



East Orange County Water District

Annual Financial Report

For the Fiscal Years Ended June 30, 2014 and 2013



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.”

East Orange County Water District

Board of Directors as of June 30, 2014

<u>Name</u>	<u>Title</u>	<u>Elected / Appointed</u>	<u>Current Term</u>
William VanderWerff	President	Elected	12/12 - 12/16
Douglass S. Davert	Vice-President	Elected	12/12 - 12/16
Richard B. Bell	Director	Elected	12/10 - 12/14
John Dulebohn	Director	Elected	12/10 - 12/14
Seymour "Sy" Everett	Director	Elected	12/10 - 12/14

**Lisa Ohlund, General Manager
East Orange County Water District
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Orange, California 92869
(714) 538-5815**

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East Orange County Water District
Annual Financial Report
For the Fiscal Years Ended June 30, 2014 and 2013

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Introductory Section



October 31, 2014

Board of Directors
East Orange County Water District
Orange, California

Introduction

It is our pleasure to submit the Annual Financial Report for the East Orange County Water District (District) for the fiscal years ended June 30, 2014 and 2013. District staff, 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 the 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 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 (generally the Vista Panorama unincorporated area of East Orange); it was renamed the "Retail Zone" to distinguish it from the District's historic "Wholesale Zone." In the Wholesale Zone, the District delivers water to five sub-agencies within its boundaries consisting of the Golden State Water Company, City of Tustin, Irvine Ranch Water District, City of Orange and East Orange County Water District's own Retail Zone. All of the sub-agencies use groundwater with supplemental water supplied by the District from the Allen McCulloch Pipeline or the East Orange County Feeder No.2.

The District encompasses an area of approximately 100,000 acres and is a member of the Municipal Water District of Orange County, which is a member of the Metropolitan Water District of Southern California (Metropolitan) and therefore is entitled to receive Colorado River and Northern California imported water through the distribution facilities of the Metropolitan 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 2014, California experienced a deepening of a statewide drought, and for the first time since the completion of construction, Southern California's allocation from the State Water Project was limited to 5% of a full allocation.

In recent years, the District has been an active participant and leader in addressing these concerns. 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 water supply challenges. Commencing in 2014, the Board approved the expenditure of in excess of \$300,000 to study the feasibility of constructing a replacement potable water treatment plant to aid in both reliability and control of future water treatment costs. The results of this study are due by May, 2015.

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.

Budgetary Control

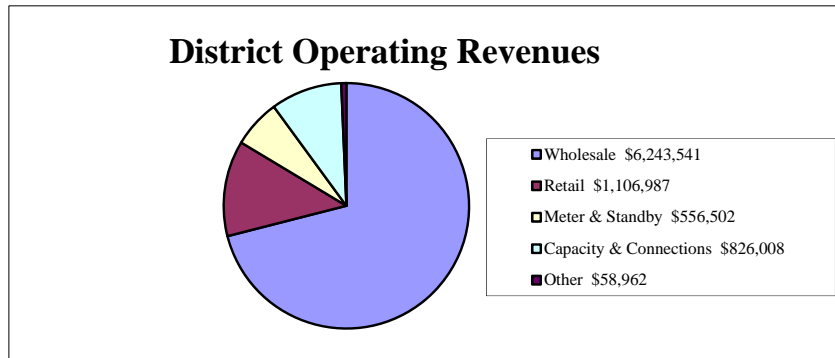
The District's Board of Directors annually adopts a balanced operating and capital budget prior to each new fiscal year. The budget authorizes and provides the basis for reporting and control of financial operations and accountability for the District's enterprise operations and capital projects. The budget is prepared on the cash basis of accounting, the District's interim financial statements are on a modified accrual basis and the final financial statements are prepared using the full accrual basis.

The District is committed to provide its customers with a safe, reliable and efficient water system. The foundation for this commitment is based in the District's Capital Improvement Plan and the June 2011 Financial and Water Rate Study. These plans are reviewed annually as part of the District's budgeting process. The District's financial plan includes the establishment 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 are user charges imposed on customers for services and are the primary component of the District's revenue. Water rates are composed of a commodity (usage) charge, and a fixed meter and standby service charge, and are reviewed on an annual basis as part of the budgeting process.

The following chart reflects the District’s operating revenue mix for the year ending June 30, 2014:



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 Deposits, Government Agency Obligations or other specifically authorized investments. For FY 2013/14 the District’s investments were held at LAIF, money market funds and in Certificates of Deposit.

Audit and Financial Reporting

State law and loan covenants require the District to obtain an annual audit of its financial statements by an independent certified public accountant. The accounting firm of Charles Z. Fedak & Company, CPAs has conducted this audit of the District’s financial statements. Their unmodified Independent Auditor’s Report appears in the Financial Section.

Risk Management

The District is a member of the Association of California Water Agencies – Joint Powers Insurance Authority (Authority). The purpose of the Authority is to arrange and administer risk management programs for the pooling of self-insured losses, and the purchase of excess insurance coverage. The District is inspected annually by representatives of ACWA-JPIA and provided with a written report that includes loss and liability prevention information.

