

**MUNICIPAL WATER DISTRICT  
OF ORANGE COUNTY**

**FINANCIAL REPORT  
FOR THE YEAR ENDED JUNE 30, 2014**

# Table of Contents

	Page
<b>Independent Auditors' Report</b> .....	1 - 2
<b>Management's Discussion and Analysis (Unaudited)</b> .....	3 - 9
<b>Basic Financial Statements:</b>	
▪ <b>Statement of Net Position</b> .....	10 - 11
▪ <b>Statement of Revenues, Expenses and Changes in Net Position</b> .....	12
▪ <b>Statement of Cash Flows</b> .....	13 - 14
▪ <b>Notes to Financial Statements</b> .....	15 - 25
<b>Required Supplementary Information (Unaudited):</b>	
▪ <b>Other Post-employment Benefit Plan Schedule of Funding Progress</b> .....	26

# 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, 2014, 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, 2014, 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.

**Other Matters**

**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedule of funding progress for the other post-employment benefit plan on pages 3 through 9 and 26 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 2013 financial statements of the District, and we expressed an unmodified audit opinion on the financial statements in our report dated December 19, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, 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 December 3, 2014, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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  
December 3, 2014

**Management's Discussion and Analysis**  
**(Unaudited)**

**MUNICIPAL WATER DISTRICT OF ORANGE COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2014**

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, 2014. 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 \$213.2 million in FY 2013-14, compared to \$176 million in the prior fiscal year, a 21.2% increase.
- The District's expenses were \$212.5 million in FY 2013-14, compared to \$180 million in the prior fiscal year, a 18.1% increase.
- The District's assets at June 30, 2014 were \$52.8 million, a 30.9% increase compared to total assets of \$40.3 million at June 30, 2013.
- The District's liabilities at June 30, 2014 were \$46.8 million, a 33.8% increase compared to total liabilities of \$35 million at June 30, 2013.
- The District's net position at June 30, 2014 were \$6.0 million, a 12.4% increase compared to net position of \$5.4 million at June 30, 2013.

**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 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, less liabilities, and provides information about the nature and amounts of investments in resources (assets) and the obligations to the District's creditors (liabilities), 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, 2014**

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**

Our analysis of the District begins on page 3 of the Management's Discussion and Analysis. One of the most important questions asked about the District's finances is: "Is the District, as a whole, better off or worse off as a result of the year's activities?" The 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 and liabilities) 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, 2014**

**STATEMENT OF NET POSITION**

Net position is the difference between assets, less liabilities, 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>2014</u>	<u>2013</u>	<u>Variance</u>	<u>Total Percent Change</u>
Current Restricted Assets	\$ 2,845	\$ 4,194	\$ (1,349)	(32.2%)
Current Unrestricted Assets	48,854	35,145	13,709	39.0%
Capital Assets	1,063	983	80	8.1%
Noncurrent Unrestricted Assets	<u>37</u>	<u>-</u>	<u>37</u>	<u>100.0%</u>
<b>Total Assets</b>	<b>52,799</b>	<b>40,322</b>	<b>12,477</b>	<b>30.9%</b>
<b>Liabilities Payable from Restricted Current Assets</b>	<b>1,835</b>	<b>3,045</b>	<b>(1,210)</b>	<b>(39.7%)</b>
<b>Liabilities Payable from Unrestricted Current Assets</b>	<b>44,936</b>	<b>31,880</b>	<b>13,056</b>	<b>41.0%</b>
<b>Noncurrent Unrestricted Liabilities</b>	<u>-</u>	<u>32</u>	<u>(32)</u>	<u>(100.0%)</u>
<b>Total Liabilities</b>	<b>46,771</b>	<b>34,957</b>	<b>11,814</b>	<b>33.8%</b>
<b>Net Position:</b>				
Net Investment in Capital Assets	1,063	982	81	8.2%
Restricted for Trustee Activities	1,010	1,149	(139)	(12.1%)
Unrestricted	<u>3,955</u>	<u>3,234</u>	<u>721</u>	<u>22.3%</u>
<b>Total Net Position</b>	<b><u>6,028</u></b>	<b><u>\$ 5,365</u></b>	<b><u>\$ 663</u></b>	<b><u>12.4%</u></b>

