

East Orange County Water District

Orange, California

Annual Financial Report

For the Years Ended June 30, 2016 and 2015



Our Mission Statement

“To provide the most cost effective, reliable, and highest quality water services for the present as well as the future by operating in the most cost efficient manner possible, keeping the cost of water to our customers affordable and provide a safe working environment for our employees. Serve the community in an open manner and, at all times, communicate and deliberate in public meetings where open discussions are promoted.”

Board of Directors as of June 30, 2016

<u>Name</u>	<u>Title</u>	<u>Elected/ Appointed</u>	<u>Current Term</u>
Douglass S. Davert	President	Elected	12/12 - 12/16
Richard B. Bell	Vice President	Elected	12/14 - 12/18
John Dulebohn	Director	Elected	12/14 - 12/18
Seymour Everett III	Director	Elected	12/14 - 12/18
John L. Sears	Director	Appointed	1/16 - 12/16

Lisa Ohlund, General Manager
East Orange County Water District
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(714) 538-5815
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**East Orange County Water District
Annual Financial Report
For the Years Ended June 30, 2016 and 2015**

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INTRODUCTORY SECTION

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December 31, 2016

Board of Directors
East Orange County Water District
Orange, California

DIRECTORS

Richard B. Bell
Douglass Davert
John Dulebohn
Seymour B. Everett III
William Vanderwerff

Lisa Ohlund
General Manager

It is our pleasure to submit the Annual Financial Report for the East Orange County Water District (District) for the fiscal year ended June 30, 2016. District staff and our consultants, following guidelines set forth by the Governmental Accounting Standards Board, prepared this financial report. The District is ultimately responsible for both the accuracy of the data and the completeness and the fairness of presentation, including all disclosures in this financial report. We believe that the data presented is accurate in all material respects. This report is designed in a manner that we believe is necessary in order to enhance your understanding of the District's financial position and activities.

This report is organized into two sections: (1) Introductory and (2) Financial. The Introductory section provides general information about the District's organization and activities, and provides information useful in assessing the District's financial condition. The Financial section includes the Independent Auditors' Report, Management's Discussion and Analysis of the District's basic financial statements, and the District's audited basic financial statements with accompanying notes.

Generally Accepted Accounting Principles (GAAP) requires that management provide a narrative introduction, overview, and analysis to accompany the financial statements in the form of a Management's Discussion and Analysis (MD&A) section. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The District's MD&A can be found immediately following the Independent Auditors' Report.

District Background

The East Orange County Water District was formed in December of 1961 and is operating under County Water District Law, which is contained in Division 12 of the California Water Code, Sections 30000 - 33901. The District is an independent special district governed by its Board of Directors; the Board is elected by the voters within the District's service area. Initially the District was formed to provide an agency which would furnish imported (wholesale) water to the area within its boundaries. In July of 1985, the District assumed the retail water operations of the County of Orange's Water District No. 8; it was renamed the "Retail Zone" to distinguish it from the District's historic "Wholesale Zone" and to establish separate internal accounting systems for it.

In the Wholesale Zone, the District delivers water to five sub-agencies within its boundaries consisting of the City of Tustin, Golden State Water Company, City of City of Orange, Irvine Ranch Water District and East Orange County Water District's own Retail Zone; these agencies then serve the imported water to an estimated population of 100,000. The supplemental water supplied by the District from the Allen McCulloch Pipeline and the East Orange County Feeder No.2 supplements the sub-agencies local groundwater supplies as groundwater is inadequate to supply 100% of the water needs within the District's service area.

In the Retail Zone (generally the Vista Panorama/Panorama View unincorporated area of East Orange), the District delivers local groundwater and imported Wholesale Zone water directly to the Retail Zone's 1,210 customers representing a population of approximately 3,500.

The District encompasses an area of approximately 10,000 acres and is a member of the Municipal Water District of Orange County (MWDOC), which is a member of the Metropolitan Water District of Southern California (MET) and therefore is entitled to receive Colorado River and Northern California imported water through the distribution facilities of the MET system.

Industry Outlook

California's water supply continues to pose many new and complex challenges for water suppliers in the state, particularly for water delivered through Northern California's Delta. In 2016, California experienced the fifth year of drought, and not only was Southern California's allocation from the State Water Project initially limited to 15% of a full allocation, on February 3, 2016, Governor Brown reauthorized the State Water Resources Control Board's (Water Board's) mandatory restrictions on residential water use for all urban water use. The Water Board's mandatory restrictions required that the District reduce its Retail Zone residential water use by 36% over the corresponding 2013 residential water use. The District successfully met its 36% reduction for the required nine-month period from June 2015 through February 2016. Under the reauthorization, and in recognition of improved statewide water supply, the District's mandatory requirement was reduced to 28%.

A significant bright spot in the past five years, and particularly in 2016, was the performance of MET's Colorado River Aqueduct (CRA). For two years, the CRA provided in excess of 95% of the imported water that MET supplied its member agencies. This almost 90-year old system functioned flawlessly and highlighted the reliability provided to the Southland by MET and the redundant sources of supply they provide. Looking forward however, the CRA and MET's Colorado River water supplies are, as would be expected, very low. The extended demand for this single supply source, combined with a decade of drought on the Colorado River, may affect the CRA's reliability in the near future. This fact was part of the contributory information used by the EOCWD Board as they considered our near- and long-term reliability in view of new Water Board requirements.

On May 18, 2016, the Water Board adopted a statewide water conservation approach that replaced the percentage reduction-based standard with a localized "stress test" approach that mandated that urban water agencies ensure that they have at least a three-year supply of water under drought conditions. After an extensive examination of both imported and local groundwater supplied, the District certified to the State that it has the required three-year supply, however, due to a structural water deficit in the state, the Board of Directors approved a mandatory 15% reduction requirement for our retail customers.

The District has consistently been an active participant in working with its customers to achieve efficient water use. Through coordination and planning with other local and regional water suppliers, as well as the Board's and staff's participation in local and statewide associations, the District continues to engage in developing long-term solutions to the various underlying water supply challenges. The Water Board continues to examine regulatory measures that may require the District to take further actions to sustain, on a permanent basis, retail water use reductions at levels of 25-30% below 2013 water use levels.

The District has also identified the cost of water as a continuing challenge. Both our regional water supplier, MWDOC/MET and our local groundwater management agency, Orange County Water District (OCWD), are experiencing significant cost pressures due to water scarcity, as well as due to lack of water sales during the drought. We expect that these pressures will result in a continuing trend of significant cost increases for water, and in MET's case, significant increases in their fixed rate charges also.

Internal Control Structure

District management is responsible for the establishment and maintenance of the internal control structure that ensures that the assets of the District are protected from loss, theft, or misuse. The internal control structure also ensures that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The District's internal control

structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management. The General Manager, in concert with the District Treasurer and Accountant, annually reviews the internal controls for accuracy, adequacy and effectiveness.

Budgetary Control

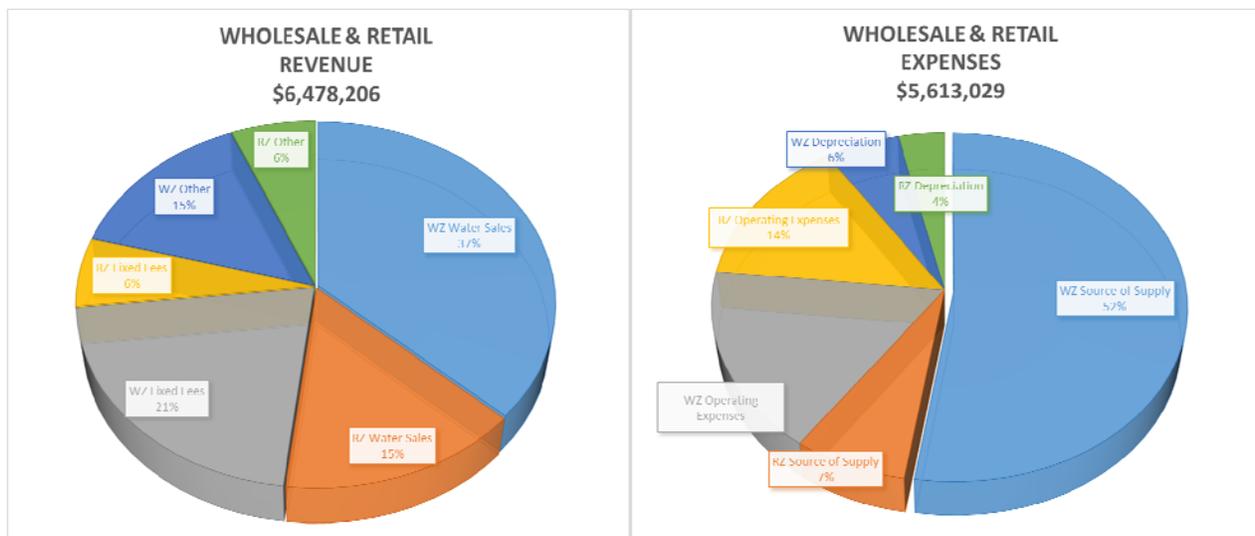
The District’s Board of Directors annually adopts a balanced operating and capital budget prior to each new fiscal year. The budget authorizes and provides the basis for reporting and control of financial operations

foundation for this commitment is based in the District’s 2015 Wholesale Zone and Retail Zone Master Plan Updates and the June 2016 Financial Plan. As part of the Master Plan Updates, a condition assessment of the District’s facilities was conducted and a 25-year Capital Improvement Program (2015-2040) was developed. The 25-year CIP provides prioritization of capital project for both zones and was incorporated into the update of the District’s Financial Plan.

The District’s Financial Plan was updated in recognition of reduced revenues caused by drought-reduced water sales. As a result of the findings of the Financial Plan, the District embarked upon a Proposition 218 water rate study as well as an analysis of Wholesale Zone and Retail Zone Connection Charges as well as the adequacy of the Wholesale Zone fees. These studies resulted in the development of a 5-Year rate user fee rate increase for the Retail Zone as well as increases to the Connection Fee Charges and Wholesale Zone Readiness-to-Serve Charge and Capital Facilities Fee. The Financial Plan also includes the examination of reserve funds in accordance with the District’s reserve practices. Reserve funds are set to ensure the continued orderly operation of the District’s water systems, the providing of services to residents at established levels, and the continued stability of the District’s rate structure. The purpose and structure of these funds are further discussed in the Management’s Discussion and Analysis.

Water Rates and District Revenues

The District’s policy objective is that all revenues from user charges generated from District customers must support all District operations including capital project funding. Water rates and fees are user charges imposed on customers for services and are the primary component of the District’s revenue. Water rates and fees are composed of a commodity (usage) charge, and a fixed meter and a standby service fee. The following charts reflect the District’s operating revenue mix for the year ending June 30, 2016, and resulted in revenues exceeding expenses by \$865,177. This excess of revenue was primarily due to three factors: 1) reimbursement of over \$300,000 of sewer acquisition costs to the Wholesale Zone, 2) capital fee revenue of over \$200,000 for the Wholesale Zone and, 3) capital fee revenue of over \$300,000 for the Retail Zone.



Investment Policy

The Board of Directors annually reviews and adopts an investment policy that conforms to California State law, District ordinance and resolutions, prudent money management, and the “prudent person” standards. The objectives of the Investment Policy are safety, liquidity, and yield. District funds are normally invested in the State Treasurer’s Local Agency Investment Fund (LAIF), certificates-of-deposit, Government Agency Obligations or other specifically authorized investments. For FY 2014/15, the District’s investments were held at LAIF and in certificates-of-deposit.

Audit and Financial Reporting

State law requires that the District to obtain an annual audit of its financial statements by an independent certified public accountant to provide reasonable assurance about whether the financial statements present fairly the financial position of the District. An accountancy firm, The Pun Group, has conducted this audit of the District’s financial statements. Their unmodified Independent Auditor’s Report appears in the Financial Section.

This audited Financial Report has been prepared by the District, working with our independent auditors, the Pun Group, in conformance with the principles and standards for financial reporting set forth by the Governmental Accounting Standards Board (GASB). This year, adjustments were made to the financial statements to incorporate the District’s net pension liability as of measurement date of June 30, 2015, as required by GASB 68 and 71.