Water Conservation Programs

The District has been implementing conservation management practices for many years. The District distributes materials that encourage water conservation. Additionally, the District has offered the following conservation programs through its affiliation with the Municipal Water District of Orange County:

- Residential “Water Smart” Home Certification Program
- Residential Appliance Rebate Program
- Residential Drought-tolerant Landscape Classes
- Residential Reimbursement Program for Smart Watering Timers
- Residential Reimbursement for Turf Replacement

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.

Other References

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

Respectfully submitted,

A handwritten signature in black ink that reads "Lisa Ohlund". The signature is written in a cursive, flowing style.

Lisa Ohlund
General Manager

Financial Section



Charles Z. Fedak, CPA, MBA
Paul J. Kaymark, CPA
Christopher J. Brown, CPA

Charles Z. Fedak & Company

Certified Public Accountants
An Accountancy Corporation

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Independent Auditor's Report

Board of Directors
East Orange County Water District
Orange, California

Report on the Financial Statements

We have audited the accompanying financial statements of the East Orange County Water District (District) as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions 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, 2014 and 2013, and the respective changes in financial position, and, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report, continued

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7 through 10 and the required supplementary information on page 27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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 Matters

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements as a whole. The introductory section on pages 1 through 4 and the supplementary information of combining schedules on pages 28 through 31 are presented for purposes of additional analysis and are not required parts of the basic financial statements. The supplementary information of combining schedules are the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 information is fairly stated in all material respects in relation to the basic financial statements taken 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated October 31, 2014, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit. That report can be found on pages 32 and 33.

Charles Z. Fedak & Company CPAs - An Accountancy Corporation

Charles Z. Fedak & Company, CPAs – An Accountancy Corporation
Cypress, California
October 31, 2014

East Orange County Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2014 and 2013

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 fiscal years ended June 30, 2014 and 2013. 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

- The District's net position increased by 4.0%, or \$722,711 to \$18,620,924, in 2014 and increased by 4.9%, or \$835,565 to \$17,898,213, in 2013 as a result of each year's operations.
- In 2014, the District's operating revenues increased 10.4%, or \$804,284 to \$8,530,306, from the prior year, due primarily to an increase in wholesale water sales and an increase in capacity and connection revenues. In 2013, the District's operating revenues increased 21.7%, or \$1,377,241 to \$7,726,022, from the prior year, due primarily to an increase in wholesale water sales.
- In 2014, the District's operating expenses increased by 9.6%, or \$743,875 to \$8,455,894, from the prior year, due primarily to an increase in wholesale water purchases. In 2013, the District's operating expenses increased by 18.0%, or \$1,174,534 to \$7,712,019, from the prior year, due primarily to an increase in wholesale water purchases.

Required Financial Statements

This annual report consists of a series of financial statements. The Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and Statement of Cash Flows provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies.

The Statement of Net Position includes all of the District's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenue and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. This statement measures the success of the District's operations over the past year and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate fiscal stability and credit worthiness. The final required financial statement is the Statement of Cash Flows, which provides information about the District's cash receipts and cash payments during the reporting period. The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities.

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 15 through 26.

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 Statement of Net Position 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.

East Orange County Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2014 and 2013

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 Statements of Net Position

	<u>2014</u>	<u>2013</u>	<u>Change</u>
Assets:			
Current assets	\$ 9,991,076	8,654,511	1,336,565
Non-current assets	-	134,195	(134,195)
Capital assets, net	<u>10,347,952</u>	<u>10,700,403</u>	<u>(352,451)</u>
Total assets	<u><u>20,339,028</u></u>	<u><u>19,489,109</u></u>	<u><u>849,919</u></u>
Liabilities:			
Current liabilities	<u>1,718,104</u>	<u>1,590,896</u>	<u>127,208</u>
Total liabilities	<u><u>1,718,104</u></u>	<u><u>1,590,896</u></u>	<u><u>127,208</u></u>
Net position:			
Net investment in capital assets	10,347,952	10,700,403	(352,451)
Unrestricted	<u>8,272,972</u>	<u>7,197,810</u>	<u>1,075,162</u>
Total net position	<u><u>18,620,924</u></u>	<u><u>17,898,213</u></u>	<u><u>722,711</u></u>
Total liabilities and net position	<u><u>\$ 20,339,028</u></u>	<u><u>19,489,109</u></u>	<u><u>849,919</u></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 of the District exceeded liabilities by \$18,620,924 as of June 30, 2014, and \$17,898,213 as of June 30, 2013.

By far the largest portion of the District's net position (56% in 2014 and 60% in 2013) 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 2014 and 2013, the District shows a positive balance in its unrestricted net position of \$8,272,972 and \$7,197,810, 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 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.

East Orange County Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2014 and 2013

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

	<u>2014</u>	<u>2013</u>	<u>Change</u>
Revenues:			
Operating revenues	\$ 8,530,306	7,726,022	804,284
Non-operating revenues	1,170,909	1,328,295	(157,386)
Total revenues	<u>9,701,215</u>	<u>9,054,317</u>	<u>646,898</u>
Expenses:			
Operating expenses	8,455,894	7,712,019	743,875
Depreciation and amortization	518,978	489,730	29,248
Non-operating expenses	3,632	17,003	(13,371)
Total expenses	<u>8,978,504</u>	<u>8,218,752</u>	<u>759,752</u>
Change in net position	722,711	835,565	(112,854)
Net position, beginning of year	<u>17,898,213</u>	<u>17,062,648</u>	<u>835,565</u>
Net position, end of year	<u>\$ 18,620,924</u>	<u>17,898,213</u>	<u>722,711</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 \$722,711 in 2014, and increased by \$835,565 in 2013.