As can be seen from the table above, net position increased by \$663,000 from Fiscal Year 2013 to 2014. This increase is the result of the following:

- Current Unrestricted Assets increased by \$13.7 million due mainly to higher water sales in the amount of \$5.0 million and \$8.1 million received from MET due to a metering error (Note 10).
- Liabilities Payable from Restricted Current Assets decreased \$1.2 million. \$1.6 million due to Participants paying off their Revised Percentage of Investment (RPOI) debt early for the AMP Sales Agreement and \$331 thousand increase due to the T2 refund to member agencies from the MET metering error.
- Liabilities Payable from Unrestricted Current Assets increased by \$13.1 million mainly due to increased water purchases from Metropolitan in the amount of \$5.5 million and \$8.3 million paid to member agencies from MET's metering error.

**MUNICIPAL WATER DISTRICT OF ORANGE COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)  
JUNE 30, 2014**

**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 Fund 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 \$663 thousand for the year ended June 30, 2014, as compared to a decrease of \$4 million for the year ended June 30, 2013. 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>2014</u>	<u>2013</u>	<u>Variance</u>	<u>Total Percent Change</u>
Operating Revenues	\$ 202,415	\$ 172,357	\$ 30,058	17.4%
Special Projects & Grants Revenue	2,316	3,422	(1,106)	(32.3%)
Non-operating Revenues	322	181	141	77.9%
Special Item	<u>8,144</u>	<u>-</u>	<u>8,144</u>	<u>100.0%</u>
<b>Total Revenues</b>	<b><u>213,197</u></b>	<b><u>175,960</u></b>	<b><u>37,237</u></b>	<b><u>21.2%</u></b>
Other Operating Expense	201,798	172,697	29,101	16.9%
Special Projects Expense	2,316	3,422	(1,106)	(32.3%)
Depreciation Expense	145	145	-	0.0%
Special Item	<u>8,275</u>	<u>3,700</u>	<u>4,575</u>	<u>123.6%</u>
<b>Total Expenses</b>	<b><u>212,534</u></b>	<b><u>179,964</u></b>	<b><u>32,570</u></b>	<b><u>18.1%</u></b>
<b>Change in Net Position</b>	<b>663</b>	<b>(4,004)</b>	<b>4,667</b>	<b>(116.6%)</b>
<b>Beginning Net Position</b>	<b><u>5,365</u></b>	<b><u>9,369</u></b>	<b><u>(4,004)</u></b>	<b><u>(42.7%)</u></b>
<b>Ending Net Position</b>	<b><u>\$ 6,028</u></b>	<b><u>\$ 5,365</u></b>	<b><u>\$ 663</u></b>	<b><u>12.4%</u></b>

The source of change in net position is due to the District's operating revenues increasing by \$30.1 million in Fiscal Year 2014 due mainly to higher water sales caused by drier and warmer weather conditions and for replenishment of the Orange County Water District (OCWD) groundwater basin.

Other Operating expenses increased by \$29.1 million due mainly to higher amounts of water purchase from Metropolitan in Fiscal Year 2014.

Special Item Revenues and Special Item Expense increased by \$8.1 and \$4.6 respectively, due to a MET metering error resulting in an \$8.3 million refund to member agencies.

**MUNICIPAL WATER DISTRICT OF ORANGE COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)  
JUNE 30, 2014**

**CAPITAL ASSETS**

The following is a summary of the District's capital assets at June 30, 2014 and June 30, 2013.

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

	<u>2014</u>	<u>2013</u>	<u>Variance</u>	<u>Total Percent Change</u>
Leasehold Improvements	\$ 3,015	\$ 2,796	\$ 219	7.8%
Furniture & Fixtures	535	537	(2)	(0.4%)
<b>Subtotal</b>	<b>3,550</b>	<b>3,333</b>	<b>217</b>	<b>6.5%</b>
<b>Less Accumulated Depreciation</b>	<b>(2,487)</b>	<b>(2,350)</b>	<b>(137)</b>	<b>5.8%</b>
<b>Net Capital Assets</b>	<b>\$ 1,063</b>	<b>\$ 983</b>	<b>\$ 80</b>	<b>8.1%</b>

The District replaced their HVAC system this fiscal year. 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, 2014. No new long-term debt was incurred in the year ended June 30, 2014, and the District does not plan to issue new debt in the year ending June 30, 2015.

