MUNICIPAL WATER DISTRICT OF ORANGE COUNTY

FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2016

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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, 2016, 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, 2016, 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.

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Emphasis of Matter

As described in Note 1 to the financial statements, the District adopted Governmental Accounting Standards Board (GASB) Statements No. 72, *Fair Value Measurement and Application,* effective July 1, 2015. 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, schedule of the District's proportionate share of the net pension liability and schedule of contributions for the cost sharing retirement plan 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 2015 financial statements of the District, and we expressed an unmodified audit opinion on the financial statements in our report dated November 25, 2015. The financial statements include summarized prior-year comparative information. Such information does not include all of the information required to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2015, from which such summarized information was derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2016, 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.

Vavrinek, Trine, Day & Co., LLP

Laguna Hills, California
November 2, 2016

Management's Discussion and Analysis

(Unaudited)

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, 2016. 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 $183.6 million in FY 2015-16, compared to $210.6 million in the prior fiscal year, a 12.8% decrease.

- The District's expenses were $181.7 million in FY 2015-16, compared to $209.5 million in the prior fiscal year, a 13.3% decrease.

- The District's assets at June 30, 2016 were $50.4 million, a 24.7% increase compared to total assets of $40.4 million at June 30, 2015.

- The District's liabilities at June 30, 2016 were $43.0 million, a 24.3% increase compared to total liabilities of $34.6 million at June 30, 2015.

- The District's net position at June 30, 2016 was $7.5 million, a 33.4% increase compared to net position of $5.6 million at June 30, 2015.

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.

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.

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:

	2016	2015	Variance	Total Percent Change
Current Restricted Assets	$ 4,783	$ 3,876	$ 907	23.4%
Current Unrestricted Assets	44,264	35,500	8,764	24.7%
Capital Assets	1,209	929	280	30.1%
Other Assets	117	93	24	25.8%
Total Assets	**50,373**	**40,398**	**9,975**	**24.7%**
Deferred Outflows of Resources	**454**	**356**	**98**	**27.5%**
Liabilities Payable from Restricted Current Assets	3,719	2,826	893	31.6%
Liabilities Payable from Unrestricted Current Assets	37,935	30,430	7,505	24.7%
Noncurrent Unrestricted Liabilities	1,377	1,360	17	1.3%
Total Liabilities	**43,031**	**34,616**	**8,415**	**24.3%**
Deferred Inflows of Resources	**320**	**535**	**(215)**	**(40.2%)**
Net Position:				
Net Investment in Capital Assets	1,209	929	280	30.1%
Restricted for Trustee Activities	1,064	1,050	14	1.3%
Unrestricted	5,202	3,624	1,578	43.5%
Total Net Position	**$ 7,475**	**$ 5,603**	**$ 1,872**	**33.4%**

As can be seen from the table above, net position increased by $1.87 million from Fiscal Year 2015 to 2016. This increase is the result of the following:

- Current Unrestricted Assets increased by $8.8 million due to a repayment of amounts owed in the Turf Removal Program and $1.2 million more was received in accelerated water payments this year compared to last fiscal year in June.
- Capital Assets increased by $0.3 million due to building improvements.
- Liabilities Payable from Unrestricted Current Assets increased $7.5 million mainly due to the upfront costs MWDOC pays for the increased activity in the Turf Removal Program.

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 $1,872 thousand for the year ended June 30, 2016, as compared to an increase of $1,161 thousand for the year ended June 30, 2015. 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:

	2016	2015	Variance	Total Percent Change
Operating Revenues	$ 154,568	$ 196,165	$ (41,597)	(21.2%)
Special Projects Revenue	28,674	14,260	14,414	101.1%
Non-operating Revenues	341	210	131	62.4%
Total Revenues	**183,583**	**210,635**	**(27,052)**	**(12.8%)**
Operating Expense	152,903	195,068	(42,165)	(21.6%)
Special Projects Expense	28,674	14,260	14,414	101.1%
Depreciation Expense	134	146	(12)	(8.2%)
Total Expenses	**181,711**	**209,474**	**(27,763)**	**(13.3%)**
Change in Net Position	**1,872**	**1,161**	**711**	**61.2%**
Beginning Net Position	**5,603**	**4,442**	**1,161**	**26.1%**
Ending Net Position	**$ 7,475**	**$ 5,603**	**$ 1,872**	**33.4%**

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

- Operating Revenues are lower due to the State mandated water conservation efforts which reduced water sales.
- Operating Expense is lower due to reduced water sales and vacancies for three positions.
- Special Projects Revenue and Expenses increased primarily due to rebates issued for the Turf Removal Program.
- Non-operating Revenues have increased due to pension reimbursements.