In 2014, a closer examination of the sources of changes in net position reveals that the District's total revenues increased by \$646,898, due primarily to an increase in wholesale water sales of \$405,879 and an increase in capacity and connection revenue of \$316,439. In addition, total expenses increased by \$759,752, due primarily to an increase in water purchases of \$407,821.

In 2013, a closer examination of the sources of changes in net position reveals that the District's total revenues increased by \$1,660,141, due primarily to an increase in wholesale water sales of \$1,061,703. In addition, total expenses increased by \$1,157,618, due primarily to an increase in water purchases of \$1,111,952.

Capital Asset Administration

Changes in capital assets for 2014, were as follows:

	<u>Balance 2013</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance 2014</u>
Non-depreciable assets	\$ 161,153	153,967	-	315,120
Depreciable assets	21,068,240	12,560	-	21,080,800
Accumulated depreciation and amortization	<u>(10,528,990)</u>	<u>(518,978)</u>	-	<u>(11,047,968)</u>
Total capital assets, net	<u>\$ 10,700,403</u>	<u>(352,451)</u>	<u>-</u>	<u>10,347,952</u>

Changes in capital assets for 2013, were as follows:

	<u>Balance 2012</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance 2013</u>
Non-depreciable assets	\$ 69,061	104,864	(12,772)	161,153
Depreciable assets	20,692,374	416,519	(40,653)	21,068,240
Accumulated depreciation and amortization	<u>(10,079,913)</u>	<u>(489,730)</u>	40,653	<u>(10,528,990)</u>
Total capital assets, net	<u>\$ 10,681,522</u>	<u>31,653</u>	<u>(12,772)</u>	<u>10,700,403</u>

East Orange County Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2014 and 2013

Capital Asset Administration, continued

The capital asset activities of the District are summarized on the previous page and in Note 4 to the basic financial statements.

Conditions Affecting Current Financial Position

Management is not aware of past, present and future conditions that would have a significant impact on the District's financial position and/or net position.

Requests for Information

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.

Basic Financial Statements

East Orange County Water District
Statements of Net Position
June 30, 2014 and 2013

<i>Assets</i>	2014	2013
Current assets:		
Cash and cash equivalents (note 2)	\$ 7,951,629	6,648,809
Accrued interest receivable	3,191	2,683
Accounts receivable – water sales and services:		
Wholesale	1,434,868	1,312,753
Retail	389,209	362,898
Other	4,177	2,183
Property taxes receivable	11,264	22,321
Accrued interest receivable – AMP	-	5,037
Note receivable – current portion – AMP (note 3)	-	38,402
Prepaid expenses and other assets	116,052	125,370
Water-in-storage inventory	41,930	34,847
Materials and supplies inventory	38,756	99,208
Total current assets	9,991,076	8,654,511
Non-current assets:		
Note receivable – AMP (note 3)	-	134,195
Capital assets, net (note 4)	10,347,952	10,700,403
Total non-current assets	10,347,952	10,834,598
Total assets	\$ 20,339,028	19,489,109
<i>Liabilities and Net Position</i>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,586,184	1,502,243
Accrued wages and compensated absences	60,006	44,182
Deposits and unearned revenue	71,914	44,471
Total current liabilities	1,718,104	1,590,896
Total liabilities	1,718,104	1,590,896
Net position:		
Net investment in capital assets	10,347,952	10,700,403
Unrestricted	8,272,972	7,197,810
Total net position	18,620,924	17,898,213
Total liabilities and net position	\$ 20,339,028	19,489,109

See accompanying notes to the basic financial statements

East Orange County Water District
Statements of Revenues, Expenses, and Changes in Net Position
For the Fiscal Years Ended June 30, 2014 and 2013

	2014	2013
Operating revenues:		
Water sales:		
Wholesale	\$ 6,029,784	5,623,905
Retail	1,106,987	1,035,133
Meter and standby service charges	528,646	469,181
Capacity and connection fees	805,927	489,488
Other connection fees	17,091	59,567
Other service charges	41,871	48,748
Total operating revenues	8,530,306	7,726,022
Operating expenses:		
Source of supply	6,968,465	6,560,644
Pipeline capacity lease	15,000	14,000
Pumping	89,119	66,410
Treatment, transmission and distribution	801,443	722,973
General and administrative	581,867	347,992
Total operating expenses	8,455,894	7,712,019
Operating income before depreciation	74,412	14,003
Depreciation	(518,978)	(489,730)
Operating loss	(444,566)	(475,727)
Non-operating revenues(expenses):		
Property taxes	1,028,676	1,026,967
Rental income – cellular antennas	100,066	98,478
Interest and investment earnings	30,267	19,481
Change in fair-value of cash equivalents and investments	10,924	(17,003)
Interest income – note receivable – AMP	976	10,108
Other, net	(3,632)	173,261
Total non-operating revenues, net	1,167,277	1,311,292
Change in net position	722,711	835,565
Net position, beginning of year	17,898,213	17,062,648
Net position, end of year	\$ 18,620,924	17,898,213