**MUNICIPAL WATER DISTRICT OF ORANGE COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)  
JUNE 30, 2014**

**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 2013-14 is presented in Table 4 to demonstrate compliance with the adopted budget.

**Table 4  
FY 2014 Actual vs. FY 2014 Budget  
(In thousands of dollars)**

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>	<u>Total Percent Change</u>
<b>Revenues:</b>				
From Operations	\$204,731	\$168,497	\$36,234	21.5%
Non-operating Revenues	<u>8,466</u>	<u>146</u>	<u>8,320</u>	<u>5,698.6%</u>
<b>Total Revenues</b>	<b>213,197</b>	<b>168,643</b>	<b>44,554</b>	<b>26.4%</b>
<b>Expenses:</b>				
From Operations				
Cost of Water	195,660	159,087	(36,573)	(23.0%)
Other Operating	8,454	9,222	768	8.3%
Depreciation	145	150	5	3.5%
Non-operating Expenses	<u>8,275</u>	<u>-</u>	<u>(8,275)</u>	<u>(100.0%)</u>
<b>Total Expenses</b>	<b>212,534</b>	<b>168,459</b>	<b>(44,075)</b>	<b>(26.2%)</b>
<b>Change in Net Position</b>	<b>\$ 663</b>	<b>\$ 184</b>	<b>\$ 479</b>	<b>260.3%</b>

The variances on the budget to actual are as follows:

- Revenues From Operations were \$36.2 million higher than budget due to higher water sales due to drier and warmer weather conditions.
- Expenses from Cost of Water purchased was \$36.6 million higher than budget due to higher water purchases from Metropolitan.
- Non-operating Revenues and Expenses were higher than budget due to a MET metering error that resulted in an \$8 million refund to member agencies.

**MUNICIPAL WATER DISTRICT OF ORANGE COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)  
JUNE 30, 2014**

**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 2014-15. The budgeted operating expenses total \$189.9 million and operating and non-operating revenues total \$190.0 million.

Historically, the District has recouped the cost of water purchased from the resale of imported water to the District's 28 water agencies located in Orange County. In addition MWDOC charges 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 would transition from a water rate structure involving a per acre-foot charge and a per retail meter charge to 100% on the per retail meter charge. In addition MWDOC's agencies will also pay for the 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, 2014, 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, CA 92708, (714) 963-3058, [www.mwdoc.com](http://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, 2014**  
(with comparative data as of June 30, 2013)

	<u>2014</u>	<u>2013</u>
<b><u>ASSETS</u></b>		
<b>Current Assets:</b>		
<b>Restricted Assets:</b>		
Cash and Cash Equivalents (Note 2)	\$ 1,818,696	\$ 2,810,231
Accounts Receivable Other	1,225,345	1,383,544
Accrued Interest Receivable	633	677
<b>Total Restricted Assets</b>	<u>2,844,674</u>	<u>4,194,452</u>
<b>Unrestricted Assets:</b>		
Cash and Cash Equivalents (Note 2)	5,469,048	4,308,620
Investments (Note 2)	2,161,126	2,380,121
Accounts Receivable:		
Water Sales	33,162,443	28,188,179
Other	7,867,970	171,106
Accrued Interest Receivable	29,393	29,482
Deposits and Prepaid Expenses	74,530	67,748
<b>Total Unrestricted Assets</b>	<u>48,854,509</u>	<u>35,145,256</u>
<b>Total Current Assets</b>	<u>51,699,383</u>	<u>38,339,708</u>
<b>Noncurrent Assets:</b>		
<b>Unrestricted Assets:</b>		
Capital Assets, Net (Note 4)	1,063,125	982,541
Net Other Post Employment Benefits (OPEB) Asset (Note 8)	37,041	-
<b>Total Noncurrent Assets</b>	<u>1,100,166</u>	<u>982,541</u>
<b>TOTAL ASSETS</b>	<u>52,799,549</u>	<u>40,322,249</u>

See accompanying notes to basic financial statements.