GASB Statement No. 68 and 71 Implementation

The Governmental Accounting Standards Board (GASB) is an independent, nonprofit, non-governmental regulatory body charged with setting accounting and financial reporting standards for state and local governments. Beginning with Fiscal Year 2014-15, GASB Statements No. 68 and 71 require agencies to report their net pension liability in accrual-based financial statements. This is distinctly different than in that this obligation was relayed to the District in an annual report provided by CalPERS the State agency that provides our pension program, but it was not placed in our financial documents. Please note that these standards only impact the accounting and financial reporting of pension obligations for governmental employers; pension contribution rates and funding requirements are not impacted by GASB No. 68 or 71.

The District’s employees are covered by two CalPERS pension plans. For employees hired prior to January 1, 2013, the District annually pays 12.005% of salaries towards the “PERS Classic” Plan’s (2%@60) costs, and the employees pay the 3% remaining cost [Note: as of July 1, 2016 the employees pay 4% of their salary]. For employees hired after January 1, 2013 (and that were never a member of PERS), the District pays 6.5% of salaries and the employee pays 6.5% of their salaries toward this pension plan’s (2%@62) annual costs.

In total, the GASB No. 68 and 71 requirements show a net pension liability of \$341,116. Additionally, CalPERS is estimating that there is another \$142,141 (difference between the deferred outflows of resources \$42,743 and deferred inflows of resources \$184,124) in unearned credits related to the net pension liability. The total of these two amounts totals \$483,257 and reduces the District’s net position (reserves) by this amount. Our unrestricted net position (reserves) are sufficient to absorb this \$483,257 liability, thus our pension liability is full funded. If desired, the Board could set up a dedicated pension reserve fund or could pay these funds directly to CalPERS, however, we are not legally bound to pay off this balance, nor is it material to our financial position. It should be noted that this amount is a reduction from last year’s liability of \$518,455.

Notes 4 and 5 of the Audit Report addresses the GASB No. 68 and 71 requirements in substantially greater detail.

Water Conservation Programs

For many years, the District has been implementing conservation management practices within district operations and distributing information to and encouraging conservation from its customers. In 2016, the District continued an intensive DroughtReach™ program to advise customers about the mandatory water reductions. In addition to providing extensive printed materials, the hallmark of DroughtReach™ is personalized outreach. Staff focused on providing personalized customer outreach, assisting them with irrigation timer settings, recommendations on landscaping choices, leak detection inspections, and providing instructions on how to read their water meter and track their water use. Additionally, staff focused attention on the following conservation programs through its affiliation with the Municipal Water District of Orange County:

- Residential/Commercial Reimbursement for Turf Replacement
- Residential Appliance Rebate Program
- Residential Drought-tolerant Landscape Classes
- Residential/Commercial Reimbursement Program for Smart Watering Timers

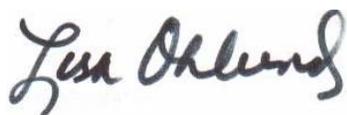
Transparency

The District maintains a web site (www.eocwd.com) that includes easy access to important district information, including current and historical audited financial statements, current and historical operating and capital improvement budgets, board agendas and minutes, water rate setting studies, water conservation assistance, water quality information and employee and board member compensation. The web site is updated regularly to ensure timely information is available.

Other References

More information is contained in Management's Discussion and Analysis and the Notes to the Basic Financial Statements found in the Financial Section of the report.

Respectfully submitted,



Lisa Ohlund
General Manager

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of the East Orange County Water District
Orange, California

Report on the Financial Statements

We have audited the accompanying basic financial statements of the East Orange County Water District (District), which comprise of the balance sheet as of June 30, 2016 and 2015, and the related statements of revenues, expenses and change in net position, cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District, as of June 30, 2016 and 2015, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors
of the East Orange County Water District
Orange, California
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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 15 through 21 and Schedule of the District's Proportionate Share of the Plan's Net Pension Liability and Schedule of the District's Contributions to the Pension Plan, on pages 55 and 56 respectfully, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, Combining Schedule of Net Position and Combining Schedule of Revenues, Expenses, and Change in Net Position are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Combining Schedules of Balance Sheets and Combining Schedules of Revenues, Expenses, and Change in Net Position are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

To the Board of Directors
of the East Orange County Water District
Orange, California
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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 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.

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Santa Ana, California
December 31, 2016

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Independent Auditors' Report

To the Board of Directors
of the East Orange County Water District
Orange, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the balance sheets as of June 30, 2016 and 2015, and the related statements of revenues, expenses and changes in net position, cash flows for the years then ended, and the related notes to the financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated December 31, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of District's internal control. Accordingly, we do not express an opinion on the effectiveness of District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To the Board of Directors
of the East Orange County Water District
Orange, California
Page 2

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "The PwC Group, LLP". The signature is written in a cursive, flowing style.

Santa Ana, California
December 31, 2016

East Orange County Water District
Management's Discussion and Analysis (Unaudited)
For the Years Ended June 30, 2016 and 2015

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the East Orange County Water District (District) provides an introduction to the financial statements of the District for the year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with the transmittal letter in the Introductory Section and with the basic financial statements and related notes, which follow this section.

Financial Highlights

- In 2016, the District's net position increased by 4.64%, or \$865,177 to \$19,506,309.
- In 2015, the District's net position increased by 2.89%, or \$538,663 to \$18,641,132.
- In 2016, the District's operating revenues decreased 23.0%, or \$1,537,312 to \$5,140,142, from the prior year, due primarily to a decrease in wholesale water sales.
- In 2015, the District's operating revenues decreased 21.7%, or \$1,852,852 to \$6,677,454, from the prior year, due primarily to a decrease in wholesale water sales.
- In 2016, the District's operating expenses decreased by 26.1%, or \$1,802,489 to \$5,096,863, from the prior year, due primarily to a decrease in wholesale water purchases.
- In 2015, the District's operating expenses decreased by 18.4%, or \$1,556,242 to \$6,899,352, from the prior year, due primarily to a decrease in wholesale water purchases.
- Implementation of new pension standards increased liability of \$399,219 for the year ended June 30, 2015.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's financial statements. The financial statements are comprised of two components: 1) financial statements and, 2) notes to financial statements. This report also contains other supplementary information in addition to the financial statements themselves.

The financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *balance sheet* presents information on all of the District's assets, deferred outflow of resources, liabilities, and deferred inflow of resources with the difference between the four reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of revenues, expenses and changes in net position* presents information showing how net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

The *statement of cash flows* presents information showing the sources and uses of cash related to operating activities, noncapital financing activities, capital and related financing activities and investing activities. In addition, the statement provides information about significant non-cash investing, capital and financing activities.

East Orange County Water District
Management's Discussion and Analysis (Unaudited) (Continued)
For the Years Ended June 30, 2016 and 2015

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 29 through 51.

Financial Analysis of the District

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Position report information about the District in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the District's *net position* and changes in them. One can think of the District's net position – the difference between assets and liabilities – as a way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net position are one indicator of whether its *financial health* is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, natural disasters, zoning and new or changed government legislation, such as changes in Federal and State water quality standards.

Condensed Balance Sheets

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>Change</u>	<u>June 30, 2014</u>	<u>Change</u>
Assets:					
Current assets	\$ 10,435,608	\$ 10,090,457	\$ 345,151	\$ 9,991,076	\$ 99,381
Capital assets, net	10,469,620	10,267,247	202,373	10,347,952	(80,705)
Total assets	<u>20,905,228</u>	<u>20,357,704</u>	<u>547,524</u>	<u>20,339,028</u>	<u>18,676</u>
Deferred outflows of resources	<u>42,743</u>	<u>33,913</u>	<u>8,830</u>	<u>-</u>	<u>33,913</u>
Total assets and deferred outflows of resources	<u>\$ 20,947,971</u>	<u>\$ 20,391,617</u>	<u>\$ 556,354</u>	<u>\$ 20,339,028</u>	<u>\$ 52,589</u>
Liabilities:					
Current liabilities	\$ 916,422	\$ 1,195,916	\$ (279,494)	\$ 1,718,104	\$ (522,188)
Noncurrent liabilities	341,116	399,219	(58,103)	-	399,219
Total liabilities	<u>1,257,538</u>	<u>1,595,135</u>	<u>(337,597)</u>	<u>1,718,104</u>	<u>(122,969)</u>
Deferred inflows of resources	<u>184,124</u>	<u>155,350</u>	<u>28,774</u>	<u>-</u>	<u>155,350</u>
Net position:					
Net investment in capital assets	10,469,620	10,267,247	202,373	10,347,952	(80,705)
Unrestricted	9,036,689	8,373,885	662,804	8,272,972	100,913
Total net position	<u>19,506,309</u>	<u>18,641,132</u>	<u>865,177</u>	<u>18,620,924</u>	<u>20,208</u>
Total liabilities, deferred inflows and net position	<u>\$ 20,947,971</u>	<u>\$ 20,391,617</u>	<u>\$ 556,354</u>	<u>\$ 20,339,028</u>	<u>\$ 52,589</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources of the District exceeded liabilities and deferred inflows of resources by \$19,506,309 and \$18,641,132, as of June 30, 2016 and 2015, respectively. As of July 1, 2014, the District's beginning net position has been restated to \$18,102,469 as fully disclosed in Note 4.

East Orange County Water District
Management's Discussion and Analysis (Unaudited) (Continued)
For the Years Ended June 30, 2016 and 2015

By far the largest portion of the District's net position (54% at June 30, 2016 and 55% at June 30, 2015) reflects its investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are *not* available for future spending.

At the end of fiscal year 2016 and 2015, the District shows a positive balance in its unrestricted net position of \$9,036,689 and \$8,373,885, respectively, that may be utilized in future years. The Board of Directors has taken action to reserve aspects of the unrestricted net position for specified purposes such as asset replacement, rate stabilization, growth accommodation and emergency reserves. The District has committed to the following internal funds and objectives:

1. Operating Fund – Funds are maintained to capture all operating and maintenance revenues and expenditures separately for the Wholesale and Retail Zone operations. Excess revenues over expenditures are routinely transferred to the Replacement and Capital Improvements funds.
2. Replacement and Capital Improvement Funds – Separate replacement and capital improvement funds are maintained for the Wholesale District and Retail Zone.
3. Emergency Reserve Fund – This fund is earmarked by the Board of Directors for unforeseen Wholesale District emergencies or contingency expenditures.

Condensed Statements of Revenues, Expenses, and Changes in Net Position

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>Change</u>	<u>June 30, 2014</u>	<u>Change</u>
Revenues:					
Operating revenues	\$ 5,140,142	\$ 6,677,454	\$ (1,537,312)	\$ 8,530,306	\$ (1,852,852)
Non-operating revenues	<u>1,338,064</u>	<u>1,258,023</u>	<u>80,041</u>	<u>1,167,277</u>	<u>90,746</u>
Total revenues	<u>6,478,206</u>	<u>7,935,477</u>	<u>(1,457,271)</u>	<u>9,697,583</u>	<u>(1,762,106)</u>
Expenses:					
Operating expenses	5,096,863	6,899,352	(1,802,489)	8,455,894	(1,556,542)
Depreciation	<u>516,166</u>	<u>497,462</u>	<u>18,704</u>	<u>518,978</u>	<u>(21,516)</u>
Total expenses	<u>5,613,029</u>	<u>7,396,814</u>	<u>(1,783,785)</u>	<u>8,974,872</u>	<u>(1,578,058)</u>
Change in net position	<u>865,177</u>	<u>538,663</u>	<u>326,514</u>	<u>722,711</u>	<u>(184,048)</u>
Net position:					
Beginning of year	18,641,132	18,620,924	20,208	17,898,213	722,711
Prior period adjustments	<u>-</u>	<u>(518,455)</u>	<u>518,455</u>	<u>-</u>	<u>(518,455)</u>
End of year	<u>\$ 19,506,309</u>	<u>\$ 18,641,132</u>	<u>\$ 865,177</u>	<u>\$ 18,620,924</u>	<u>\$ 20,208</u>