See accompanying notes to the basic financial statements

East Orange County Water District
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Receipts from customers for water sales and services	\$ 8,403,697	7,645,841
Payments to employees for salaries	(447,949)	(431,833)
Payments to vendors for materials and services	<u>(7,845,493)</u>	<u>(7,145,607)</u>
Net cash provided by operating activities	<u>110,255</u>	<u>68,401</u>
Cash flows from non-capital financing activities:		
Proceeds from property taxes	1,039,733	1,032,562
Proceeds from rental income – cellular antennas	<u>100,066</u>	<u>98,478</u>
Net cash provided by non-capital financing activities	<u>1,139,799</u>	<u>1,131,040</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	<u>(166,527)</u>	<u>(508,611)</u>
Net cash used in capital and related financing activities	<u>(166,527)</u>	<u>(508,611)</u>
Cash flows from investing activities:		
Proceeds from interest and investment earnings	40,683	3,819
Proceeds from note receivable – AMP	172,597	35,598
Proceeds from interest income – note receivable – AMP	<u>6,013</u>	<u>11,114</u>
Net cash provided by investing activities	<u>219,293</u>	<u>50,531</u>
Net increase in cash and cash equivalents	1,302,820	741,361
Cash and cash equivalents, beginning of year	<u>6,648,809</u>	<u>5,907,448</u>
Cash and cash equivalents, beginning of year	<u>\$ 7,951,629</u>	<u>6,648,809</u>

See accompanying notes to the basic financial statements

East Orange County Water District
Statements of Cash Flows, continued
For the Fiscal Years Ended June 30, 2014 and 2013

	2014	2013
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (444,566)	(475,727)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Deprecation	518,978	489,730
Other non-operating revenues, net	(3,632)	173,261
Changes in assets – (increase)decrease:		
Accounts receivable – water and other:		
Wholesale	(122,115)	(131,883)
Retail	(26,311)	(125,960)
Other	(1,994)	(810)
Prepaid and other	9,318	3,065
Water-in-storage inventory	(7,083)	(12,272)
Materials and supplies inventory	60,452	-
Changes in liabilities – increase(decrease):		
Accounts payable and accrued expenses	83,941	150,316
Accrued wages and compensated absences	15,824	(6,530)
Deposits and deferred revenue	27,443	5,211
Total adjustments	554,821	544,128
Net cash provided by operating activities	\$ 110,255	68,401

See accompanying notes to the basic financial statements

East Orange County Water District
Notes to the Basic Financial Statements
June 30, 2014 and 2013

(1) Reporting Entity and Summary of Significant Accounting Policies

A. 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.

B. 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.

The criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Statements No. 61, *The Financial Reporting Entity*. The District is the primary governmental unit based on the foundation of a separately elected governing board that is elected by the citizens in a general popular election. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District is financially accountable if it appoints a voting majority of the organization's governing body and: 1) It is able to impose its will on that organization, or 2) There is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

C. 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 proprietary fund.

East Orange County Water District
Notes to the Basic Financial Statements, continued
June 30, 2014 and 2013

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Liabilities and Net Position

1. 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.

2. 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.

3. Investments and Investment Policy

The District has adopted an investment policy directing the Treasurer to deposit funds in financial institutions. Investments are to be made in the following areas:

- Securities of the U.S. government or its agencies
- Federal agency obligations
- Certificates of deposit (negotiable and placed)
- Commercial paper (prime)
- Money market and mutual fund accounts
- State of California – Local Agency Investment Fund (LAIF)

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

4. 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.

5. 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 Tax Collector'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 13A of the State Constitution at one percent (1%) of countywide assessed valuations.

East Orange County Water District
Notes to the Basic Financial Statements, continued
June 30, 2014 and 2013

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Liabilities and Net Position

6. Prepaid Expenses

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

7. 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.

8. 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.

9. 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

10. 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.

11. 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 November 30 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
June 30, 2014 and 2013

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Liabilities and Net Position, continued

12. 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 Net Position** – 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 Net Position** – This component of net position consists of the net amount of assets that are not included in the determination of *restricted* or *investment in capital assets, net of related debt*.

13. 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.

14. 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.

15. 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.

East Orange County Water District
Notes to the Basic Financial Statements, continued
June 30, 2014 and 2013

(2) Cash and Investments

Cash and cash equivalents as of June 30, consist of the following:

	2014	2013
Cash on hand	\$ 250	250
Deposits with financial institutions	162,335	613,109
Money market funds	145,089	123,161
Deposits held with Local Agency Investment Fund (LAIF)	6,122,965	4,419,398
Investments	1,520,990	1,492,891
Total cash and cash equivalents	\$ 7,951,629	6,648,809

As of June 30, the District's authorized deposits had the following maturities:

	2014	2013
Deposits held with LAIF	232 days	278 days

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. 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 government investment pools (such as LAIF).

The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. Of the bank balances, up to \$250,000 as of June 30, 2014 and 2013, were federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code 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 District'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.