**MUNICIPAL WATER DISTRICT OF ORANGE COUNTY**  
**Statement of Net Position (Continued)**  
**June 30, 2014**  
(with the comparative data as of June 30, 2013)

	<u>2014</u>	<u>2013</u>
<b><u>LIABILITIES</u></b>		
<b>Current Liabilities:</b>		
<b>Payable from Restricted Assets</b>		
Accrued Liabilities	641,303	382,222
Advances from Participants	1,189,020	1,233,803
Due to Participants (Note 5)	4,665	1,429,394
<b>Total Payable from Restricted Assets</b>	<u>1,834,988</u>	<u>3,045,419</u>
<b>Unrestricted Liabilities:</b>		
Accounts Payable, Metropolitan Water District of Southern California	36,423,482	30,875,672
Accounts Payable - Other	7,812,708	-
Accrued Liabilities	700,186	1,003,929
<b>Total Unrestricted Liabilities</b>	<u>44,936,394</u>	<u>31,879,601</u>
<b>Total Current Liabilities</b>	<u>46,771,382</u>	<u>34,925,020</u>
<b>Noncurrent Liabilities:</b>		
<b>Unrestricted Liabilities:</b>		
Net Other Post Employment Benefits (OPEB) Obligation (Note 8)	-	31,956
<b>Total Noncurrent Liabilities</b>	<u>-</u>	<u>31,956</u>
<b>TOTAL LIABILITIES</b>	<u>46,771,382</u>	<u>34,956,976</u>
<b><u>NET POSITION</u></b>		
Net Investment in Capital Assets	1,063,125	982,541
Restricted for Trustee Activities	1,009,888	1,149,032
Unrestricted	3,855,156	3,233,700
<b>TOTAL NET POSITION</b>	<u>\$ 6,028,167</u>	<u>\$ 5,365,273</u>

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, 2014**  
**(with comparative data for the Year Ended June 30, 2013)**

	<u>2014</u>	<u>2013</u>
<b>Operating Revenues:</b>		
Water Sales	\$ 202,415,070	\$ 172,357,485
Special Projects Revenue	1,507,206	2,304,765
Federal Grant Revenue	743,515	426,898
State Grant Revenue	64,809	690,152
Total Operating Revenues	<u>204,730,600</u>	<u>175,779,298</u>
<b>Operating Expenses:</b>		
Cost of Water Sold	195,659,855	165,887,498
Salaries and Employee Benefits	4,024,953	4,152,834
General and Administrative	2,113,888	2,656,812
Special Project Expenses (Note 6)	2,315,530	3,421,812
Depreciation	144,701	144,826
Total Operating Expenses	<u>204,258,707</u>	<u>176,263,781</u>
Operating Income/(Loss)	<u>471,893</u>	<u>(484,484)</u>
<b>Nonoperating Revenues:</b>		
Investment Income	95,407	157,801
Other Income	226,202	23,442
Total Non-Operating Revenues	<u>321,609</u>	<u>181,243</u>
Income Before Special Items	<u>793,502</u>	<u>(303,241)</u>
<b>Special Items:</b>		
Refund from Metropolitan Water District of Southern California (Note 10)	8,144,234	-
Distributions to Member Agencies (Note 10)	(8,274,842)	(3,700,002)
Total Special Items	<u>(130,608)</u>	<u>(3,700,002)</u>
Change in Net Position	<u>662,894</u>	<u>(4,003,243)</u>
<b>NET POSITION - BEGINNING OF YEAR</b>	<u>5,365,273</u>	<u>9,368,516</u>
<b>NET POSITION - END OF YEAR</b>	<u>\$ 6,028,167</u>	<u>\$ 5,365,273</u>

See accompanying notes to basic financial statements.