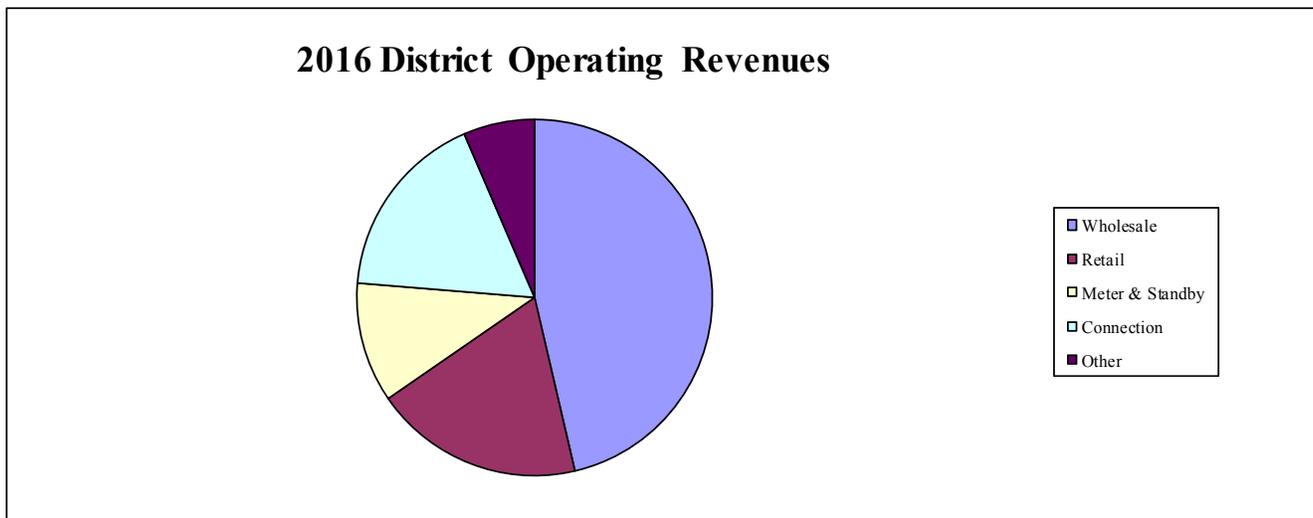
The Statement of Revenues, Expenses, and Changes in Net Position show how the District's net position changes during the fiscal year. In the case of the District, net position increased by \$865,177 and \$538,663 as of June 30, 2016 and 2015, respectively.

**East Orange County Water District
Management's Discussion and Analysis (Unaudited) (Continued)
For the Years Ended June 30, 2016 and 2015**

Revenues

Operating revenues:	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>Change</u>	<u>June 30, 2014</u>	<u>Change</u>
Water sales:					
Wholesale	\$ 2,382,793	\$ 4,208,276	\$ (1,825,483)	\$ 6,029,784	\$ (1,821,508)
Retail	978,948	1,253,430	(274,482)	1,106,987	146,443
Meter and standby service charges	560,056	530,224	29,832	528,646	1,578
Capacity and connection fees	863,981	639,819	224,162	805,927	(166,108)
Other connection fees	21,449	17,213	4,236	17,091	122
Other service charges	332,915	28,492	304,423	41,871	(13,379)
Total operating revenues	<u>5,140,142</u>	<u>6,677,454</u>	<u>(1,537,312)</u>	<u>8,530,306</u>	<u>(1,852,852)</u>
Non-operating revenues:					
Property taxes	1,160,319	1,085,641	74,678	1,028,676	56,965
Rental income – cellular antennas	99,750	133,679	(33,929)	100,066	33,613
Investment earnings	49,234	34,551	14,683	31,243	3,308
Change in fair-value	20,865	(1,487)	22,352	10,924	(12,411)
Other, net	7,896	5,639	2,257	(3,632)	9,271
Total non-operating revenues	<u>1,338,064</u>	<u>1,258,023</u>	<u>80,041</u>	<u>1,167,277</u>	<u>90,746</u>
Total revenue	<u>\$ 6,478,206</u>	<u>\$ 7,935,477</u>	<u>\$ (1,457,271)</u>	<u>\$ 9,697,583</u>	<u>\$ (1,762,106)</u>

Fiscal Year 2016 Operating Revenues (Chart 1)

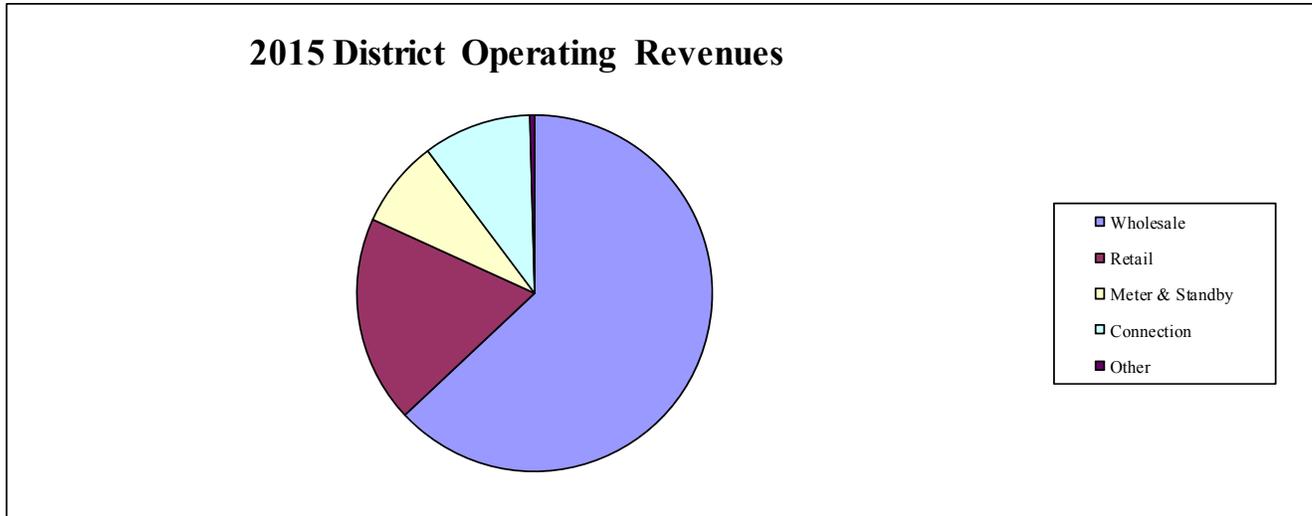


Total Operating Revenues decreased in total due to a decrease in Wholesale customers purchasing less water due to conservation which was partially offset by an increase in Other Service Charges due to costs for Sewer.

Total Non-operating Revenues increased slightly from the prior year due to an increase in secured and redevelopment agency taxes received.

**East Orange County Water District
Management's Discussion and Analysis (Unaudited) (Continued)
For the Years Ended June 30, 2016 and 2015**

Fiscal Year 2015 Operating Revenues (Chart 2)



Total Operating Revenues decreased in total due to a decrease in Wholesale and Retail customers purchasing less water due to conservation.

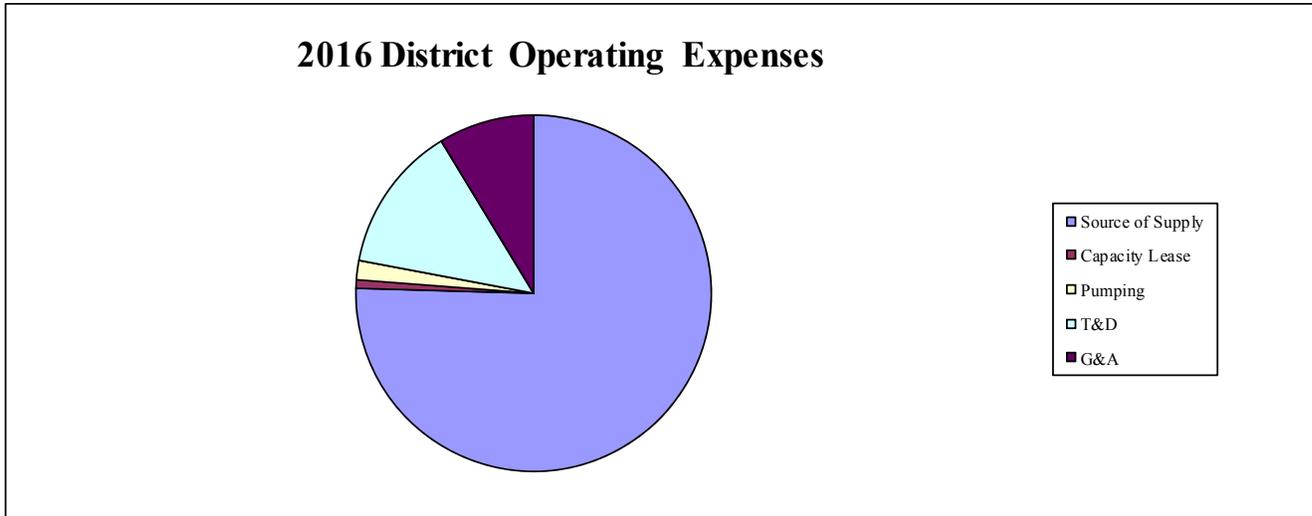
Total Non-operating Revenues increased slightly from the prior year due to an increase in secured and agency taxes and rental income received.

Expenses

Operating expenses:	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>Change</u>	<u>June 30, 2014</u>	<u>Change</u>
Source of supply	\$ 3,353,855	\$ 5,205,082	\$ (1,851,227)	\$ 6,968,465	\$ (1,763,383)
Pipeline capacity lease	-	53,000	(53,000)	15,000	38,000
Pumping	77,225	120,169	(42,944)	89,119	31,050
Treatment, transmission and distribution	909,123	921,250	(12,127)	801,443	119,807
General and administrative	<u>756,660</u>	<u>599,851</u>	<u>156,809</u>	<u>581,867</u>	<u>17,984</u>
Total operating expenses	<u>5,096,863</u>	<u>6,899,352</u>	<u>(1,802,489)</u>	<u>8,455,894</u>	<u>(1,556,542)</u>
Depreciation	<u>516,166</u>	<u>497,462</u>	<u>18,704</u>	<u>518,978</u>	<u>(21,516)</u>
Total expenses	<u>\$ 5,613,029</u>	<u>\$ 7,396,814</u>	<u>\$ (1,783,785)</u>	<u>\$ 8,974,872</u>	<u>\$ (1,578,058)</u>

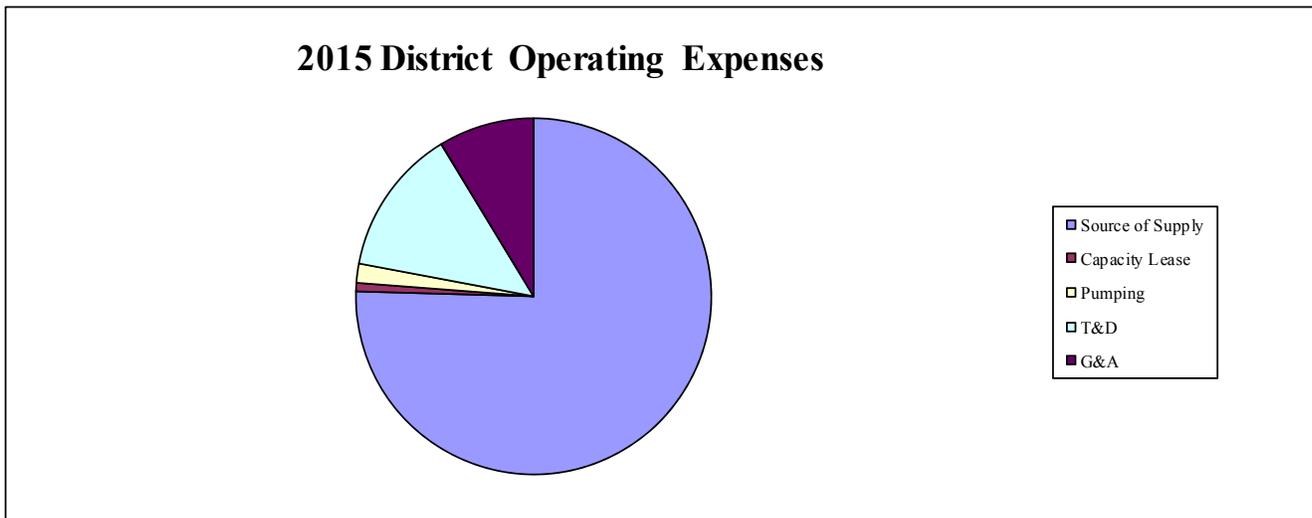
**East Orange County Water District
Management's Discussion and Analysis (Unaudited) (Continued)
For the Years Ended June 30, 2016 and 2015**

Fiscal Year 2016 Operating Expenses



Total Operating Expenses decreased in 2016 due to a decrease in source of supply costs which was due to a less water sold to wholesale customers. This decrease was partially offset by General and Administrative costs increasing in 2016 due to the acquisition of sewers.