East Orange County Water District
Notes to the Basic Financial Statements, continued
June 30, 2014 and 2013

(2) Cash and Investments, continued

Interest Rate Risk

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

Maturities of investments at June 30, 2014, are as follows:

<u>Investment Type</u>	<u>Total</u>	<u>Remaining Maturity (in Months)</u>	
		<u>12 Months Or Less</u>	<u>13-60 Months</u>
Local Agency Investment Fund (LAIF)	\$ 6,122,965	6,122,965	-
Money market funds	145,089	145,089	-
Certificates-of-deposits	1,520,990	-	1,520,990
Total	<u>\$ 7,789,044</u>	<u>6,268,054</u>	<u>1,520,990</u>

Maturities of investments at June 30, 2013, are as follows:

<u>Investment Type</u>	<u>Total</u>	<u>Remaining Maturity (in Months)</u>	
		<u>12 Months Or Less</u>	<u>13-60 Months</u>
Local Agency Investment Fund (LAIF)	\$ 4,419,398	4,419,398	-
Money market funds	123,161	123,161	-
Certificates-of-deposits	1,492,891	-	1,492,891
Total	<u>\$ 6,035,450</u>	<u>4,542,559</u>	<u>1,492,891</u>

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

Credit ratings of investments as of June 30, 2014, were as follows:

<u>Investment Types</u>	<u>Total</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Not Rated</u>
Local Agency Investment Fund (LAIF)	\$ 6,122,965	N/A	\$ -	6,122,965
Money market funds	145,089	N/A	145,089	-
Certificates-of-deposits	1,520,990	N/A	-	1,520,990
Total	<u>\$ 7,789,044</u>		<u>\$ 145,089</u>	<u>7,643,955</u>

Credit ratings of investments as of June 30, 2013, were as follows:

<u>Investment Types</u>	<u>Total</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Not Rated</u>
Local Agency Investment Fund (LAIF)	\$ 4,419,398	N/A	\$ -	4,419,398
Money market funds	123,161	N/A	123,161	-
Certificates-of-deposits	1,492,891	N/A	-	1,492,891
Total	<u>\$ 6,035,450</u>		<u>\$ 123,161</u>	<u>5,912,289</u>

East Orange County Water District
Notes to the Basic Financial Statements, continued
June 30, 2014 and 2013

(3) Note Receivable – Allen-McColloch Pipeline

	<u>1989 COPs</u> <u>Series A & B</u>	<u>1989 COPs</u> <u>Series D</u>	<u>1992 COPs</u>	<u>Total</u> <u>COPs</u>
Total MWDOC COPs	\$ 60,453,013 *	715,000	59,800,000	120,968,013
District's COPs share	\$ 1,837,185	715,000	1,817,339	4,369,524
Annual receipts due	Jan 1 & July 1	Jan 1 & July 1	Jan 1 & July 1	
Interest rate	5.80%	7.0% - 7.1%	Floating rate	
Initial payment received	April 10, 1995	July 1, 1995	April 10, 1995	
Final payment due	July 1, 2016	July 1, 2016	July 1, 2006	

* Amount has been adjusted for debt service reserve and negotiated capacity changes in the AMP for the City of San Juan Capistrano, and the former Coastal Municipal Water District and the former El Toro Water District.

On July 1, 1994, the District signed an agreement along with the Municipal Water District of Orange County (MWDOC) and several other participants for the sale of capacity rights in the Allen-McColloch Pipeline (AMP), to the Metropolitan Water District of Southern California (Metropolitan). Under the terms of the sale, the District became a 3.039%, recipient of principal and interest in the following:

MWDOC Certificates of Participation (COPs):

Metropolitan acknowledged in its purchase that the purchase price was substantially less than the value of the AMP based on replacement costs less depreciation. However, since Metropolitan will expand the capacity of the AMP at their expense and will provide new delivery points along with AMP, which will benefit the sellers, MWDOC and the seller participants accepted the price. The note was fully received in fiscal year 2014.

Note receivable from the AMP, consists of the following:

	<u>2014</u>	<u>2013</u>
Note receivable – current – AMP	\$ -	38,402
Note receivable – non-current – AMP	-	134,195
Total	\$ -	172,597

(4) Capital Assets

Changes in capital assets for 2014, were as follows:

	<u>Balance</u> <u>2013</u>	<u>Additions</u>	<u>Deletions/</u> <u>Transfers</u>	<u>Balance</u> <u>2014</u>
Non-depreciable assets:				
Land and easements	\$ 56,289	-	-	56,289
Construction-in-process	104,864	153,967	-	258,831
Total non-depreciable assets	161,153	153,967	-	315,120
Depreciable assets:				
Transmission and distribution system	11,910,875	6,280	-	11,917,155
Structures and improvements	7,897,970	-	-	7,897,970
Capacity rights	943,320	-	-	943,320
Equipment	316,075	6,280	-	322,355
Total depreciable assets	21,068,240	12,560	-	21,080,800
Accumulated depreciation and amortization	(10,528,990)	(518,978)	-	(11,047,968)
Total depreciable assets, net	10,539,250	(506,418)	-	10,032,832
Total capital assets, net	\$ 10,700,403	(352,451)	-	10,347,952