**MUNICIPAL WATER DISTRICT OF ORANGE COUNTY**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2014**  
(with comparative data for the Year Ended June 30, 2013)

	<u>2014</u>	<u>2013</u>
<b>Cash Flows from Operating Activities:</b>		
Cash received from member agencies-water deliveries	\$ 197,450,806	\$ 175,241,004
Cash payments to Metropolitan Water District of Southern California	(180,184,845)	(168,560,465)
Cash payments for salaries and employee benefits	(4,077,650)	(4,124,681)
Cash payments for general and administrative expenses	(2,424,640)	(2,297,673)
Cash received from special projects	2,805,258	3,679,365
Cash payments for special projects	(2,490,658)	(4,533,812)
	<u>1,078,368</u>	<u>(588,062)</u>
<b>Net Cash (used) Provided by Operating Activities</b>		
<b>Cash Flows from Noncapital and Related Financing Activities:</b>		
Other income	226,202	23,442
Acquisition of capital assets	(225,285)	(10,639)
Proceeds from RPOI participants (Note 5)	(1,424,728)	58,078
Payment to Member Agencies	-	(3,700,002)
	<u>(1,423,811)</u>	<u>(3,629,121)</u>
<b>Net Cash (used) by Noncapital and Related Financing Activities</b>		
<b>Cash Flows from Investment Activities:</b>		
Investment income	107,616	139,103
Investments purchased	206,720	738,510
	<u>314,336</u>	<u>877,613</u>
<b>Net Cash Provided by Investment Activities</b>		
<b>Net Increase (decrease) in cash and cash equivalents</b>	<u>(31,107)</u>	<u>(3,347,570)</u>
<b>Cash and cash equivalents at beginning of year</b>	<u>7,118,851</u>	<u>10,466,421</u>
<b>Cash and Cash Equivalents at End of Year</b>	<u>\$ 7,087,744</u>	<u>\$ 7,118,851</u>
 <b>Financial Statement Presentation:</b>		
Cash and Cash Equivalents (Restricted)	\$ 1,619,896	\$ 2,810,231
Cash and Cash Equivalents (Unrestricted)	5,469,048	4,308,620
<b>Totals</b>	<u>\$ 7,087,744</u>	<u>\$ 7,118,851</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, 2014**  
(with comparative data for the Year Ended June 30, 2013)

	<u>2014</u>	<u>2013</u>
<b>Reconciliation of Operating (Loss) to Net Cash Provided for Operating Activities</b>		
Operating Income (Loss)	\$ 471,893	\$ (484,484)
<b>Adjustments to Reconcile Operating Loss to Net Cash Provided (used) by Operating Activities:</b>		
Depreciation	144,701	144,826
Change in Assets and Liabilities:		
(Increase)/Decrease in accounts receivable - water deliveries	(4,964,264)	2,883,519
(Increase)/Decrease in accounts receivable - other and other assets	(21,200)	18,869
(Increase) in deposits and prepaid expenses	(6,782)	(5,472)
Decrease in accounts receivable - special projects	158,198	257,553
Increase/(Decrease) in accrued and other liabilities	(335,889)	373,894
Increase/(Decrease) portion of accrued liabilities for special item	(130,608)	-
(Decrease) in restricted accrued liabilities	259,081	(79,856)
(Decrease) in special projects	(44,782)	(1,031,944)
Increase/(Decrease) in accounts payable to Metropolitan Water District of Southern California	5,547,820	(2,672,867)
<b>Total Adjustments</b>	<u>608,475</u>	<u>(111,578)</u>
<b>Net Cash Provided by Operating Activities</b>	<u>\$ 1,078,368</u>	<u>\$ (596,062)</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, 2014**

---

**(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, 2014 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.

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 obligation for the period ended June 30, 2014.

**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.

**Municipal Water District of Orange County**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2014**

---

- **Unrestricted net position** – This amount is the net amount of the assets and liabilities 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 charges for services (water sales less the cost of water) 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 the 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.

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 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". These changes to the rate structure were determined to be more equitable among MWDOC's member agencies. 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.

**Municipal Water District of Orange County**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2014**

---

**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.

**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.

**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 26 vacation days per year. Accumulated vacation days may not exceed 1.5 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.

**Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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.

**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, 2014. 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, 2013 the District is required to apply the following GASB Statements:

**GASB Statement No. 65** – In March 2012, GASB issued Statement No. 65 – *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The Statement is effective for periods beginning after December 15, 2012, or the 2013-2014 fiscal year. The District has determined this statement is not applicable.