Fiscal Year 2015 Operating Expenses



Total Operating Expenses decreased in 2015 due to a decrease in source of supply costs which was due to a less water sold to wholesale and retail customers.

**East Orange County Water District
Management's Discussion and Analysis (Unaudited) (Continued)
For the Years Ended June 30, 2016 and 2015**

Capital Asset Administration

Capital assets as of June 30th are as follows:

<u>Description</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Non-depreciable assets	\$ 906,413	\$ 543,998	\$ 315,120
Depreciable assets	21,550,916	21,253,523	21,080,800
Accumulated depreciation	<u>(11,987,709)</u>	<u>(11,530,274)</u>	<u>(11,047,968)</u>
Total capital assets, net	<u>\$ 10,469,620</u>	<u>\$ 10,267,247</u>	<u>\$ 10,347,952</u>

Fiscal Year 2016 Capital Asset Additions

Non-depreciable assets increased in 2016 due to work on the better and replacement plan for the wholesale and retail zones. Depreciable assets increased primarily due to the capitalization of a drainage ditch at the Peters Canyon Reservoir.

The capital asset activities of the District are summarized above and in Note 3 to the basic financial statements.

Economic and Other Factors Effecting Next Year's Operations and Budget

Sewer Transfer

The Orange County Sanitation District (OCSD) has owned and operated a handful of community sewer systems in north and central Orange County since inheriting them from the County of Orange in 1985. In 2006, OCSD adopted a Strategic Plan that included divesting itself of local system ownership so it can focus exclusively on its core mission of providing effective wastewater collection, treatment, and recycling at the regional level.

In 2013, OCSD proposed a transfer of ownership and operation of the local sewer system (Sewer Area 7) to the District. On May 11, 2016, after an extensive review and approval process, the Orange County Local Agency Formation Commission approved the transfer of sewers to the District effective August 1, 2016.

The sewer system was transferred to the District as "Improvement District 1 (ID1)." It is comprised of 175 miles of primarily vitrified clay pipe sewers and approximately 3,700 manholes, both of which were largely installed in the 1960s. Annual sewer system revenues of approximately \$2.9 million per year are collected via the County tax rolls; annual system expenses are estimated at \$800,000 – the balance will be used to further build ID1's reserve funds which currently total approximately \$35 million.

The District will be conducting both a Master Plan study and a financial plan and rate study over the next year to assess the condition and financial viability of ID1 and ensure that it is maintained in excellent condition and is sustainably financed.

Contacting the District's Financial Management Team

This financial report is designed to provide the District's funding sources, customers, stakeholders and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District's General Manager, Lisa Ohlund, at (714) 538-5815.

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BASIC FINANCIAL STATEMENTS

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East Orange County Water District
Balance Sheet
June 30, 2016 and 2015

<u>ASSETS</u>	<u>2016</u>	<u>2015</u>
Current assets:		
Cash and cash equivalents (Note 2)	\$ 8,911,836	\$ 8,916,352
Accrued interest receivable	8,826	4,570
Accounts receivable – water sales and services:		
Wholesale	1,096,204	736,204
Retail	270,108	293,497
Property taxes receivable	8,736	10,176
Prepaid items	56,571	53,098
Water-in-storage inventory	36,644	40,764
Materials and supplies inventory	46,683	35,796
Total current assets	<u>10,435,608</u>	<u>10,090,457</u>
Noncurrent assets:		
Capital assets, net (Note 3)	10,469,620	10,267,247
Total noncurrent assets	<u>10,469,620</u>	<u>10,267,247</u>
Total assets	<u>20,905,228</u>	<u>20,357,704</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Pension contributions made after measurement date (Note 4)	40,547	33,913
Differences between expected and actual experience (Note 4)	2,196	-
Total deferred outflows of resources	<u>42,743</u>	<u>33,913</u>
Total assets and deferred outflows of resources	<u>\$ 20,947,971</u>	<u>\$ 20,391,617</u>
<u>LIABILITIES</u>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 689,155	\$ 1,025,685
Accrued salaries and compensated absences	109,867	72,335
Deposits and unearned revenue	117,400	97,896
Total current liabilities	<u>916,422</u>	<u>1,195,916</u>
Noncurrent liabilities:		
Net pension liability (Note 4)	341,116	399,219
Total noncurrent liabilities	<u>341,116</u>	<u>399,219</u>
Total liabilities	<u>1,257,538</u>	<u>1,595,135</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Differences between projected and actual earnings on pension plan investments (Note 4)	10,419	134,156
Differences between actual and proportionate share of employer contributions (Note 4)	39,639	19,005
Adjustment due to differences in proportions (Note 4)	113,287	2,189
Changes in assumptions (Note 4)	20,779	-
Total deferred inflows of resources	<u>184,124</u>	<u>155,350</u>
<u>NET POSITION</u>		
Net investment in capital assets	10,469,620	10,267,247
Unrestricted	9,036,689	8,373,885
Total net position	<u>19,506,309</u>	<u>18,641,132</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 20,947,971</u>	<u>\$ 20,391,617</u>

East Orange County Water District
Statement of Revenues, Expenses, and Changes in Net Position
For the Years Ending June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating revenues:		
Water sales:		
Wholesale	\$ 2,382,793	\$ 4,208,276
Retail	978,948	1,253,430
Meter and standby service charges	560,056	530,224
Capacity and connection fees	863,981	639,819
Other connection fees	21,449	17,213
Other service charges	332,915	28,492
Total operating revenues	<u>5,140,142</u>	<u>6,677,454</u>
Operating expenses:		
Source of supply	3,353,855	5,205,082
Pipeline capacity lease	-	53,000
Pumping	77,225	120,169
Treatment, transmission and distribution	909,123	921,250
General and administrative	756,660	599,851
Total operating expenses	<u>5,096,863</u>	<u>6,899,352</u>
Operating income(loss) before depreciation	43,279	(221,898)
Depreciation expense	(516,166)	(497,462)
Operating (loss)	<u>(472,887)</u>	<u>(719,360)</u>
Non-operating revenues(expenses):		
Property taxes	1,160,319	1,085,641
Rental income – cellular antennas	99,750	133,679
Investment earnings	49,234	34,551
Change in fair-value of cash and investments	20,865	(1,487)
Other, net	7,896	5,639
Total non-operating revenues, net	<u>1,338,064</u>	<u>1,258,023</u>
Change in net position	<u>865,177</u>	<u>538,663</u>
Net position:		
Beginning of year	18,641,132	18,620,924
Prior period adjustments (Note 5)	-	(518,455)
End of year	<u>\$ 19,506,309</u>	<u>\$ 18,641,132</u>

East Orange County Water District
Statement of Cash Flows
For the Years Ending June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Cash receipts from customers for water sales and services	\$ 4,830,931	\$ 7,481,646
Cash paid to employees for salaries and wages	(468,114)	(499,612)
Cash paid to vendors and suppliers for materials and services	(4,976,146)	(6,852,647)
Net cash provided by (used in) operating activities	(613,329)	129,387
Cash flows from non-capital financing activities:		
Proceeds from property taxes	1,161,759	1,086,729
Proceeds from rental income – cellular antennas	99,750	133,679
Net cash provided by non-capital financing activities	1,261,509	1,220,408
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(718,539)	(416,757)
Net cash (used in) capital and related financing activities	(718,539)	(416,757)
Cash flows from investing activities:		
Proceeds from interest and investment earnings	65,843	31,685
Net cash provided by investing activities	65,843	31,685
Net increase (decrease) in cash and cash equivalents	(4,516)	964,723
Cash and cash equivalents:		
Beginning of year	8,916,352	7,951,629
End of year	\$ 8,911,836	\$ 8,916,352

East Orange County Water District
Statement of Cash Flows (Continued)
For the Years Ending June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Reconciliation of operating (loss) to net cash provided by (used in) operating activities:		
Operating (loss)	\$ (472,887)	\$ (719,360)
Adjustments to reconcile operating (loss) to net cash provided by operating activities:		
Depreciation expense	516,166	497,462
Other, net	7,896	5,639
Changes in assets – (increase)decrease:		
Accounts receivable – water sales and services, net	(336,611)	794,376
Accounts receivable – other	-	4,177
Prepaid items	(3,473)	62,954
Water-in-storage inventory	4,120	1,166
Materials and supplies inventory	(10,887)	2,960
Change in deferred outflows of resources – (increase)decrease:		
Pension contributions made after measurement date	(6,634)	18,902
Differences between expected and actual experience	(2,196)	-
Changes in liabilities – increase(decrease):		
Accounts payable and accrued expenses	(336,530)	(560,500)
Accrued salaries and compensated absences	37,532	12,329
Deposits and unearned revenue	19,504	25,982
Net pension liability	(58,103)	(146,258)
Change in deferred inflows of resources – increase(decrease):		
Differences between projected and actual earnings on pension plan investments	(123,737)	134,156
Differences between actual and proportionate share of employer contributions	20,634	(6,788)
Adjustment due to differences in proportions	111,098	2,190
Changes in assumptions	20,779	-
Total adjustments	<u>(140,442)</u>	<u>848,747</u>
Net cash provided by (used in) operating activities	<u>\$ (613,329)</u>	<u>\$ 129,387</u>
Non-cash investing, capital and financing transactions:		
Change in fair-value of cash and investments	<u>\$ 20,865</u>	<u>\$ (1,487)</u>

East Orange County Water District
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

Note 1 – Reporting Entity and Summary of Significant Accounting Policies

Organization and Operations of the Reporting Entity

The East Orange County Water District (the District) was formed in 1961, in order to furnish imported potable water to an area encompassing the eastern half of the City of Orange. The District provides wholesale potable water to five sub-agencies in the region through its pipeline transmission and distribution system. The five sub-agencies consist of the East Orange County Water District Retail Zone, Golden State Water Company, City of Tustin, Irvine Ranch Water District, and the City of Orange. The District provides potable water service through the East Orange County Water District Retail Zone to 1,179 customers within its service area. The District is governed by a Board of Directors, which consists of five directors, each of whom is elected at-large for a four-year term by the citizens living within the District's service area.

Basis of Accounting and Measurement Focus

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs of providing water to its customers on a continuing basis be financed or recovered, primarily through user charges (water sales and services) or similar funding. The District segregates its Wholesale and Retail Zone accounting internally as separate entities. Revenues and expenses are recognized on the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place.

Operating revenues and expenses are generated and incurred through the water sales activities to the District's customers. Management, administration, and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses.

In accordance with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources, and Net Position*, the Statement of Net Position reports separate sections for Deferred Outflows of Resources, and Deferred Inflows of Resources, when applicable.

Deferred Outflows of Resources represent outflows of resources (consumption of net position) that apply to future periods and that, therefore, will not be recognized as an expense until that time.

Deferred Inflows of Resources represent inflows of resources (acquisition of net position) that apply to future periods and that, therefore, will not be recognized as revenue until that time.

Financial Reporting

The District's basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applied to enterprise funds. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District solely operates as a special-purpose government which means it is only engaged in business-type activities; accordingly, activities are reported in the District's enterprise fund.

East Orange County Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2016 and 2015

Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)

Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in net position during the reporting period. Actual results most likely will differ from those estimates.

Cash and Cash Equivalents

Substantially all of the District’s cash is invested in interest bearing accounts. The District considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

Investment Policy

Investments are reported at fair value. Changes in fair value that occur during a fiscal year are recognized as unrealized gains or losses and reported for that fiscal year. Investment income comprises interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

In accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value, establishes a framework for measuring fair value and establishes disclosures about fair value measurement. Investments, unless otherwise specified, recorded at fair value in the balance sheet, are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Levels of inputs are as follows:

Level 1 – Inputs are unadjusted, quoted prices for identical assets and liabilities in active markets at the measurement date.

Level 2 – Inputs, other than quoted prices included in Level 1 that are observable for the asset or liability through corroboration with market data at the measurement date.

Level 3 – Unobservable inputs that reflect management’s best estimate of what market participants would use in pricing the asset or liability at the measurement date.

Accounts Receivable

The District has uncollectible accounts receivable at year-end. Management deems all accounts receivable as collectible at year-end. Accordingly, an allowance for doubtful accounts has not been recorded. Historical experience indicates that uncollectible accounts receivable are immaterial.