East Orange County Water District
Notes to the Basic Financial Statements, continued
June 30, 2014 and 2013

(4) Capital Assets, continued

Changes in capital assets for 2013, were as follows:

	<u>Balance 2012</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance 2013</u>
Non-depreciable assets:				
Land and easements	\$ 56,289	-	-	56,289
Construction-in-process	12,772	104,864	(12,772)	104,864
Total non-depreciable assets	<u>69,061</u>	<u>104,864</u>	<u>(12,772)</u>	<u>161,153</u>
Depreciable assets:				
Transmission and distribution system	11,727,752	183,123	-	11,910,875
Structures and improvements	7,715,666	222,957	(40,653)	7,897,970
Capacity rights	943,320	-	-	943,320
Equipment	305,636	10,439	-	316,075
Total depreciable assets	<u>20,692,374</u>	<u>416,519</u>	<u>(40,653)</u>	<u>21,068,240</u>
Accumulated depreciation and amortization	<u>(10,079,913)</u>	<u>(489,730)</u>	<u>40,653</u>	<u>(10,528,990)</u>
Total depreciable assets, net	<u>10,612,461</u>	<u>(73,211)</u>	<u>-</u>	<u>10,539,250</u>
Total capital assets, net	<u>\$ 10,681,522</u>	<u>31,653</u>	<u>(12,772)</u>	<u>10,700,403</u>

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 competition of these various projects.

Construction-In-Process

The construction-in-process balances at year-end are as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
The balance at June 30, consist of the following projects:			
Transmission and distribution system upgrades	\$ <u>258,831</u>	<u>104,864</u>	<u>12,772</u>

(5) Allen-McColloch Pipeline Lease

On July 1, 1994, the District, along with Municipal Water District of Orange County (MWDOC), as well as other participants, sold its capacity rights in the Allen-McColloch Pipeline AMP) to Metropolitan Water District of Southern California (MET). It was agreed with MET, that the District and other participants would continue to receive water from the AMP as requested (subject to availability) through the term of the agreement, and thereafter. In consideration for the availability of water through the AMP and other matters, the District and other participants agreed to make lease payments measured by the debt service (on MWDOC's 1989 COPS, Series D) previously incurred and assumed by MET. In February 2010, the District accepted MWDOC's offer to prepay this lease obligation through 2017 for \$107,000, thereby saving the District \$31,191, in future pipeline lease payments. The prepaid lease schedule is as follows:

<u>Fiscal Year</u>	<u>Lease Payable 1989 COPS Series D</u>
2015	\$ 16,000
2016	18,000
2017	<u>19,000</u>
Total	<u>\$ 53,000</u>

East Orange County Water District
Notes to the Basic Financial Statements, continued
June 30, 2014 and 2013

(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.

(7) Defined Benefit Pension Plan

Plan Description

The District contributes to the California Public Employees Retirement System (CalPERS), a cost-sharing multiple-employer defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public agencies within the State of California. Benefit provisions and all other requirements are established by state statute and the District. Copies of CalPERS annual financial report may be obtained from their Executive Office: 400 P Street, Sacramento, CA 95814.

Funding Policy and Annual Pension Cost

First-Tier Plan

The contribution rate for plan members in the CalPERS 2.0% at 60 Risk Pool Retirement Plan is 7% of their annual covered salary. The District makes these contributions required of District employees on their behalf and for their account. Also, the District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The required employer contribution rates are equal to the annual pension costs (APC) percentage of payroll for fiscal years 2014, 2013, and 2012 as noted below. The contribution requirements of the plan members are established by State statute, and the employer contribution rate is established and may be amended by CalPERS.

Second-Tier Plan

California Public Employees Pension Reform Act of 2013

On September 12, 2012, the California Governor signed the California Public Employees' Pension Reform Act of 2013 (PEPRA) into law. PEPRA took effect January 1, 2013.

Key components of the legislation are as follows:

- Establishes PEPRA which will apply to all public employers and public pension plans on and after January 1, 2013 (Except specific exemptions);
- Establishes new retirement tiers/benefits for new public employees;
- Prohibits certain cash payments from being counted as compensation; and
- Increases retirement age for all new public employees.

East Orange County Water District
Notes to the Basic Financial Statements, continued
June 30, 2014 and 2013

(7) Defined Benefit Pension Plan, continued

Beginning January 1, 2013

The contribution rate for plan members in the CalPERS 2.0% at 62 Retirement Plan under PEPRA is 6.50% of their annual covered wages. District employees contribute 6.50% of their annual covered wages to their account. Also, the District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The employer contribution rate (6.70%) and member contribution rate (6.50%) is a combined rate of 13.20% which will be in effect until June 30, 2015.

For Fiscal years 2014, 2013, and 2012, the District's annual contributions for the CalPERS plan were equal to the District's required and actual contributions for each fiscal year as follows:

Three Year Funding Information

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>	<u>APC Percentage of Payroll</u>
2012	\$ 75,483	100%	-	12.576%
2013	55,012	100%	-	12.162%
2014	54,999	100%	-	12.278%

See Page 27 for the Schedule of Funding Status.

Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially-determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and the pattern of sharing of costs between the employer and plan members to that point. Consistent with the long-term perspective of actuarial calculations, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities for benefits.

The following is a summary of the actuarial assumptions and methods:

Valuation date	June 30, 2013
Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll
Asset valuation method	Market value
Actuarial assumptions:	
Discount rate	7.50% (net of administrative expenses)
Projected salary increase	3.30% to 14.20% depending on age, service, and type of employment
Inflation	2.75%
Payroll growth	3.00%
Individual salary growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%

East Orange County Water District
Notes to the Basic Financial Statements, continued
June 30, 2014 and 2013

(8) 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, 2014, 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, 2014 and 2013. 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, 2014 and 2013.

(9) Governmental Accounting Standards Board Statements Issued, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2014, that has effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 68

In June 2012, the GASB issued Statement No. 68 – *Accounting and Financial Reporting for Pensions— an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The provisions of Statement 68 are effective for fiscal years beginning after June 15, 2014. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

East Orange County Water District
Notes to the Basic Financial Statements, continued
June 30, 2014 and 2013

(9) Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued

Governmental Accounting Standards Board Statement No. 69

In January 2013, the GASB issued Statement No. 69 – *Government Combinations and Disposals of Government Operations*. The objective of this Statement is to provide new accounting and financial reporting standards for government mergers and acquisitions and for government operations that have been transferred or sold. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2013. The impact of the implementation of this Statement to District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 71

In November 2013, the GASB issued Statement No. 71 – *Pension Transition for Contributions made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of GASB Statement No. 68. The impact of the implementation of this Statement to District's financial statements has not been assessed at this time.

(10) 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.

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.

(11) Subsequent Events

Events occurring after June 30, 2014, have been evaluated for possible adjustment to the financial statements or disclosure as of October 31, 2014, which is the date the financial statements were available to be issued. The District is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

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Required Supplementary Information

**East Orange County Water District
Schedule of Funding Status
For the Fiscal Years Ended June 30, 2014 and 2013**

(1) Defined Benefit Pension Plan

Development of the Actuarial Value of Assets Calculation in a Risk Pool			
The District is part of the CalPERS Miscellaneous 2.0% at 60 yrs. Risk Pool	<u>June 30, 2011</u>	<u>June 30, 2012</u>	<u>June 30, 2013</u>
1. Plan's accrued liability	\$ 1,783,868	1,810,736	2,090,042
2. Plan's side fund	(29,074)	-	-
3. Pool's accrued liability	682,375,804	736,231,913	798,282,602
4. Pool's side fund	1,499,824	2,948,645	(13,568,129)
5. Pool's actuarial value of assets (AVA) including receivables	639,237,247	701,224,211	N/A
6. Plan's actuarial value of assets (AVA) including receivables [(1+2) / (3+4) x 5]	1,640,254	1,717,756	N/A
7. Pool's market value of assets (MVA) including receivables	572,006,330	589,970,009	N/A
8. Plan's market value of assets (MVA) including receivables [(1+2) / (3+4) x 7]	1,467,742	1,445,222	1,762,232

Funding History

The Funding History below shows the actuarial accrued liability, the actuarial value of assets, the market value of assets, funded ratios and the annual covered payroll. The actuarial value of assets is used to establish funding requirements and the funded ratio on this basis represents the progress toward fully funding future benefits for current plan participants. The funded ratio based on the market value of assets is an indicator of the short-term solvency of the plan in the risk pool.

<u>Actuarial Valuation Date</u>	<u>Actuarial Accrued Liability (a)</u>	<u>Share of Pool's Market Value of Assets (AVA) (b)</u>	<u>Plan's Share of Pool's Unfunded Liability (a-b)</u>	<u>Funded Ratio AVA (b/a)</u>	<u>Annual Covered Payroll</u>
June 30, 2011	\$ 1,783,868	1,467,742	316,126	82.3%	\$ 338,962
June 30, 2012	1,810,736	1,445,222	365,514	79.8%	364,055
June 30, 2013	2,090,042	1,762,232	327,810	84.3%	412,036

Supplemental Information

East Orange County Water District
Combining Schedule of Net Position
June 30, 2014

<i>Assets</i>	Wholesale	Retail	Total
Current assets:			
Cash and cash equivalents	\$ 6,203,216	1,748,413	7,951,629
Accrued interest receivable	2,459	732	3,191
Accounts receivable – water sales and services:			
Wholesale	1,434,868	-	1,434,868
Retail	-	389,209	389,209
Other	4,177	-	4,177
Property taxes receivable	7,174	4,090	11,264
Prepaid expenses and other assets	102,501	13,551	116,052
Water-in-storage inventory	37,174	4,756	41,930
Materials and supplies inventory	19,378	19,378	38,756
Total current assets	7,810,947	2,180,129	9,991,076
Non-current assets:			
Capital assets, net	5,538,193	4,809,759	10,347,952
Total non-current assets	5,538,193	4,809,759	10,347,952
Total assets	\$ 13,349,140	6,989,888	20,339,028
<i>Liabilities and Net Position</i>			
Current liabilities:			
Accounts payable and accrued expenses	\$ 1,447,798	138,386	1,586,184
Accrued wages and compensated absences	26,538	33,468	60,006
Deposits and unearned revenue	22,386	49,528	71,914
Total current liabilities	1,496,722	221,382	1,718,104
Total liabilities	1,496,722	221,382	1,718,104
Net position:			
Net investment in capital assets	5,538,193	4,809,759	10,347,952
Unrestricted	6,314,225	1,958,747	8,272,972
Total net position	11,852,418	6,768,506	18,620,924
Total liabilities and net position	\$ 13,349,140	6,989,888	20,339,028