CAPITAL ASSETS

The following is a summary of the District's capital assets at June 30, 2016 and June 30, 2015.

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

	2016	2015	Variance	Total Percent Change
Leasehold Improvements	$ 3,415	$ 3,027	$ 388	12.8%
Furniture & Fixtures	448	437	11	2.5%
Subtotal	**3,863**	**3,464**	**399**	**11.5%**
Less Accumulated Depreciation	**(2,653)**	**(2,535)**	**(118)**	**4.7%**
Net Capital Assets	**$ 1,210**	**$ 929**	**$ 281**	**30.2%**

The District purchased a color copier, remodeled our entry way and bathrooms, and contributed to the remodel of the common area shared with Orange County Water District. 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, 2016. No new long-term debt was incurred in the year ended June 30, 2016, and the District does not plan to issue new debt in the year ending June 30, 2017.

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. 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. An actual vs. budget comparison statement for FY 2015-16 is presented in Table 4 to demonstrate compliance with the adopted budget.

Table 4
FY 2016 Actual vs. FY 2016 Budget
(In thousands of dollars)
Year Ended June 30, 2016:

	Actual	Budget	Variance	Total Percent Change
Revenues:				
From Operations	$ 183,242	$ 188,273	$ (5,031)	(2.7%)
Non-Operating Revenues	341	124	217	175.0%
Total Revenues	**183,583**	**188,397**	**(4,814)**	**(2.6%)**
Expenses:				
From Operations				
Cost of Water	146,211	157,044	10,833	6.9%
Other Operating	35,366	31,280	(4,086)	(13.1%)
Depreciation	134	135	1	0.7%
Total Expenses	**181,711**	**188,459**	**6,748**	**3.6%**
Change In Net Position	**$ 1,872**	**$ (62)**	**$ 1,934**	**(3,119.4%)**

The variances on the budget to actual are as follows:

- Revenues from Operations were $5 million lower than budget due to water sales being lower which was offset by the increase in the Turf Removal Program.
- Non-Operating Revenues are higher than budgeted by $217 thousand due to benefits reimbursed and the State of California reimbursement for the Brown Act State Mandated Costs from 1997 – 2002.
- Expenses from Cost of Water purchased were $10.8 million lower than budget due to conservation efforts mandated by the State which decreased water purchases from Metropolitan.
- Expenses from Other Operating were $4 million higher mainly due to the Turf Removal Program.

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 2016-17. The budgeted operating expenses total $149.3 million and operating and non-operating revenues total $148.7 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 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 had been transitioning from a water rate structure involving a per acre-foot charge and a fixed per retail meter charge to a 100% on the per retail meter charge. Beginning FY 2016-17 MWDOC has established two classes of customers, a retail meter and a groundwater customer. Our budget is now allocated between our retail meter customer and groundwater customer. 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, 2016, 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, 2016
(with comparative data as of June 30, 2015)

		2016		2015
ASSETS				
Current Assets:				
Restricted Assets:				
Cash and Cash Equivalents (Note 2)	$	2,949,837	$	2,474,168
Accounts Receivable Other (Note 6)		1,830,906		1,400,372
Accrued Interest Receivable		1,887		995
Total Restricted Assets		4,782,630		3,875,535
Unrestricted Assets:				
Cash and Cash Equivalents (Note 2)		5,169,438		165,596
Investments (Note 2)		3,144,608		3,115,157
Accounts Receivable:				
Water Sales		31,613,865		26,409,818
Other		4,159,609		5,622,854
Accrued Interest Receivable		36,428		30,658
Deposits and Prepaid Expenses		139,782		156,401
Total Unrestricted Assets		44,263,730		35,500,484
Total Current Assets		49,046,360		39,376,019
Noncurrent Assets:				
Unrestricted Assets:				
Capital Assets, Net (Note 4)		1,209,464		929,243
Net Other Post Employment Benefits (OPEB) Asset (Note 8)		117,085		92,806
Total Noncurrent Assets		1,326,549		1,022,049
TOTAL ASSETS		50,372,909		40,398,068
DEFERRED OUTFLOWS OF RESOURCES				
Deferred amount related to pensions (Note 10)		453,547		355,780
TOTAL DEFERRED OUTFLOWS OF RESOURCES		453,547		355,780