**GASB Statement No. 66** – In March 2012, GASB issued Statement No. 66 – *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The Statement is effective for periods beginning after December 15, 2012, or the 2013-2014 fiscal year. The District has determined this statement is not applicable.

**GASB Statement No. 67** – In June 2012, GASB issued Statement No. 67 – *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. 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

**Municipal Water District of Orange County**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2014**

information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statement No. 25 – *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and Statement No. 50 – *Pension Disclosures*, as they relate to pension plans that are not administered through trust covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pension. The Statement is effective for periods beginning after June 15, 2013, or the 2013-2014 fiscal year. The District implemented this pronouncement effective July 1, 2013.

GASB Statement No. 70 – In April 2013, GASB issued Statement No. 70 – *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of this Statement is to improve the recognition, measurement, and disclosure guidance for state and local governments that have extended or received financial guarantees that are nonexchange transactions. The Statement is effective for periods beginning after June 15, 2013, or the 2013-2014 fiscal year. The District has determined this statement is not applicable.

**Effective In Future Years**

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 has not determined the effect on the financial statements.

GASB Statement No. 69 – In January 2013, GASB issued Statement No. 69 – *Government Combinations and Disposals of Government Operations*. The objective of this Statement is to establish reporting standards related to government combinations and disposals of government operations. The Statement is effective for periods beginning after December 15, 2013, or the 2014-2015 fiscal year. The District has not determined the effect on the financial statements.

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 has not determined the effect on the financial statements.

**(2) Cash and Investments**

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

Statement of net position:	
Cash and Cash Equivalents (Restricted)	\$ 1,618,696
Cash and Cash Equivalents (Unrestricted)	5,469,048
Investments (Unrestricted)	<u>2,161,125</u>
Total Cash and Investments	<u>\$ 9,248,869</u>

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

Cash on hand	\$ 500
Deposits with financial institutions	468,353
Investments	<u>8,780,016</u>
Total Deposits and Investments	<u>\$9,248,869</u>



**Municipal Water District of Orange County**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2014**

**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.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Obligations	None	None	None
U.S. 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:

<u>Investment Type</u>		<u>Remaining Maturity (in Months)</u>		
		<u>12 Months or Less</u>	<u>13 to 24 Months</u>	<u>25-60 Months</u>
Negotiable Certificates of Deposits	\$ 99,975	\$ -	\$ -	\$ 99,975
Corporate Securities	2,061,151	766,783	1,294,368	-
County Investment Pool	2,361,821	2,361,821	-	-
State Investment Pool	<u>4,257,069</u>	<u>4,257,069</u>	-	-
	<u>\$8,780,016</u>	<u>\$7,385,673</u>	<u>\$1,294,368</u>	<u>\$ 99,975</u>

**Disclosures Relating to Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code 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.

<u>Investment Type</u>		<u>Minimum Legal Rating</u>	<u>Ratings as of Year End</u>			<u>Not Rated</u>
			<u>A</u>	<u>A-</u>	<u>AA-</u>	
Negotiable Certificates of Deposits	\$ 99,975	N/A				\$ 99,975
Corporate Securities	2,061,151	A	\$766,783	\$775,808	\$518,560	2,361,821
County Investment Pool	2,361,821	N/A				4,257,069
State Investment Pool	<u>4,257,069</u>	N/A				<u>\$6,718,865</u>
	<u>\$8,780,016</u>		<u>\$766,783</u>	<u>\$775,808</u>	<u>\$518,560</u>	

**Municipal Water District of Orange County**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2014**

**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, 2014 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	\$518,560	5.91%
Morgan Stanley	\$517,350	5.89%
UBS Financial Services	\$509,560	5.80%

**Custodial Credit Risk**

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

The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public 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, 2014 the District's deposits with financial institutions are covered by FDIC up to \$250,000 and at this point in time our exposure is \$349,909.

**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 portfolio (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, is not rated, 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, 2014, 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, 2014, \$2,513,346 was included in trustee Activities.