Property Taxes

Property taxes receivable at year-end are related to property taxes collected by the County of Orange, which have not been credited to the District as of June 30. The property tax calendar is as follows:

Lien date	March 1
Levy date	July 1
Due dates	November 1 and March 1
Collection dates	December 10 and April 10

The County of Orange Assessor’s Office assesses all real and personal property within the County each year. The County of Orange Auditor-Controller’s Office bills and collects the District’s share of property taxes and assessments. The County of Orange Treasurer’s Office remits current and delinquent property tax collections to the District throughout the year. Property tax in California is levied in accordance with Article XIII A of the State Constitution at one percent (1%) of countywide assessed valuations.

East Orange County Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2016 and 2015

Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)

Prepaid Items

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

Water-In-Storage Inventory

Annually, a controlled quantity of water is purchased by the District and, if not used in the current year, is stored for use in the following year. Purchased stored water is subject to loss through meter error or leakage. The losses are not covered by insurance nor has a loss reserve been recorded.

Materials and Supplies Inventory

Materials and supplies inventory consists primarily of water meters, pipe and pipe fittings for construction and repair to the District's water transmission and distribution system. Inventory is valued at cost using a weighted average cost method. Inventory items are charged to expense at the time that individual items are inventoried at year-end.

Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at \$5,000. Donated assets are recorded at estimated fair market value at the date of donation. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. (See Note 4 for further details) Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Transmission and distribution systems	5 to 100 years
Structures and improvements	3 to 50 years
Capacity rights	75 years
Water treatment plant	10 to 100 years
Equipment	5 to 50 years

Construction-in-Process

The costs associated with developmental stage projects are accumulated in an in-progress account until the project is fully developed. Once the project is complete and in use, the entire cost of the project is transferred to a capital asset account and depreciated over its estimated useful life.

Compensated Absences

The District's policy allows full-time employees to accumulate a maximum of 160 hours of vacation time. No compensation in lieu of time off is allowed except for termination or disability. Employees may accumulate up to 80 hours of sick time. As of December 31 each year, one-half of the excess over 80 hours may be credited to additional vacation or may be paid to the employee. The remaining one-half is forfeited. The District has recorded the liability for accrued vacation and sick pay in the accompanying financial statements.

East Orange County Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2016 and 2015

Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)

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 pension of the District’s pension plans and additions to/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 benefit terms. Investments are reported at fair value.

The following timeframes are used for pension reporting:

<u>CalPERS</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Valuation date	June 30, 2014	June 30, 2013
Measurement date	June 30, 2015	June 30, 2014
Measurement period	July 1, 2014 to June 30, 2015	July 1, 2013 to June 30, 2014

Gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time. The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense. The amortization period differs depending on the source of the gain or loss. The difference between projected and actual earnings is amortized straight-line over 5 years. All other amounts are amortized straight-line over the average expected remaining service lives of all members that are provided with benefits (active, inactive and retirees) as of the beginning of the measurement period.

Net Position

The financial statements utilize a net position presentation. Net position is categorized as follows:

Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation and reduced by any outstanding debt outstanding against the acquisition, construction or improvement of those assets.

Restricted– This component of net position consists of external constraints placed on net position imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted – This This component of net position is the amount of the assets, deferred outflows or resources, liabilities, and deferred inflows of resources that are not included in the determination of net investments in capital assets or the restricted component of net position.

Water Sales – Wholesale and Retail

Wholesale water sales are billed on a monthly basis and retail water sales are billed on a bi-monthly cyclical basis. Estimated unbilled retail water sales revenue through June 30 has been accrued at year-end.

Capital Contributions

Capital contributions represent cash and capital asset additions contributed to the District by property owners, granting agencies or real estate developers desiring services that require capital expenditures or capacity commitment.

East Orange County Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2016 and 2015

Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)

Budgetary Policies

The District adopts an annual non-appropriated budget for planning, control, and evaluation purposes. Budgetary control and evaluation are affected by comparisons of previous year actual revenues and expenses with planned revenues and expenses for the period. Encumbrance accounting is not used to account for commitments related to unperformed contracts for construction and services.

Accounting Changes

During fiscal year ended June 30, 2016 and 2015, the District has implemented the following new GASB pronouncements:

Statement No. 68, *Accounting and Financial Reporting for Pensions; an amendment of GASB Statement No. 27*. This Statement replaces the requirements of Statements No. 27 and No. 50 related to pension plans that are administered through trusts and equivalent arrangements. The requirements of No. 27 and No. 50 remain applicable for pensions that are not administered as trusts or equivalent arrangements. The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2014. See Notes 3 and 4 for further information on the implementation of this pronouncement.

Statement No. 69, *Government Combinations and Disposals of Government Operations*. The requirements of this Statement should be applied prospectively and are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013 and did not have a significant impact on the District's financial statements for the year ended June 30, 2016.

Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date; an amendment of GASB Statement No. 68*. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68. The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2014. See Notes 3 and 4 for further information on the implementation of this pronouncement.

Statement No. 72, *Fair Value Measurement and Application*, which provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosure related to all fair value measurements. Application of this statement is effective for fiscal year ending June 30, 2016.

Statement No. 73, *Accounting and Financial Reporting for Pension and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This statement establishes requirements for those pensions and pension plans that are not administered through a trust meeting specified criteria (those not covered by GASB Statements 67 and 68). Application of this statement is effective for the District's fiscal year ending June 30, 2016, except those provisions that address employers and governmental nonemployer contributing entities that are not within the scope of GASB Statement 68, which are effective for financial statements for fiscal year ending June 30, 2017.

Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement reduces the generally accepted accounting principles (GAAP) hierarchy to two categories of authoritative GAAP from the four categories under GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The first category of authoritative GAAP consists of GASB Statements of Governmental Accounting Standards. The second category comprises GASB Technical Bulletins and Implementation Guides, as well as guidance from the American Institute of Certified Public Accountants that is cleared by the GASB. Application of this statement is effective for fiscal year ending June 30, 2016.

East Orange County Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2016 and 2015

Note 2 – Cash and Investments

Cash and investments as of June 30, consisted of the following:

Description	June 30, 2016	June 30, 2015
Cash on hand	\$ 258	\$ 250
Deposits held with financial institutions	842,323	912,639
Investments	8,069,255	8,003,463
Total	\$ 8,911,836	\$ 8,916,352

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. At June 30, 2016 and 2015, the District had no deposits with financial institutions subject to custodial credit risk.

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 Code and the District's investment policy contains legal and policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or external investment pools.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The longer the maturity an investment has the greater its fair value has sensitivity to changes in market interest rates. The District's investment policy follows the Code as it relates to limits on investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates.

Credit Risk

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.

Concentration of Credit Risk

The District's investment policy contains various limitations on the amounts that can be invested in any one governmental agency or non-governmental issuer as stipulated by the California Government Code. There were no investments in any one non-governmental issuer that represent 5% or more of the District's total investments as of June 30, 2016 and 2015.

East Orange County Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2016 and 2015

Note 2 – Cash and Investments (Continued)

Concentration of Credit Risk (Continued)

The District's investments as of June 30, 2016 were as follows:

<u>Investments</u>	<u>Measurement Input</u>	<u>Fair Value</u>	<u>Maturity</u>		
			<u>12 Months or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>
Local Agency Investment Fund (LAIF)	N/A	\$ 6,491,443	\$ 6,491,443	\$ -	\$ -
Non-negotiable certificates-of-deposit	N/A	1,577,812	255,305	799,580	522,927
Total investments		<u>\$ 8,069,255</u>	<u>\$ 6,746,748</u>	<u>\$ 799,580</u>	<u>\$ 522,927</u>

The District's investments as of June 30, 2015 were as follows:

<u>Investments</u>	<u>Credit Rating</u>	<u>Fair Value</u>	<u>Maturity</u>		
			<u>12 Months or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>
Local Agency Investment Fund (LAIF)	N/A	\$ 6,466,594	\$ 6,466,594	\$ -	\$ -
Non-negotiable certificates-of-deposit	N/A	1,536,869	203,786	201,820	1,131,263
Total investments		<u>\$ 8,003,463</u>	<u>\$ 6,670,380</u>	<u>\$ 201,820</u>	<u>\$ 1,131,263</u>

Authorized Investments and Investment Policy

The District has adopted an investment policy directing the Fiscal Officer to deposit funds in financial institutions.

Investments are to be made in the following areas:

External Investment Pools:

- California Local Agency Investment Fund (LAIF)
- Money market funds
- Non-negotiable certificates-of-deposit
- Governmental agency securities

East Orange County Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2016 and 2015

Note 2 – Cash and Investments (Continued)

Investment in California – Local Agency Investment Fund (LAIF)

The District is a voluntary participant in LAIF which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the entity's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Further information about LAIF is available on the California State Controller's website: www.treasurer.ca.gov/pmia-laif/

The District's investments with LAIF at June 30, 2016 and 2015, included a portion of the pool funds invested in structured notes and asset-backed securities:

Structured Notes: debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.

Asset-Backed Securities: generally mortgage-backed securities that entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (for example, Collateralized Mortgage Obligations) or credit card receivables.

The District had \$6,491,443 and \$6,466,594 invested in LAIF, which had invested 2.81% and 2.08% of the pooled investment funds as of June 30, 2016 and June 30, 2015, respectively, in structured notes and medium-term asset-backed securities. The LAIF fair value factor of 1.000621222 and 1.000375979 was used to calculate the fair value of the investments in LAIF as of June 30, 2016 and 2015, respectively.

East Orange County Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2016 and 2015

Note 3 – Capital Assets

Changes in capital assets for the year ended June 30, 2016, were as follows:

	Balance July 1, 2015	Additions	Deletions	Reclassifications	Balance June 30, 2016
Non-depreciable assets:					
Land and easements	\$ 56,289	\$ -	\$ -	\$ -	\$ 56,289
Construction-in-process	487,709	718,539	-	(356,124)	850,124
Total non-depreciable assets	543,998	718,539	-	(356,124)	906,413
Depreciable assets:					
Transmission and distribution system	12,001,586	-	(35,448)	323,367	12,289,505
Structures and improvements	7,918,393	-	-	29,449	7,947,842
Capacity rights	943,320	-	-	-	943,320
Equipment	390,224	-	(23,283)	3,308	370,249
Total depreciable assets	21,253,523	-	(58,731)	356,124	21,550,916
Accumulated depreciation	(11,530,274)	(516,166)	58,731	-	(11,987,709)
Total depreciable assets, net	9,723,249	(516,166)	-	356,124	9,563,207
Total capital assets, net	\$ 10,267,247	\$ 202,373	\$ -	\$ -	\$ 10,469,620

Changes in capital assets for the year ended June 30, 2015, were as follows:

	Balance July 1, 2014	Additions	Deletions	Reclassifications	Balance June 30, 2015
Non-depreciable assets:					
Land and easements	\$ 56,289	\$ -	\$ -	\$ -	\$ 56,289
Construction-in-process	258,831	416,757	-	(187,879)	487,709
Total non-depreciable assets	315,120	416,757	-	(187,879)	543,998
Depreciable assets:					
Transmission and distribution system	11,917,155	-	(7,578)	92,009	12,001,586
Structures and improvements	7,897,970	-	-	20,423	7,918,393
Capacity rights	943,320	-	-	-	943,320
Equipment	322,355	-	(7,578)	75,447	390,224
Total depreciable assets	21,080,800	-	(15,156)	187,879	21,253,523
Accumulated depreciation	(11,047,968)	(497,462)	15,156	-	(11,530,274)
Total depreciable assets, net	10,032,832	(497,462)	-	187,879	9,723,249
Total capital assets, net	\$ 10,347,952	\$ (80,705)	\$ -	\$ -	\$ 10,267,247

Major capital assets additions during the year include the rehabilitation of the District's wells and many of the District's transmission and distribution systems. A significant portion of these additions were constructed by the District and/or sub-contractors and transferred out of construction-in-process, upon completion of these various projects.