See accompanying notes to basic financial statements.

Municipal Water District of Orange County
Statement of Net Position (Continued)
June 30, 2016
(with comparative data as of June 30, 2015)

	2016	2015
LIABILITIES		
Current Liabilities:		
Payable from Restricted Assets		
Accrued Liabilities	$ 1,637,376	$ 519,213
Advances from Participants	1,967,473	1,123,166
Unearned Revenue (Note 6)	109,305	1,179,095
Due to Participants (Note 5)	4,823	4,746
Total Payable from Restricted Assets	3,718,977	2,826,220
Unrestricted Liabilities:		
Accounts Payable, Metropolitan Water District of Southern California	35,825,894	29,320,297
Accrued Liabilities	2,109,579	1,109,940
Total Unrestricted Liabilities	37,935,473	30,430,237
Total Current Liabilities	41,654,450	33,256,457
Noncurrent Liabilities:		
Unrestricted Liabilities:		
Net Pension Liability (Note 10)	1,376,955	1,360,017
Total Noncurrent Liabilities	1,376,955	1,360,017
TOTAL LIABILITIES	43,031,405	34,616,474
DEFERRED INFLOWS OF RESOURCES		
Deferred amount related to pensions (Note 10)	319,906	534,451
TOTAL DEFERRED INFLOWS OF RESOURCES	319,906	534,451
NET POSITION		
Net Investment in Capital Assets	1,209,464	929,243
Restricted for Trustee Activities	1,063,653	1,049,315
Unrestricted	5,202,028	3,624,365
TOTAL NET POSITION	$ 7,475,145	$ 5,602,923

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, 2016
(with comparative data as of June 30, 2015)

	2016	2015
Operating Revenues:		
Water Sales	$ 154,567,913	$ 196,165,166
Special Projects Revenue	26,801,114	13,678,299
Federal Grant Revenue	556,037	325,874
State Grant Revenue	1,317,104	255,956
Total Operating Revenues	183,242,168	210,425,295
Operating Expenses:		
Cost of Water Sold	146,210,635	188,196,586
Salaries and Employee Benefits	3,861,895	4,092,711
General and Administrative	2,830,610	2,778,997
Special Project Expenses (Note 6)	28,674,255	14,260,129
Depreciation	133,911	145,718
Total Operating Expenses	181,711,306	209,474,141
Operating Income	1,530,862	951,154
Nonoperating Revenues:		
Investment Income	179,964	77,496
Other Income	161,396	132,553
Total Non-Operating Revenues	341,360	210,049
Change in Net Position	1,872,222	1,161,203
NET POSITION - BEGINNING OF YEAR	5,602,923	4,441,720
NET POSITION - END OF YEAR	$ 7,475,145	$ 5,602,923

See accompanying notes to basic financial statements.

Municipal Water District of Orange County

Statement of Cash Flows
For the Fiscal Year Ended June 30, 2016
(with comparative data as of June 30, 2015)

