0.00119%

At the year ended June 30, 2015, the District's recognized pension expense of \$240,306. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
District contributions subsequent to the measurement date	\$ 288,065	\$ -
Differences between District contributions and proportionate share of contributions	67,715	-
Net difference between projected and actual earnings on pension plan investments	-	457,028
Changes in proportion	-	77,423
Total	<u>\$ 355,780</u>	<u>\$ 534,451</u>

Municipal Water District of Orange County

Notes to Basic Financial Statements

For the Year Ended June 30, 2015

The amount of \$288,065 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year ended June 30,	
2015	\$ (117,724)
2016	(117,724)
2017	(117,031)
2018	(114,257)
	<u>\$ (466,736)</u>

Actuarial Assumptions – The total pension liabilities in the June 30, 2013 actuarial valuation were determined using the following actuarial assumptions.

	<u>Miscellaneous</u>
Valuation Date	June 30, 2013
Measurement Date	June 30, 2014
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.50%
Inflation	2.75%
Projected Salary Increase	Varies by Entry Age Service
Investment Rate of Return	7.5% ⁽²⁾
Mortality	Derived using CalPERS' Membership Data for all funds

⁽²⁾ Net of pension plan investment and administrative expenses; includes inflation.

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period of 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website at: <http://www.calpers.ca.gov/index.jsp?bc=/about/forms-pubs/calpers-reports/actuarial-reports.xml>

Discount Rate – The discount rate used to measure the total pension liability was 7.50% for the Plan. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that the District's contributions will be made at rates equal to the difference between actuarially determined contributions rates and the employee rate. Based on those assumptions, each pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Municipal Water District of Orange County

Notes to Basic Financial Statements

For the Year Ended June 30, 2015

In determining the long-term expected 7.50% rate of return on pension plan investments, CalPERS took into account both short and long-term market return expectations as well as the expected pension fund cash flows. Based on the expected benefit payments of the Public Employees' Retirement Fund, CalPERS indicated that a 19 year horizon was ideal in determining the level equivalent discount rate assumption. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for the fund. The expected rate of return was set by calculating the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are the same for the Plan. These geometric rates of return are net of administrative expenses and are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return Years 1-10	Long-term Expected Real Rate of Return Years 11 +
Global Equity	47%	5.25%	5.71%
Global Fixed Income	19%	0.99%	2.43%
Inflation Sensitive	6%	0.45%	3.36%
Private Equity	12%	6.83%	6.95%
Real Estate	11%	4.50%	5.13%
Infrastructure and Forestland	3%	4.50%	5.09%
Liquidity	2%	-0.55%	-1.05%
Total	100%		

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

– The following presents the District's proportionate share of the net pension liability, calculated using the discount rate, as well as what the District's proportionate share of net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate.

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
District's proportionate share of the net pension liability	\$ 2,423,130	\$ 1,360,017	\$ 477,734

Pension Plan Fiduciary Net Position – Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

Municipal Water District of Orange County

Notes to Basic Financial Statements
For the Year Ended June 30, 2015

(11) Prior Period Adjustments

As discussed under Note 1, the District implemented GASB 68 effective July 1, 2014. Refer to Note 10 for further disclosures related to the Plan and related balances. As a result of the implementation, the District restated beginning net position as noted below:

Beginning of year, as previously reported		
Net Position		\$ 6,028,167
Contributions after the measurement date - deferred outflows of resources		271,826
Net Pension Liability as of the measurement date of June 30, 2013		<u>(1,858,273)</u>
Beginning of year, as restated		
Net Position		<u>\$ 4,441,720</u>

Following is the pro forma effect of the retroactive application:

	June 30, 2014		July 1, 2014
	Previously Presented	Restatement	Restated
Deferred outflows of resources	\$ -	\$ 271,826	\$ 271,826
Net pension liability	-	1,858,273	1,858,273

In accordance with GASB 68, the restatement of all deferred outflows and inflows was not practical and therefore not included in the restatement of beginning balances.

(12) Commitments and Contingencies

The District is involved in various litigation from time to time arising from the normal course of business. In the opinion of management and legal counsel, the District is not involved in any litigation that is expected to have a material adverse effect on the overall financial position of the District at June 30, 2015.

During the current year, the Internal Revenue Service (IRS) performed a payroll audit, which resulted in the District revising the classification of certain individuals from independent contractor to employees of the District beginning July 1, 2015. As a result of the change in classification, the District paid additional payroll taxes totaling \$7,682 related to compensation from January 1, 2012 through June 30, 2015.

Additionally, related to the IRS inquiry, the District has determined that certain individuals were compensated for benefits in excess of amounts allowed per government code over a 14 year period. As a result, as of June 30, 2015, the District is owed \$236,137, plus accrued interest of \$24,430. The District has evaluated the amounts owed as a gain contingency, and will recognize revenue as amounts are received from the individuals. Subsequent to year-end, as of the date of this report, four individuals have repaid \$89,084.

Required Supplementary Information

(Unaudited)

Municipal Water District of Orange County
 Required Supplementary Information (Unaudited)
 For the Year Ended June 30, 2015

Other Post-Employment Benefit Plan
Schedule of Funding Progress

Retiree Healthcare Plan

Actuarial Valuation Date (1)	Actuarial Accrued Liability (a)	Actuarial Value of Plan Assets (AVA) (b)	Unfunded Actuarial Accrued Liability (UAAL) (a)-(b)	Funded Ratio ((b)/(a))	Annual Covered Payroll (C)	UAAL as a % of Payroll Percentage of Covered Payroll [(a)-(b)/(c)]
7/1/2008	\$ 1,428,095	\$ -	\$ 1,428,095	0.00%	\$ 2,707,871	52.74%
7/1/2011	1,610,754	-	1,610,754	0.00%	2,734,534	58.90%
7/1/2014	1,740,686	1,116,390	624,296	64.14%	2,673,190	23.35%

Municipal Water District of Orange County
 Required Supplementary Information (Unaudited)
 For the Year Ended June 30, 2015

Cost Sharing Retirement Plan
Schedule of the District's Proportionate Share of the Net Pension Liability
Last Ten Years*

		2015
Proportion of the net pension liability		0.02186%
Proportionate share of the net pension liability	\$	1,360,017
Covered - employee payroll	\$	2,601,571
Proportionate Share of the net pensions liability as a percentage of covered employee payroll		52.28%
Plan fiduciary net position as a percentage of the total pension liability		79.82%

* - Fiscal year 2015 was the first year of implementation, therefore, only one year is shown.

Municipal Water District of Orange County
 Required Supplementary Information (Unaudited)
 For the Year Ended June 30, 2014

Cost Sharing Retirement Plan
Schedule of Contributions
Last Ten Years*

	2015
Actuarially determined contributions	\$ 288,065
Contributions in relation to the actuarially determined contribution	(288,065)
Contribution deficiency (excess)	\$ -
 Covered-employee payroll	 \$ 2,640,576
Contributions as a percentage of covered-employee payroll	10.91%

* - Fiscal year 2015 was the first year of implementation, therefore, only one year is shown.