East Orange County Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2016 and 2015

Note 4 – Net Pension Liability and Defined Benefit Pension Plan

Changes in the net pension liability and the related deferred inflows/outflows of resources for the year ending June 30, 2016, were as follows:

Type of Account	Balance as of July 1, 2015	Additions	Deletions	Balance as of June 30, 2016
Deferred Outflows of Resources:				
Pension contributions made after the measurement date:				
CalPERS – Miscellaneous Plan	\$ 33,913	\$ 40,547	\$ (33,913)	\$ 40,547
Differences between expected and actual experience:				
CalPERS – Miscellaneous Plan	-	2,981	(785)	2,196
Total deferred outflows of resources	<u>\$ 33,913</u>	<u>\$ 43,528</u>	<u>\$ (34,698)</u>	<u>\$ 42,743</u>
Net Pension Liability:				
CalPERS – Miscellaneous Plan	<u>\$ 399,219</u>	<u>\$ 2,800</u>	<u>\$ (60,903)</u>	<u>\$ 341,116</u>
Deferred Inflows of Resources:				
Differences between projected and actual earnings on pension plan investments:				
CalPERS – Miscellaneous Plan	\$ 134,156	\$ 9,873	\$ (133,610)	\$ 10,419
Difference between actual and proportionate share of employer contributions:				
CalPERS – Miscellaneous Plan	19,005	37,216	(16,582)	39,639
Adjustment due to differences in proportions:				
CalPERS – Miscellaneous Plan	2,189	151,838	(40,740)	113,287
Changes in assumptions:				
CalPERS – Miscellaneous Plan	-	28,201	(7,422)	20,779
Total deferred inflows of resources	<u>\$ 155,350</u>	<u>\$ 227,128</u>	<u>\$ (198,354)</u>	<u>\$ 184,124</u>

East Orange County Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2016 and 2015

Note 4 – Net Pension Liability and Defined Benefit Pension Plan (Continued)

Changes in the net pension liability and the related deferred inflows/outflows of resources for the year ending June 30, 2015, were as follows:

<u>Type of Account</u>	<u>Balance as of July 1, 2014 (As Restated)</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance as of June 30, 2015</u>
Deferred Outflows of Resources:				
Pension contributions made after the measurement date:				
CalPERS – Miscellaneous Plan	\$ 52,815	\$ 33,913	\$ (52,815)	\$ 33,913
Total deferred outflows of resources	<u>\$ 52,815</u>	<u>\$ 33,913</u>	<u>\$ (52,815)</u>	<u>\$ 33,913</u>
Net Pension Liability:				
CalPERS – Miscellaneous Plan	<u>\$ 545,477</u>	<u>\$ -</u>	<u>\$ (146,258)</u>	<u>\$ 399,219</u>
Deferred Inflows of Resources:				
Differences between projected and actual earnings on pension plan investments:				
CalPERS – Miscellaneous Plan	\$ -	\$ 167,695	\$ (33,539)	\$ 134,156
Difference between actual and proportionate share of employer contributions:				
CalPERS – Miscellaneous Plan	25,793	-	(6,788)	19,005
Adjustment due to differences in proportions:				
CalPERS – Miscellaneous Plan	<u>-</u>	<u>2,971</u>	<u>(782)</u>	<u>2,189</u>
Total deferred inflows of resources	<u>\$ 25,793</u>	<u>\$ 170,666</u>	<u>\$ (41,109)</u>	<u>\$ 155,350</u>

General Information about the Pension Plans

The Plans Description Schedule

The District has engaged with CalPERS to administer the following pension plans for its employees (members):

	<u>Miscellaneous Plans</u>	
	<u>Classic Tier 1</u>	<u>PEPRA Tier 2</u>
Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.0% @ 60	2.0 @ 62
Benefit vesting schedule	5-years or service monthly for life	5-years or service monthly for life
Retirement age	50 - 67 & up	52 - 67 & up
Monthly benefits, as a % of eligible compensation	2.00%	1.0% to 2.5%
Required member contribution rates	7.000%	6.500%
Required employer contribution rates – FY 2015	8.005%	6.500%
Required employer contribution rates – FY 2014	8.049%	6.500%

East Orange County Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2016 and 2015

Note 4 – Net Pension Liability and Defined Benefit Pension Plan (Continued)

General Information about the Pension Plans (Continued)

Plan Description

The District contributes to the California Public Employees’ Retirement System (CalPERS), a cost-sharing multiple-employer defined benefit pension plan. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. A full description of the pension plan, benefit provisions, assumptions (for funding, but not accounting purposes), and membership information are listed in the June 30, 2015 and 2014 Annual Actuarial Valuation Reports. This report and CalPERS’ audited financial statements are publicly available reports that can be obtained at CalPERS’ website under Forms and Publications.

Members Covered by Benefit Terms

At June 30, 2015 (Valuation Date), the following members were covered by the benefit terms:

<u>Plan Members</u>	<u>Miscellaneous Plans</u>		<u>Total</u>
	<u>Classic</u>	<u>PEPRA</u>	
	<u>Tier 1</u>	<u>Tier 2</u>	
Active members	6	1	7
Transferred and terminated members	8	-	8
Retired members and beneficiaries	5	1	6
Total plan members	19	2	21

At June 30, 2014 (Valuation Date), the following members were covered by the benefit terms:

<u>Plan Members</u>	<u>Miscellaneous Plans</u>		<u>Total</u>
	<u>Classic</u>	<u>PEPRA</u>	
	<u>Tier 1</u>	<u>Tier 2</u>	
Active members	6	1	7
Transferred and terminated members	8	-	8
Retired members and beneficiaries	4	-	4
Total plan members	18	1	19

Benefits Provided

CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. A Classic CalPERS Miscellaneous member becomes eligible for service retirement upon attainment of age 55 with at least 5 years of credited service. Public Employees’ Pension Reform Act (PEPRA) Miscellaneous members become eligible for service retirement upon attainment of age 62 with at least 5 years of service. The service retirement benefit is a monthly allowance equal to the product of the benefit factor, years of service, and final compensation. The final compensation is the monthly average of the member’s highest 36 full-time equivalent monthly pay. Retirement benefits for Classic Miscellaneous and Safety members are calculated as a percentage of their plan based the average final 36 months compensation. Retirement benefits for PEPRA Miscellaneous members are calculated as a percentage of their plan based the average final 36 months compensation.

East Orange County Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2016 and 2015

Note 4 – Net Pension Liability and Defined Benefit Pension Plan (Continued)

General Information about the Pension Plans (Continued)

Benefits Provided (Continued)

Participant members are eligible for non-industrial disability retirement if they become disabled and have at least 5 years of credited service. There is no special age requirement. The standard non-industrial disability retirement benefit is a monthly allowance equal to 1.8% of final compensation, multiplied by service. Industrial disability benefits are not offered to miscellaneous employees.

A member's beneficiary may receive the basic death benefit if the member dies while actively employed. The member must be actively employed with the District to be eligible for this benefit. A member's survivor who is eligible for any other pre-retirement death benefit may choose to receive that death benefit instead of this basic death benefit. The basic death benefit is a lump sum in the amount of the members' accumulated contributions, where interest is currently credited at 7.5 percent per year, plus a lump sum in the amount of one month's salary for each completed year of current service, up to a maximum of six months' salary. For purposes of this benefit, one month's salary is defined as the member's average monthly full-time rate of compensation during the 12 months preceding death.

Upon the death of a retiree, a one-time lump sum payment of \$500 will be made to the retiree's designated survivor(s), or to the retiree's estate.

Benefit terms provide for annual cost-of-living adjustments to each member's retirement allowance. Beginning the second calendar year after the year of retirement, retirement and survivor allowances will be annually adjusted on a compound basis by 3%.

Contributions

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers will be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The public agency cost-sharing plans covered by the Miscellaneous risk pool, the Plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of members. For the measurement period ending June 30, 2015 and 2014 (Measurement Dates), the active member contribution rate for the Classic Miscellaneous Plan and the PEPRM Miscellaneous Plan are based above in the Plans Description schedule.

East Orange County Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2016 and 2015

Note 4 – Net Pension Liability and Defined Benefit Pension Plan (Continued)

Net Pension Liability, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plans

Actuarial Methods and Assumptions Used to Determine the Total Pension Liability

For the measurement periods ending June 30, 2015 and 2014 (Measurement Dates), the total pension liability was determined by rolling forward the June 30, 2014 and 2013 total pension liabilities. The June 30, 2015, 2014 and 2013 total pension liabilities were based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal in accordance with the requirement of GASB Statement No. 68
Actuarial Assumptions:	
Discount Rate	7.50%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.50% Net of Pension Plan Investment and Administrative Expenses; includes Inflation
Mortality Rate Table	Derived using CalPERS' Membership Data for all Funds. The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

All other actuarial assumptions used in the June 30, 2015 and 2014 Valuations were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent. The long-term expected rate of return on the pension plan investments was determined in which best-estimate ranges of expected future real rates are developed for each major asset class. In determining the long-term expected rate of return, both short-term and long-term market return expectations as well as the expected pension fund cash flows were considered. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major *asset class*.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

East Orange County Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2016 and 2015

Note 4 – Net Pension Liability and Defined Benefit Pension Plan (Continued)

Net Pension Liability, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plans (Continued)

Discount Rate (Continued)

<u>Investment Type</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1 - 10¹</u>	<u>Real Return Years 11+²</u>
Global Equity	47.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	12.00%	6.83%	6.95%
Real Estate	11.00%	4.50%	5.13%
Infrastructure and Forestland	3.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%
	<u>100.00%</u>		

¹ An expected inflation rate-of-return of 2.5% is used for years 1 – 10.

² An expected inflation rate-of-return of 3.0% is used for years 11+.

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 of the Plan as of the measurement date, calculated using the discount rate of 7.65%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.65%) or 1 percentage-point higher (8.65%) than the current rate for the June 30, 2015 Valuation Date as follows:

<u>Plan Type</u>	<u>Plan's Net Pension Liability/(Asset)</u>		
	<u>Discount Rate - 1% 6.65%</u>	<u>Current Discount Rate 7.650%</u>	<u>Discount Rate + 1% 8.65%</u>
CalPERS – Miscellaneous Plan	\$ 667,613	\$ 341,116	\$ 71,556

The following presents the District's proportionate share of the net pension liability of the Plan as of the measurement date, calculated using the discount rate of 7.50%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.50%) or 1 percentage-point higher (8.50%) than the current rate for the June 30, 2014 Valuation Date as follows:

<u>Plan Type</u>	<u>Plan's Net Pension Liability/(Asset)</u>		
	<u>Discount Rate - 1% 6.50%</u>	<u>Current Discount Rate 7.50%</u>	<u>Discount Rate + 1% 8.50%</u>
CalPERS – Miscellaneous Plan	\$ 711,286	\$ 399,219	\$ 140,234

Pension Plan Fiduciary Net Position

Detail information about the plan's fiduciary net position is available in the separately issued CalPERS financial report and can be obtained from CalPERS' website under Forms and Publications.

East Orange County Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2016 and 2015

Note 4 – Net Pension Liability and Defined Benefit Pension Plan (Continued)

Net Pension Liability, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plans (Continued)

Proportionate Share of Net Pension Liability and Pension Expense

The following table shows the plan’s proportionate share of the risk pool collective net pension liability over the measurement period for the Miscellaneous Plan for the fiscal year ended June 30, 2016:

<u>Plan Type and Balance Descriptions</u>	<u>Plan Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Change in Plan Net Pension Liability</u>
CalPERS – Miscellaneous Plan:			
Balance as of June 30, 2014 (Measurement Date)	\$ 2,352,326	\$ 1,953,107	\$ 399,219
Balance as of June 30, 2015 (Measurement Date)	\$ 2,397,415	\$ 2,056,299	\$ 341,116
Change in Plan Net Pension Liability	<u>\$ 45,089</u>	<u>\$ 103,192</u>	<u>\$ (58,103)</u>

The following table shows the plan’s proportionate share of the risk pool collective net pension liability over the measurement period for the Miscellaneous Plan for the fiscal year ended June 30, 2015:

<u>Plan Type and Balance Descriptions</u>	<u>Plan Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Change in Plan Net Pension Liability</u>
CalPERS – Miscellaneous Plan:			
Balance as of June 30, 2013 (Valuation Date)	\$ 2,220,203	\$ 1,674,726	\$ 545,477
Balance as of June 30, 2014 (Measurement Date)	\$ 2,352,326	\$ 1,953,107	\$ 399,219
Change in Plan Net Pension Liability	<u>\$ 132,123</u>	<u>\$ 278,381</u>	<u>\$ (146,258)</u>

East Orange County Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2016 and 2015

Note 4 – Net Pension Liability and Defined Benefit Pension Plan (Continued)

Net Pension Liability, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plans (Continued)

Proportionate Share of Net Pension Liability and Pension Expense (Continued)

The following is the approach established by the plan actuary to allocate the net pension liability and pension expense to the individual employers within the risk pool.