	2016	2015
Cash Flows from Operating Activities:		
Cash received from member agencies-water deliveries	$ 149,363,866	$ 202,907,791
Cash payments to Metropolitan Water District of Southern California	(139,705,039)	(195,299,781)
Cash payments for salaries and employee benefits	(4,181,548)	(4,153,774)
Cash payments for general and administrative expenses	(351,108)	(7,961,175)
Cash received from special projects	28,292,093	15,142,107
Cash payments for special projects	(27,829,947)	(14,325,983)
Cash received for other income	161,396	132,553
Net Cash (used) provided by Operating Activities	5,749,714	(3,558,262)
Cash Flows from Noncapital and Related Financing Activities:		
Payments to RPOI participants (Note 5)	77	81
Net Cash provided by Noncapital and Related Financing Activities	77	81
Cash Flows from Capital and Related Financing Activities:		
Acquisition of capital assets	(414,132)	(11,836)
Net Cash used by Capital and Related Financing Activities	(414,132)	(11,836)
Cash Flows from Investment Activities:		
Investment income	179,964	66,758
Investments purchased	(36,112)	(944,721)
Net Cash provided (used) by Investment Activities	143,852	(877,963)
Net increase/(decrease) in cash and cash equivalents	5,479,511	(4,447,980)
Cash and cash equivalents at beginning of year	2,639,764	7,087,744
Cash and Cash Equivalents at End of Year	$ 8,119,275	$ 2,639,764
Financial Statement Presentation:		
Cash and Cash Equivalents (Restricted)	$ 2,949,837	$ 2,474,168
Cash and Cash Equivalents (Unrestricted)	5,169,438	165,596
Totals	$ 8,119,275	$ 2,639,764

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, 2016
(with comparative data as of June 30, 2015)

	2016	2015
Reconciliation of Operating Income to Net Cash (Used)/Provided for Operating Activities		
Operating Income	$ 1,530,862	$ 951,154
Adjustments to Reconcile Operating Income to Net Cash Provided (used) by Operating Activities:		
Depreciation	133,911	145,718
Pension Expense	(74,857)	240,306
Other income	161,396	132,553
Change in Assets and Liabilities:		
(Increase)/Decrease in accounts receivable - water deliveries	(5,204,047)	6,742,625
Decrease in accounts receivable - other	1,463,245	2,345,116
(Increase)/Decrease in deposits and prepaid expenses	16,619	(81,871)
(Increase) in OPEB asset	(24,279)	(55,765)
(Increase) in accounts receivable - special projects	(430,534)	(175,027)
(Increase) in deferred outflows related to contributions subsequent to the measurement date	(220,517)	(288,065)
Increase in accrued and other liabilities	999,639	409,744
(Decrease) portion of accrued liabilities for special item	-	(7,812,706)
Increase/(Decrease) in restricted accrued liabilities	1,118,163	(122,090)
Increase/(Decrease) in advances from participants	844,307	(65,854)
Increase/(Decrease) in unearned revenue for special projects	(1,069,790)	1,179,095
Increase/(Decrease) in accounts payable to Metropolitan Water District of Southern California	6,505,597	(7,103,195)
Total Adjustments	4,218,852	(4,509,416)
Net Cash Provided by Operating Activities	$ 5,749,714	$ (3,558,262)

See accompanying notes to basic financial statements.

Notes to Financial Statements

(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, 2016 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 obligations for the period ended June 30, 2016.

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, which is 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.

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 expired 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

Fair Value Measurement

As of July 1, 2015, the District retrospectively applied Governmental Accounting Standards Board ("GASB") Statement No. 72, *Fair Value Measurement and Application*. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements. The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

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. 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.

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, 2016.

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, 2016.

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.

New Accounting and Reporting Requirements

For the fiscal year beginning July 1, 2015 the District was required to apply the following GASB Statements:

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 implemented this pronouncement effective July 1, 2015.

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 implemented this pronouncement effective July 1, 2015.

Effective in Future Years

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, 2016, except for certain provisions applicable beginning after June 15, 2015. For the provisions effective June 30, 2016, there was no material impact to the District. For the provisions effective subsequent to fiscal year 2015-16, 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 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. 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.

GASB Statement No. 79 – In December 2015, GASB released Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant. The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except for the provisions in paragraphs 18, 19, 23–26, and 40, which are effective for reporting periods beginning after December 15, 2015. For the provisions effective June 30, 2016, there was no material impact to the District. For the provisions effective subsequent to fiscal year 2015-16, the District has not yet determined the effect on the financial statements.

GASB Statement No. 80 – In January 2016, GASB released Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity*, as amended. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. The District has not yet determined the effect on the financial statements.