**Municipal Water District of Orange County**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2014**

**(4) Capital Assets**

The following is a summary of capital assets at June 30, 2014 with changes therein:

	<u>2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>2014</u>
Furniture and fixtures	\$ 536,388	\$ 6,660	\$(7,575)	\$ 535,373
Leasehold improvements	<u>2,798,412</u>	<u>218,725</u>	<u>-</u>	<u>3,015,137</u>
	3,332,800	225,285	(7,575)	3,550,510
Less accumulated depreciation	<u>(2,350,259)</u>	<u>(144,701)</u>	<u>7,575</u>	<u>(2,487,385)</u>
Net Capital Assets	<u>\$ 982,541</u>	<u>\$ 80,584</u>	<u>\$ -</u>	<u>\$ 1,063,125</u>

**(5) 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, 2014, The District received \$4,452,487 from certain AMP member agencies, and disbursed \$5,877,215 by the RPOI formula. As of June 30, 2014, the balance of \$4,665 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**

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 2014, the District accrued \$423,487 of grants receivable. The District recognized \$2,315,530 in contributions from Metropolitan and member agencies, federal and state grant revenue, and corresponding expenses, for the year ended June 30, 2014.

**(7) District Directors and Employees Retirement Plans**

**(a) 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 are made by the District on behalf of the current participants. The District is required to contribute 10.5% of a participant's gross salary, increasing to 13.5% after one year of service. The District's Board of Directors has the authority to amend or terminate the plan at any time. A summary of this plan's contribution and District payroll information follows:

District contributions for participants	\$23,748
District contributions as a percent of covered payroll	10.5% / 13.5%
Total covered payroll	\$175,908

**Municipal Water District of Orange County**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2014**

Participants become vested in the District's Plan 20% per year of service until they become fully vested after five (5) years of service.

**(b) Defined Benefit Plan (CalPERS Employee Retirement Plan)**

**Plan Description:**

Effective March 1, 2003, the District has participated in the California Employees Retirement System (CalPERS), a cost sharing multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS serves as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by State statute and District ordinance. Copies of CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 "P" Street, Sacramento, CA, 95814 (<http://www.calpers.ca.gov>).

**Funding Policy:**

The District funded employer payroll contributions to CalPERS for the 2.0% at 55 Risk Pool Retirement Plan (Plan) on behalf of eligible District employees. These contributions included the employer paid member (employee) contribution (7% of annual covered salary), and the employer's contribution (10.781% of annual covered salary) for a total contribution of 17.781%; consisting of the actuarially determined remaining amount necessary to fund benefits for its members. The member contribution amounts are established by State statute and employer contribution rate is established by CalPERS based on actuarial valuations. Effective with the 2012/13 budget year, employees began paying 1% of the 7% member (employee) contribution and 2% of the 7% effective 2013/14 budget year. It is anticipated that this amount will increase by 1% each budget year until the 7% member (employee) contribution is fully funded by the employee.

Classic CalPERS members hired after March 1, 2013 are required to pay the entire 7% member (employee) contribution rate and are not subject to the above 1% increase each year.

Pursuant to the Public Employees Pension Reform Act (PEPRA), employees hired after January 1, 2013 that are new to CalPERS, are enrolled in the 2% @ 62 CalPERS Retirement Formula and are required to pay 6.25% of the member (employee) contribution rate with the employer paying 6.25% of the Employer contribution rate (12.50% total contribution). Employer contributions are included and equaled the required contributions for each period. Recent District contribution rates and amounts are presented in the following table.

<u>Fiscal Year</u>	<u>Contribution Rate (%)</u>	<u>Contribution Amount (\$)</u>
2013-14	17.781 / 12.50	390,763
2012-13	17.238	437,323
2011-12	17.059	450,721

**(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

**Municipal Water District of Orange County**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2014**

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

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 2014, the District made a total contribution of \$273,982 of which, \$44,546 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, 2011. The ARC represents a level of funding that, if paid on an ongoing 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 2013-14, the amount actually contributed to the Plan and changes in the District's net OPEB Asset.