- (1) In determining a cost-sharing plan's proportionate share, total amounts of liabilities and assets are first calculated for the risk pool as a whole on the valuation date (June 30, 2014 and 2013). The risk pool's fiduciary net position ("FNP") subtracted from its total pension liability (TPL) determines the net pension liability (NPL) at the valuation date.
- (2) Using standard actuarial roll forward methods, the risk pool TPL is then computed at the measurement date (June 30, 2015 and 2014). Risk pool FNP at the measurement date is then subtracted from this number to compute the NPL for the risk pool at the measurement date. For purposes of FNP in this step and any later reference thereto, the risk pool's FNP at the measurement date denotes the aggregate risk pool's FNP at June 30, 2015 less the sum of all additional side fund (or unfunded liability) contributions made by all employers during the measurement period (2014-15 fiscal year and the 2013-14 fiscal year).
- (3) The individual plan's TPL, FNP and NPL are also calculated at the valuation date.
- (4) Two ratios are created by dividing the plan's individual TPL and FNP as of the valuation date from (3) by the amounts in step (1), the risk pool's total TPL and FNP, respectively.
- (5) The plan's TPL as of the Measurement Date is equal to the risk pool TPL generated in (2) multiplied by the TPL ratio generated in (4). The plan's FNP as of the Measurement Date is equal to the FNP generated in (2) multiplied by the FNP ratio generated in (4) plus any additional side fund (or unfunded liability) contributions made by the employer on behalf of the plan during the measurement period.
- (6) The plan's NPL at the Measurement Date is the difference between the TPL and FNP calculated in (5).

East Orange County Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2016 and 2015

Note 4 – Net Pension Liability and Defined Benefit Pension Plan (Continued)

Net Pension Liability, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plans (Continued)

Proportionate Share of Net Pension Liability and Pension Expense (Continued)

The District’s proportionate share of the net pension liability for the June 30, 2015 measurement date was as follows:

	<u>Percentage Share of Risk Pool</u>		Change Increase/ (Decrease)
	Fiscal Year Ending	Fiscal Year Ending	
	June 30, 2016	June 30, 2015	
Measurement Date	June 30, 2015	June 30, 2014	
Percentage of Risk Pool Net Pension Liability	0.012433%	0.016153%	-0.003720%
Percentage of Plan (PERF C) Net Pension Liability	0.004970%	0.006416%	-0.001446%

The District’s proportionate share of the net pension liability for the June 30, 2014 measurement date was as follows:

	<u>Percentage Share of Risk Pool</u>		Change Increase/ (Decrease)
	Fiscal Year Ending	Fiscal Year Ending	
	June 30, 2015	June 30, 2014	
Measurement Date	June 30, 2014	June 30, 2013	
Percentage of Risk Pool Net Pension Liability	0.016153%	0.016647%	-0.000494%
Percentage of Plan (PERF C) Net Pension Liability	0.006416%	0.006868%	-0.000452%

For the years ended June 30, 2016 and 2015, the District recognized pension expense/(credit) in the amounts of \$38,159 and \$36,115, respectively, for the CalPERS Miscellaneous Plan.

The amortization period differs depending on the source of the gain or loss. The difference between projected and actual earnings is amortized over 5-years straight line. All other amounts are amortized straight-line over the average expected remaining service lives of all members that are provided with benefits (active, inactive and retired) as of the beginning of the measurement period.

East Orange County Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2016 and 2015

Note 4 – Net Pension Liability and Defined Benefit Pension Plan (Continued)

Net Pension Liability, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plans (Continued)

Proportionate Share of Net Pension Liability and Pension Expense (Continued)

The expected average remaining service lifetime (EARSL) is calculated by dividing the total future service years by the total number of plan participants (active, inactive, and retired) in the risk pool. The EARSL for risk pool for the 2014-15 and 2013-14 measurement periods is 3.8 years, which was obtained by dividing the total service years of 460,700 (the sum of remaining service lifetimes of the active employees) by 122,789 (the total number of participants: active, inactive, and retired).

Deferred Outflows of Resources and Deferred Inflows of Resources

At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Account Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions made after the measurement date	\$ 40,547	\$ -
Differences between expected and actual experience	2,196	-
Differences between projected and actual earnings on pension plan investments	-	10,419
Difference between actual and proportionate share of employer contributions	-	39,639
Adjustment due to differences in proportions	-	113,287
Changes in assumptions	-	20,779
Total Deferred Outflows/(Inflows) of Resources	<u>\$ 42,743</u>	<u>\$ 184,124</u>

The District will recognize \$40,547 reported as deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date as a reduction of the net pension liability in the fiscal year ended June 30, 2017, as noted above.

Amortization of Deferred Outflows of Resources and Deferred Inflows of Resources

Other remaining amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be amortized to pension expense in future periods as follows:

<u>Amortization Period Fiscal Year Ended June 30</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2017	\$ 785	\$ 72,655
2018	785	71,229
2019	626	53,647
2020	-	(13,317)
Total	<u>\$ 2,196</u>	<u>\$ 184,214</u>

East Orange County Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2016 and 2015

Note 4 – Net Pension Liability and Defined Benefit Pension Plan (Continued)

Net Pension Liability, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plans (Continued)

Deferred Outflows of Resources and Deferred Inflows of Resources

At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Account Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions made after the measurement date	\$ 33,913	\$ -
Differences between projected and actual earnings on pension plan investments	-	134,156
Difference between actual and proportionate share of employer contributions	-	19,005
Adjustment due to differences in proportions	-	2,189
Total Deferred Outflows/(Inflows) of Resources	<u>\$ 33,913</u>	<u>\$ 155,350</u>

The District will recognize \$33,913 reported as deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date as a reduction of the net pension liability in the fiscal year ended June 30, 2017, as noted above.

Amortization of Deferred Outflows of Resources and Deferred Inflows of Resources

Other remaining amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be amortized to pension expense in future periods as follows:

<u>Amortization Period Fiscal Year Ended June 30</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2016	\$ -	\$ 41,109
2017	-	41,109
2018	-	39,593
2019	-	33,539
Total	<u>\$ -</u>	<u>\$ 155,350</u>

East Orange County Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2016 and 2015

Note 5 – Prior Period Adjustments

As a result of the implementation of GASB Statements No. 68 and 71, net position as of July 1, 2014 was restated as follows:

Description	Balance
Beginning net position as of July 1, 2014 – as previously reported	\$ 18,620,924
Net pension liability – GASB Nos. 68/71 implementation	(545,477)
Deferred outflows of resources:	
Pension contributions made after the measurement date	52,815
Deferred inflows of resources:	
Differences between actual and proportionate share of employer contributions	(25,793)
Total prior period adjustments	(518,455)
Beginning net position as of July 1, 2014 – as restated	\$ 18,102,469

Note 6 – Deferred Compensation Savings Plan

For the benefit of its employees, the District participates in the California Public Employees Retirement System (CalPERS) Section 457 Deferred Compensation Program (Program). The purpose of this Program is to provide deferred compensation for California public employees that elect to participate in the Program. This Program is established pursuant to sections 21670 through 21685 of the Government Code of the State of California and is intended to constitute an "eligible deferred compensation plan" within the meaning of Section 457 of the Federal Internal Revenue Code. Generally, eligible employees may defer receipt of a portion of their salary until termination, retirement, death or unforeseeable emergency. Until the funds are paid or otherwise made available to the employee, the employee is not obligated to report the deferred salary for income tax purposes.

The Program was created under the administrative and investment control of the CalPERS Board, which requires the Board to act in the interest of Program participants. Also, Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of participants. Accordingly, the District is in compliance with legislation, which requires Section 457 plan assets to be held in trust for employees. This means that employee assets held in Section 457 plans are no longer viewed as the legal property of the District and are no longer subject to claims of the District's general creditors and are not presented in the accompanying financial statements.

East Orange County Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2016 and 2015

Note 7 – Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, injuries to employees and natural disasters. The District is a member of the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California water agencies. The purpose of the ACWA/JPIA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. At June 30, 2016 and 2015, the District participated in the liability and property programs of the ACWA/JPIA as follows:

- General and auto liability, public officials and employees' errors and omissions: Total risk financing self-insurance limits of \$500,000, combined single limit at \$500,000 per occurrence. The District purchased additional excess coverage layers: \$50 million for general, auto and public officials liability, which increases the limits on the insurance coverage noted above.
- Fidelity coverage up to \$250,000 per loss includes public employee dishonesty, forgery or alteration, computer fraud and ERISA coverage's, subject to a \$100,000 pooled self –insurance limit with a deductible of \$1,000 per claim.
- Property loss is paid at the replacement cost for property on file, if replaced within two years after the loss, otherwise paid on an actual cash value basis, to a combined total of \$50 million per occurrence, subject to a \$50,000 pooled self –insurance limit. Boiler and machinery coverage for the replacement cost up to \$50 million per occurrence, subject to various deductibles depending on the type of equipment.
- Workers' compensation insurance up to California statutory limits for all work related injuries/illnesses covered by California law.

There have been no losses or claims in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the years ending June 30, 2016 and 2015. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of June 30, 2016, 2015 and 2014.

Note 8 – Commitments and Contingencies

Joint Facilities Agreement

The District is a party to a joint facilities agreement, dated February 13, 1964, with the Irvine Ranch Water District (IRWD) for the original purpose of constructing, operating and maintaining a water treatment plant, reservoir and pipelines. The construction was completed in 1964 and the District has capitalized the reservoir and pipelines as part of its utility plant assets. IRWD entered into this agreement with the District to gain capacity rights in the water treatment plant, reservoir and pipelines. The District and IRWD continue to proportionally share in the costs of maintenance and operations of the reservoir and pipelines; however, the treatment plant has been abandoned.

Construction Contracts

The District has a variety of agreements with private parties relating to the installation, improvement or modification of water facilities and distribution systems within its service area. The financing of such construction contracts is being provided primarily from the District's replacement reserves and advances for construction.

East Orange County Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2016 and 2015

Note 8 – Commitments and Contingencies (Continued)

Litigation

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. After consultation with legal counsel, the District believes that there are no legal matters that will materially affect its financial condition.

Note 9 – Subsequent Event

Sewer Transfer

The Orange County Sanitation District (OCSD) has owned and operated a handful of community sewer systems in north and central Orange County since inheriting them from the County of Orange in 1985. In 2006, OCSD adopted a Strategic Plan that included divesting itself of local system ownership so it can focus exclusively on its core mission of providing effective wastewater collection, treatment, and recycling at the regional level.

In 2013, OCSD proposed a transfer of ownership and operation of the local sewer system (Sewer Area 7) to the District. On May 11, 2016, after an extensive review and approval process, the Orange County Local Agency Formation Commission approved the transfer of sewers to the District effective August 1, 2016.

The sewer system was transferred to the District as “Improvement District 1 (ID1).” It is comprised of 175 miles of primarily vitrified clay pipe sewers and approximately 3,700 manholes, both of which were largely installed in the 1960s. Annual sewer system revenues of approximately \$2.9 million per year are collected via the County tax rolls; annual system expenses are estimated at \$800,000 – the balance will be used to further build ID1’s reserve funds which currently total approximately \$35 million.

The District will be conducting both a Master Plan study and a financial plan and rate study over the next year to assess the condition and financial viability of ID1 and ensure that it is maintained in excellent condition and is sustainably financed.

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REQUIRED SUPPLEMENTARY INFORMATION

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East Orange County Water District
Required Supplementary Information (Unaudited)
Schedule of the District's Proportionate Share of the Plan's Net Pension Liability
For the Year Ended June 30, 2016

Last Ten Fiscal Years

California Public Employees' Retirement System (CalPERS) Miscellaneous Plan

Measurement Date:	<u>June 30, 2015¹</u>	<u>June 30, 2014¹</u>
District's Proportion of the Net Pension Liability	0.004970%	0.006416%
District's Proportionate Share of the Net Pension Liability	<u>\$ 341,116</u>	<u>\$ 399,219</u>
District's Covered-Employee Payroll	<u>\$ 437,129</u>	<u>\$ 424,397</u>
District's Proportionate Share of the Net Pension Liability as a Percentage of Covered-Employee Payroll	<u>78.04%</u>	<u>94.07%</u>
Plan's Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	<u>85.77%</u>	<u>83.03%</u>

¹ Historical information is required only for measurement periods for which GASB No. 68 is applicable.