GASB Statement No. 81 – In March 2016, GASB released Statement No. 81, *Irrevocable Split-Interest Agreements.* The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this Statement are effective for periods beginning after December 15, 2016. The District has not yet determined the effect on the financial statements.

GASB Statement No. 82 – In March 2016, GASB released Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and 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*. Specifically, issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. The District has not yet determined the effect on the financial statements.

(2) Cash and Investments

Cash and investments at June 30, 2016, are classified in the accompanying financial statements as follows:

Statement of net position:		
Cash and cash equivalents (restricted)	$	2,949,837
Cash and cash equivalents (unrestricted)		5,169,438
Investments (unrestricted)		3,144,608
Total Cash and Investments	$	11,263,883

Cash and investments as of June 30, 2016 consist of the following:

Cash on hand	$	500
Deposits with financial institutions		386,427
Investments		10,876,956
Total Deposits and Investments	$	11,263,883

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. The District’s investment policy allows for funds to be divided into two categories, and the policies vary with the nature of the fund. The Operating and Fiduciary Funds authorized investments are below:

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
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

The Reserve Funds follow the same authorized investments above, except for Corporate Securities may not exceed 20% of the total Reserve Fund portfolio.

As of June 30, 2016, the District held negotiable certificates of deposit in the amount of $2,382,666, which includes $1,259,533 within the Operating and Fiduciary Funds, and $1,123,134 within the Reserve Funds. This represents 19.16% of Operating and Fiduciary Funds, and 23.95% of Reserve Funds, which exceeds the 20% limit above, but is within the limit for negotiable certificates of deposit allowable by California Government Code. The District plans to clarify its policy to reflect percentage limits within the Reserve Funds in line with California Government Code, pending Board approval.

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:

		Remaining Maturity (in Months)		
Investment Type		12 Months or Less	13 to 24 Months	25-60 Months
Negotiable Certificate of Deposits*	$ 2,382,666	$ 100,264	$ 753,840	$ 1,528,562
Corporate Securities*	764,160	-	-	764,160
Orange County Investment Pool*	7,572,469	7,572,469	-	-
State Investment Pool	157,661	157,661	-	-
	$ 10,876,956	$ 7,830,394	$ 753,840	$ 2,292,722

*Reserve Funds as of June 30, 2016 include $1,123,134 of Negotiable Certificate of Deposit, $764,160 of Corporate Securities, and $2,803,179 of Orange County Investment Pool investments.

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.

			Ratings as of Year End			
Investment Type		Minimum Legal Rating	AAAm	A	** A-	Not Rated
Negotiable Certificate of Deposits	$ 2,382,666	N/A	$ -	$ -	$ -	$ 2,382,666
Corporate Securities	764,160	A	-	257,285	506,875	-
Orange County Investment Pool	7,572,469	N/A	7,572,469	-	-	-
State Investment Pool	157,661	N/A	-	-	-	157,661
	$ 10,876,956		$ 7,572,469	$ 257,285	$ 506,875	$ 2,540,327

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

Disclosures Relating to Fair Value Measurement and Application

Fair value measurements are categorized based on the valuation inputs used to measure fair value: Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments categorized as Level 2 are valued using market approach using quoted market prices.

The District had the following recurring fair value measurements as of June 30, 2016:

		Fair Value Application			
Investment Type		1	2	3	Uncategorized
Negotiable Certificate of Deposits	$ 2,382,666	$ -	$ 2,382,666	$ -	$ -
Corporate Securities	764,160	-	764,160	-	-
Orange County Investment Pool	7,572,469	-	-	-	7,572,469
State Investment Pool	157,661	-	-	-	157,661
	$ 10,876,956	$ -	$ 3,146,826	$ -	$ 7,730,130

Investments in LAIF and OCIP are uncategorized as deposits and withdrawals are made on the basis of $1 and not fair value. Accordingly, under the fair value hierarchy, these investments are uncategorized.

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, 2016 the District did not have 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.

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, 2016 the District's deposits with financial institutions are covered by FDIC up to $250,000 the remaining amounts of $1,955,289 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. 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, 2016, $4,782,630 was reported as restricted assets related to trustee and member agency activities.