Annual Required Contribution (ARC)	\$ 205,380
Interest on Net OPEB Obligation	1,917
Adjustment to ARC	<u>(2,322)</u>
Annual OPEB Cost	204,985
Contribution made	<u>273,982</u>
Decrease in Net OPEB Obligation	<u>(68,997)</u>
Net OPEB Obligation June 30, 2013	<u>31,956</u>
 Net OPEB Asset at June 30, 2014	 <u>\$ (37,041)</u>

**(d) Three-Year Trend Information:**

For fiscal year 2014, the District's annual OPEB cost (expense) of \$204,985 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:

Fiscal Year Ended	Annual OPEB Cost	Actual Contribution (Net of Adjustments)	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
6/30/2012	\$200,223	\$ 621,370(1)	310.34%	\$ (12,692)
6/30/2013	200,223	155,575	77.70%	31,956
6/30/2014	204,985	273,982	133.66%	(37,041)

(1) Included \$500,000 contribution to irrevocable trust.

**(e) Funded Status and Funding Progress:**

As of July 1, 2011, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$1,610,754, and the actuarial value of assets was zero, resulting in an Unfunded Actuarial Accrued Liability (UAAL) of \$1,610,754. The covered payroll (annual payroll of active employees covered by the plan) was \$2,734,534 and the ratio of the UAAL to the covered payroll was 58.90%.

**Municipal Water District of Orange County**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2014**

---

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, 2011 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 2012 of 7.00% 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.

**(9) Risk Management**

The District is a member of the Association of California Water Agencies Joint Powers Insurance Authority (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 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, 2014, the District participated in the self-insurance programs of the Insurance Authority 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 \$100 million (total insurable value of \$1,335,472). The District has a \$1,000 deductible for buildings, personal property and fixed equipment.

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

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

**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.

**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.

**Workers' Compensation** - 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 \$4 million limit with pooled self-insurance up to \$2 million, and has purchased excess insurance coverage up to \$2 million.

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.

**Municipal Water District of Orange County**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2014**

---

**(10) Subsequent Event**

**Special Item - Refund of OC-88 South County Pipeline Error**

A metering error was discovered at the OC-88 Service Connection off of the Allen McColloch Pipeline (AMP); OC-88 is the Interconnection of the AMP and the South County Pipeline (SCP). The metering error resulted from the incorrect programming of the acoustic meter in 2005 by a third party company, external to the organization and hired by Metropolitan (MET); the problem lasted for nine years of billings that were 3.4% too high. The majority of the refund will go to the five agencies receiving water via OC-88. However, in two of the years, MWDOC incurred Tier 2 water charges from MET. When MWDOC incurs Tier 2 charges, the charges are paid to MET by all agencies within MWDOC via the Tier 2 Contingency Fund or by MWDOC's melded water charges assessed by MWDOC to all water purchasers in those years. The overbilling refund for 2007 and 2008 also included a refund of Tier 2 charges in the amount of \$331,528 (refunded by MET). MWDOC went through a series of calculations to ensure the funds were properly credited back to the agencies while also taking into account the Tier 2 refund that was provided to the agencies in 2013 and accounting for lower contributions into the Tier 2 fund by the five South County Pipeline agencies based upon adjusted lower purchases of water. MET's statute of limitations according to their Administrative Code ranges from six months to three years but MET decided to go back to inception to correct the billing which totaled \$7,812,706 in water deliveries and \$331,528 in Tier 2 for a total refund from MET in the amount of \$8,144,234. MWDOC's Board approved MWDOC's Increment and Tier 2 overpayments to be refunded totaling \$130,608 for a total refund to member agencies in the amount of \$8,274,842.

MET's total refund was received as a credit on the August 2014 water bill. Member agencies affected will receive a check or credit on their water bill in October 2014.

**Required Supplementary Information (Unaudited)**



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

**Other Post-Employment Benefit Plan**  
**Schedule of Funding Progress**

**Retiree Healthcare Plan**

<u>Actuarial Valuation Date (1)</u>	<u>Actuarial Accrued Liability (a)</u>	<u>Actuarial Value of Plan Assets (AVA) (b)</u>	<u>Unfunded Actuarial Accrued Liability (UAAL) (a) - (b)</u>	<u>Funded Ratio (b)/(a)</u>	<u>Annual Covered Payroll (c)</u>	<u>UAAL as a % of Payroll Percentage of Covered Payroll [(a)-(b)]/(c)</u>
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%

Note (1): GASB 45 actuarial valuation reports prepared by Demsey, Filiger & Associates.