East Orange County Water District
Required Supplementary Information (Unaudited)
Schedule of the District's Contributions to the Pension Plan
For the Year Ended June 30, 2016

Last Ten Fiscal Years

California Public Employees' Retirement System (CalPERS) Miscellaneous Plan

Fiscal Year:	2015-16¹	2014-15¹	2013-14¹
Actuarially Determined Contribution ²	\$ 40,547	\$ 33,913	\$ 27,002
Contribution in Relation to the Actuarially Determined Contribution ²	(40,547)	(33,913)	(27,002)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
District's Covered-Employee Payroll	\$ 450,243	\$ 437,129	\$ 424,397
Contributions as a Percentage of Covered-Employee Payroll	9.01%	7.76%	6.36%

¹ Historical information is required only for measurement periods for which GASB No. 68 is applicable.

² Employers are assumed to make contributions equal to the actuarially determined contributions (which is the actuarially determined contribution). However, some employers may choose to make additional contributions towards their side-fund or their unfunded liability. Employer contributions for such plan exceed the actuarial determined contributions. CalPERS has determined that employer obligations referred to as *side-funds* are not considered separately financed specific liabilities.

³ Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB No. 68 defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different than total earnings for covered-employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll-related ratios.

Notes to the Schedule:

Change in Benefit Terms: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2013 as they have minimal cost impact. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes)

SUPPLEMENTARY INFORMATION

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East Orange County Water District
Combining Schedule of Balance Sheets
June 30, 2016

<u>ASSETS</u>	<u>Wholesale</u>	<u>Retail</u>	<u>Total</u>
Current assets:			
Cash and investments	\$ 5,952,282	\$ 2,959,554	\$ 8,911,836
Accrued interest receivable	5,835	2,991	8,826
Accounts receivable – water sales and services:			-
Wholesale	1,096,204	-	1,096,204
Retail	-	270,108	270,108
Property taxes receivable	5,575	3,161	8,736
Prepaid items	43,266	13,305	56,571
Water-in-storage inventory	32,278	4,366	36,644
Materials and supplies inventory	28,681	18,002	46,683
Total current assets	<u>7,164,121</u>	<u>3,271,487</u>	<u>10,435,608</u>
Non-current assets:			
Capital assets, net	5,777,550	4,692,070	10,469,620
Total non-current assets	<u>5,777,550</u>	<u>4,692,070</u>	<u>10,469,620</u>
Total assets	<u>12,941,671</u>	<u>7,963,557</u>	<u>20,905,228</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Pension contributions made after measurement date	19,057	21,490	40,547
Differences between expected and actual experience	1,032	1,164	2,196
Total deferred outflows of resources	<u>20,089</u>	<u>22,654</u>	<u>42,743</u>
Total assets and deferred outflows of resources	<u>\$ 12,961,760</u>	<u>\$ 7,986,211</u>	<u>\$ 20,947,971</u>
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable and accrued expenses	\$ 517,567	\$ 171,588	\$ 689,155
Accrued salaries and compensated absences	51,129	58,738	109,867
Deposits and unearned revenue	22,491	94,909	117,400
Total current liabilities	<u>591,187</u>	<u>325,235</u>	<u>916,422</u>
Non-current liabilities:			
Net pension liabilities	155,358	185,758	341,116
Total non-current liabilities	<u>155,358</u>	<u>185,758</u>	<u>341,116</u>
Total liabilities	<u>746,545</u>	<u>510,993</u>	<u>1,257,538</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Differences between projected and actual earnings on pension plan investments	3,073	7,346	10,419
Differences between actual and and proportionate share of employer contributions	18,372	21,267	39,639
Adjustment due to differences in proportions	53,215	60,072	113,287
Changes in assumptions	9,766	11,013	20,779
Total deferred inflows of resources	<u>84,426</u>	<u>99,698</u>	<u>184,124</u>
<u>NET POSITION</u>			
Net investment in capital assets	5,777,550	4,692,070	10,469,620
Unrestricted	6,353,239	2,683,450	9,036,689
Total net position	<u>12,130,789</u>	<u>7,375,520</u>	<u>19,506,309</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 12,961,760</u>	<u>\$ 7,986,211</u>	<u>\$ 20,947,971</u>

East Orange County Water District
Combining Schedule of Balance Sheets
June 30, 2015

<u>ASSETS</u>	<u>Wholesale</u>	<u>Retail</u>	<u>Total</u>
Current assets:			
Cash and investments	\$ 6,302,289	\$ 2,614,063	\$ 8,916,352
Accrued interest receivable	3,252	1,318	4,570
Accounts receivable – water sales and services:			-
Wholesale	736,204	-	736,204
Retail	-	293,497	293,497
Property taxes receivable	6,484	3,692	10,176
Prepaid items	42,327	10,771	53,098
Water-in-storage inventory	35,883	4,881	40,764
Materials and supplies inventory	17,898	17,898	35,796
Total current assets	<u>7,144,337</u>	<u>2,946,120</u>	<u>10,090,457</u>
Noncurrent assets:			
Capital assets, net	5,544,278	4,722,969	10,267,247
Total noncurrent assets	<u>5,544,278</u>	<u>4,722,969</u>	<u>10,267,247</u>
Total assets	<u>12,688,615</u>	<u>7,669,089</u>	<u>20,357,704</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Pension contributions made after measurement date	15,478	18,435	33,913
Differences between expected and actual experience	-	-	-
Total deferred outflows of resources	<u>15,478</u>	<u>18,435</u>	<u>33,913</u>
Total assets and deferred outflows of resources	<u>\$ 12,704,093</u>	<u>\$ 7,687,524</u>	<u>\$ 20,391,617</u>
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable and accrued expenses	\$ 738,713	\$ 286,972	\$ 1,025,685
Accrued salaries and compensated absences	32,289	40,046	72,335
Deposits and unearned revenue	26,876	71,020	97,896
Total current liabilities	<u>797,878</u>	<u>398,038</u>	<u>1,195,916</u>
Noncurrent liabilities:			
Net pension liabilities	182,205	217,014	399,219
Total noncurrent liabilities	<u>182,205</u>	<u>217,014</u>	<u>399,219</u>
Total liabilities	<u>980,083</u>	<u>615,052</u>	<u>1,595,135</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Differences between projected and actual earnings on pension plan investments	61,229	72,927	134,156
Differences between actual and proportionate share of employer contributions	8,674	10,331	19,005
Adjustment due to differences in proportions	999	1,190	2,189
Changes in assumptions	-	-	-
Total deferred inflows of resources	<u>70,902</u>	<u>84,448</u>	<u>155,350</u>
<u>NET POSITION</u>			
Net investment in capital assets	5,544,278	4,722,969	10,267,247
Unrestricted	6,108,830	2,265,055	8,373,885
Total net position	<u>11,653,108</u>	<u>6,988,024</u>	<u>18,641,132</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 12,704,093</u>	<u>\$ 7,687,524</u>	<u>\$ 20,391,617</u>

East Orange County Water District
Combining Schedule of Revenues, Expenditures, and Change in Net Position
For the Year Ended June 30, 2016

	<u>Wholesale</u>	<u>Retail</u>	<u>Internal Balances</u>	<u>Total</u>
Operating revenues:				
Water sales:				
Wholesale	\$ 2,544,130	\$ -	\$ (161,337)	\$ 2,382,793
Retail	-	978,948	-	978,948
Meter and standby service charges	244,760	374,973	(59,677)	560,056
Capacity and connection fees	892,883	-	(28,902)	863,981
Other connection fees	15,000	6,449	-	21,449
Other service charges	318,820	14,095	-	332,915
Total operating revenues	<u>4,015,593</u>	<u>1,374,465</u>	<u>(249,916)</u>	<u>5,140,142</u>
Operating expenses:				
Source of supply – water purchases	2,546,983	161,337	(161,337)	2,546,983
Source of supply – standby service charges	248,829	59,677	(59,677)	248,829
Source of supply – capacity and connection fees	401,674	28,902	(28,902)	401,674
Source of supply – replenishment assessment	-	154,680	-	154,680
Source of supply – MWDOC choice	-	1,689	-	1,689
Total source of supply	<u>3,197,486</u>	<u>406,285</u>	<u>(249,916)</u>	<u>3,353,855</u>
Pipeline capacity lease	-	-	-	-
Pumping	2,038	75,187	-	77,225
Treatment, transmission and distribution	448,284	460,839	-	909,123
General and administrative	502,003	254,657	-	756,660
Total operating expenses	<u>4,149,811</u>	<u>1,196,968</u>	<u>(249,916)</u>	<u>5,096,863</u>
Operating income(loss) before depreciation	(134,218)	177,497	-	43,279
Depreciation	(317,713)	(198,453)	-	(516,166)
Operating (loss)	<u>(451,931)</u>	<u>(20,956)</u>	<u>-</u>	<u>(472,887)</u>
Non-operating revenues(expenses):				
Property taxes	765,401	394,918	-	1,160,319
Rental income – cellular antennas	99,750	-	-	99,750
Investment earnings	39,462	9,772	-	49,234
Change in fair-value of cash and investments	20,200	665	-	20,865
Other, net	4,799	3,097	-	7,896
Total non-operating revenues, net	<u>929,612</u>	<u>408,452</u>	<u>-</u>	<u>1,338,064</u>
Change in net position	<u>477,681</u>	<u>387,496</u>	<u>-</u>	<u>865,177</u>
Net position:				
Beginning of year	11,653,108	6,988,024	-	18,641,132
Prior period adjustments	-	-	-	-
End of year	<u>\$ 12,130,789</u>	<u>\$ 7,375,520</u>	<u>\$ -</u>	<u>\$ 19,506,309</u>

East Orange County Water District
Combining Schedule of Revenues, Expenditures, and Change in Net Position
For the Year Ended June 30, 2015

	<u>Wholesale</u>	<u>Retail</u>	<u>Internal Balances</u>	<u>Total</u>
Operating revenues:				
Water sales:				
Wholesale	\$ 4,215,477	\$ -	\$ (7,201)	\$ 4,208,276
Retail	-	1,253,430	-	1,253,430
Meter and standby service charges	218,855	358,403	(47,034)	530,224
Capacity and connection fees	665,652	-	(25,833)	639,819
Other connection fees	7,578	9,635	-	17,213
Other service charges	12,791	15,701	-	28,492
Total operating revenues	<u>5,120,353</u>	<u>1,637,169</u>	<u>(80,068)</u>	<u>6,677,454</u>
Operating expenses:				
Source of supply – water purchases	4,214,970	7,201	(7,201)	4,214,970
Source of supply – standby service charges	222,994	47,034	(47,034)	222,994
Source of supply – capacity and connection fees	368,714	25,833	(25,833)	368,714
Source of supply – replenishment assessment	-	398,404	-	398,404
Source of supply – MWDOC choice	-	-	-	-
Total source of supply	<u>4,806,678</u>	<u>478,472</u>	<u>(80,068)</u>	<u>5,205,082</u>
Pipeline capacity lease	53,000	-	-	53,000
Pumping	1,745	118,424	-	120,169
Treatment, transmission and distribution	420,397	500,853	-	921,250
General and administrative	365,457	234,394	-	599,851
Total operating expenses	<u>5,647,277</u>	<u>1,332,143</u>	<u>(80,068)</u>	<u>6,899,352</u>
Operating income(loss) before depreciation	(526,924)	305,026	-	(221,898)
Depreciation	(310,656)	(186,806)	-	(497,462)
Operating income(loss)	<u>(837,580)</u>	<u>118,220</u>	<u>-</u>	<u>(719,360)</u>
Non-operating revenues(expenses):				
Property taxes	711,540	374,101	-	1,085,641
Rental income – cellular antennas	133,679	-	-	133,679
Investment earnings	30,636	3,915	-	34,551
Change in fair-value of cash and investments	(1,778)	291	-	(1,487)
Other, net	818	4,821	-	5,639
Total non-operating revenues, net	<u>874,895</u>	<u>383,128</u>	<u>-</u>	<u>1,258,023</u>
Change in net position	<u>37,315</u>	<u>501,348</u>	<u>-</u>	<u>538,663</u>
Net position:				
Beginning of year	11,852,418	6,768,506	-	18,620,924
Prior period adjustments	(236,625)	(281,830)	-	(518,455)
End of year	<u>\$ 11,615,793</u>	<u>\$ 6,486,676</u>	<u>\$ -</u>	<u>\$ 18,102,469</u>