(4) Capital Assets

The following is a summary of capital assets at June 30, 2016 with changes therein:

	2015	Additions	Deletions	2016
Furniture,Fixtures and Equipment	$ 436,911	$ 25,521	$ (14,712)	$ 447,720
Leasehold Improvements	3,026,973	388,611	(525)	3,415,059
	3,463,884	414,132	(15,237)	3,862,779
Less accumulated depreciation	(2,534,641)	(133,911)	15,237	(2,653,315)
Net Capital Assets	$ 929,243	$ 280,221	$ -	$ 1,209,464

(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, 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, 2016, the District received the final payment of $4,823 from certain AMP member agencies, and disbursed $4,746 by the RPOI formula. As of June 30, 2016, the balance of $4,823 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 2016, the District accrued $1,514,690 of grants receivable (part of Restricted Accounts Receivable Other). The District recognized $28,674,255 in contributions from Metropolitan and member agencies, federal and state grant revenue, and corresponding expenses, for the year ended June 30, 2016.

As of June 30, 2016, the District reported $109,305 of Unearned Revenue, related to Grant and Special Projects Revenue received during year, but not yet spent.

(7) District 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. Effective January 2014 and approved December 2014, Resolution No.1999 amends the District’s Money Purchase Pension Plan and implementation of provision of Internal Revenue Code section 414(h)(2) to tax defer employee retirement contributions. The amendment permits the funding of both employer and employee “excess compensation” contributions on behalf of the General Manager.

Currently, Board members participate in the 401A Plan. This plan was amended as of January 1, 2015 due to a possible issue with conflicting State and Federal requirements regarding the District making contributions to the Director's retirement plans and whether these contributions would be considered compensation to the Directors subject to State Government Code limits. The District stopped making contributions and the Directors contribute their own 7.5% to their plan. The Directors committed to refund all contributions previously made by the District with interest of which, all current MWDOC Directors have refunded the payments to MWDOC. Participants become vested in the District's Plan 20% per year of service until they become fully vested after five (5) years of service. A summary of this plan's contribution and District payroll information follows:

	July 1, 2015 to June 30, 2016
Participants' contributions	$ 22,866
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 single employer 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 consecutive years of full-time service with the District. The District pays 100% of the premium for the lowest cost single retiree plan plus 90% of the difference to the plan actually selected. Plus 80% of the combined retiree and spouse's medical premium 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 for the lifetime of the retiree only. 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 and post-age 65 coverage includes Medicare Part B premium reimbursements until the time of the retiree and spouse's death. Employees hired on or after July 1, 2012 are ineligible for District-paid retiree health benefits.

Plan benefits and 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 serves 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 2016, the District made a total contribution of $155,570 of which, $48,237 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 remaining unfunded actuarially accrued liability is being amortized over 30 year level dollar, open period, using the projected unit credit cost method. The plan is assumed to be closed to new entrants.

The following table shows the components of the District's annual OPEB costs for FY 2015-16, 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)	(5,568)
Adjustment to ARC	6,742
Annual OPEB Cost	131,291
Contribution made	(155,570)
(Increase)/Decrease in Net OPEB Obligation (Asset)	(24,279)
Net OPEB (Asset) at June 30, 2015	(92,806)
Net OPEB (Asset) at June 30, 2016	$ (117,085)

(d) Three-Year Trend Information:

For fiscal year 2016, the District's annual OPEB cost (expense) of $131,291 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)
6/30/2014	$ 204,985	$ 273,982	133.66%	$ (37,041)
6/30/2015	130,586	186,351	142.70%	(92,806)
6/30/2016	131,291	155,570	118.49%	(117,085)

(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 2014 of 5.00% to 8.00% for healthcare costs, and 4.00% for dental and vision costs, and an inflation rate of 6.00%. The District's unfunded actuarial accrued liability in 2013 was to be accelerated to be fully funded within 10 years, however subsequent the year-end, the District approved full funding in fiscal year 2016-17.

(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, 2016, the District participated in the Authority's 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 coverages. 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 the statutory limit per occurrence. Employer's liability is insured up to a $5 million limit per occurrence. SDRMA maintains a Self-Insured Retention that is periodically adjusted based on market conditions.

The District pays annual premiums for all coverages. 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.

(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.

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, 2016, are summarized as follows:

	Miscellaneous	
Hire Date	Prior to January 1, 2013	On or after January 1, 2013
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	50-63	52-67
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	10.514%	6.237%
Pensionable Compensation Cap*	No Cap	$136,440

*Will increase to reflect changes in the Consumer Price Index

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, 2016 were $220,517. The District also contributed 3% of the employee's contribution, or $61,206, 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.

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

As of June 30, 2016, 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	$ 1,376,955

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, 2015, 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, 2014 rolled forward to June 30, 2015 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, 2014 and 2015 were as follows:

	Miscellaneous
Proportion - June 30, 2014	0.02186%
Proportion - June 30, 2015	0.02006%
Change - Increase (Decrease)	-0.00180%

At the year ended June 30, 2016, the District's recognized pension expense/(credit) of $(74,857). At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
District contributions subsequent to the measurement date	$ 220,517	$ -
Differences between actual and expected experience	22,083	-
Changes in assumptions	-	208,927
Differences between District contributions and proportionate share of contributions (2014)	-	6,241
Differences between District contributions and proportionate share of contributions (2015)	210,947	-
Net difference between projected and actual earnings on pension plan investments	-	104,738
Total	$ 453,547	$ 319,906

The amount of $220,517 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, 2017. 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,	
2017	$ (21,043)
2018	(20,350)
2019	(19,298)
2020	(26,185)
	$ (86,876)

Actuarial Assumptions – The total pension liabilities in the June 30, 2014 actuarial valuation were determined using the following actuarial assumptions.

	Miscellaneous
Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
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 probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries. 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

Change of Assumption – GASB 68 states that the long-term expected rate of return should be determined net of pension plan investment expense without a reduction for pension plan administrative expense. The discount rate was changed from 7.5% to 7.65% as of June 30, 2015 measurement date to correct the adjustment which previously reduced the discount rate for administrative expense.

Discount Rate – The discount rate used to measure the total pension liability was 7.65% 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.

In determining the long-term expected 7.65% rate of return on pension plan investments, CalPERS used a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. 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 expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short and long-term returns. The expected rate of return was then set equivalent to 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 Expecte Real Rate of Retur Years 11 +
Global Equity	51%	5.25%	5.71%
Global Debt Securities	19%	0.99%	2.43%
Inflation Assets	6%	0.45%	3.36%
Private Equity	10%	6.83%	6.95%
Real Estate	10%	4.50%	5.13%
Infrastructure and Forestland	2%	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 (6.65%)	Discount Rate (7.65%)	1% Increase (8.65%)
District's proportionate share of the net pension liability	$ 2,248,308	$ 1,376,955	$ 660,362

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

(11) 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, 2016.

Required Supplementary Information

(Unaudited)

Municipal Water District of Orange County
Required Supplementary Information (Unaudited)
For the Year Ended June 30, 2016

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, 2016

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

	2016	2015
Proportion of the net pension liability	0.02006%	0.02186%
Proportionate share of the net pension liability	$ 1,376,955	$ 1,360,017
Covered - employee payroll	$ 2,640,576	$ 2,601,571
Proportionate Share of the net pensions liability as a percentage of covered-employee payroll	52.15%	52.28%
Plan fiduciary net position as a percentage of the total pension liability	78.40%	79.82%

Notes to Schedule:
Changes in Assumptions - The discount rate changed from 7.5% as of the June 30, 2014 measurement date to 7.65% as of the June 30, 2015 measurement date.

* Fiscal year 2015 was the first year of implementation, therefore only two years are shown

Cost Sharing Retirement Plan
Schedule of Contributions
Last Ten Years*

	2016	2015
Actuarially determined contributions	$ 220,517	$ 288,065
Contributions in relation to the actuarially determined contribution	(220,517)	(288,065)
Contribution deficiency (excess)	$ -	$ -
Covered-employee payroll	$ 2,848,942	$ 2,640,576
Contributions as a percentage of covered-employee payroll	7.74%	10.91%

* Fiscal year 2015 was the first year of implementation, therefore only two years are shown