East Orange County Water District
Combining Schedule of Net Position
June 30, 2013

<u>Assets</u>	<u>Wholesale</u>	<u>Retail</u>	<u>Total</u>
Current assets:			
Cash and cash equivalents	\$ 5,834,487	814,322	6,648,809
Accrued interest receivable	2,632	51	2,683
Accounts receivable – water sales and services:			
Wholesale	1,312,753	-	1,312,753
Retail	-	362,898	362,898
Other	2,183	-	2,183
Property taxes receivable	14,244	8,077	22,321
Accrued interest receivable – AMP	5,037	-	5,037
Note receivable – current portion – AMP	38,402	-	38,402
Prepaid expenses and other assets	114,924	10,446	125,370
Water-in-storage inventory	30,997	3,850	34,847
Materials and supplies inventory	49,604	49,604	99,208
Total current assets	<u>7,405,263</u>	<u>1,249,248</u>	<u>8,654,511</u>
Non-current assets:			
Note receivable – AMP	134,195	-	134,195
Capital assets, net	5,700,270	5,000,133	10,700,403
Total non-current assets	<u>5,834,465</u>	<u>5,000,133</u>	<u>10,834,598</u>
Total assets	\$ <u>13,239,728</u>	<u>6,249,381</u>	<u>19,489,109</u>
<u>Liabilities and Net Position</u>			
Current liabilities:			
Accounts payable and accrued expenses	\$ 1,358,121	144,122	1,502,243
Accrued wages and compensated absences	15,287	28,895	44,182
Deposits and unearned revenue	24,734	19,737	44,471
Total current liabilities	<u>1,398,142</u>	<u>192,754</u>	<u>1,590,896</u>
Net position:			
Net investment in capital assets	5,700,270	5,000,133	10,700,403
Unrestricted	6,141,316	1,056,494	7,197,810
Total net position	<u>11,841,586</u>	<u>6,056,627</u>	<u>17,898,213</u>
Total liabilities and net position	\$ <u>13,239,728</u>	<u>6,249,381</u>	<u>19,489,109</u>

East Orange County Water District
Combining Schedule of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2014

	<u>Wholesale</u>	<u>Retail</u>	<u>Internal Balances</u>	<u>Total</u>
Operating revenues:				
Water sales:				
Wholesale	\$ 6,243,541	-	(213,757)	6,029,784
Retail	-	1,106,987	-	1,106,987
Meter and standby service charges	206,335	350,167	(27,856)	528,646
Capacity and connection fees	545,773	280,235	(20,081)	805,927
Other connection fees	10,745	6,346	-	17,091
Other service charges	27,495	14,376	-	41,871
Total operating revenues	<u>7,033,889</u>	<u>1,758,111</u>	<u>(261,694)</u>	<u>8,530,306</u>
Operating expenses:				
Source of supply – water purchases	6,236,411	213,757	(213,757)	6,236,411
Source of supply – standby service charges	203,925	27,856	(27,856)	203,925
Source of supply – capacity and connection fees	299,369	20,081	(20,081)	299,369
Source of supply – replenishment assessment	-	228,760	-	228,760
Total source of supply	<u>6,739,705</u>	<u>490,454</u>	<u>(261,694)</u>	<u>6,968,465</u>
Pipeline capacity lease	15,000	-	-	15,000
Pumping	2,060	87,059	-	89,119
Treatment, transmission and distribution	405,248	396,195	-	801,443
General and administrative	368,473	213,394	-	581,867
Total operating expenses	<u>7,530,486</u>	<u>1,187,102</u>	<u>(261,694)</u>	<u>8,455,894</u>
Operating income(loss) before depreciation	(496,597)	571,009	-	74,412
Depreciation	(306,973)	(212,005)	-	(518,978)
Operating income(loss)	<u>(803,570)</u>	<u>359,004</u>	<u>-</u>	<u>(444,566)</u>
Non-operating revenues(expenses):				
Property taxes	673,765	354,911	-	1,028,676
Rental income – cellular antennas	100,066	-	-	100,066
Interest and investment earnings	28,469	1,798	-	30,267
Change in fair-value of cash equivalents and investments	10,526	398	-	10,924
Interest income – note receivable – AMP	976	-	-	976
Other, net	600	(4,232)	-	(3,632)
Total non-operating revenues, net	<u>814,402</u>	<u>352,875</u>	<u>-</u>	<u>1,167,277</u>
Change in net position	<u>10,832</u>	<u>711,879</u>	<u>-</u>	<u>722,711</u>
Net position, beginning of year	<u>11,841,586</u>	<u>6,056,627</u>	<u>-</u>	<u>17,898,213</u>
Net position, end of year	<u>\$ 11,852,418</u>	<u>6,768,506</u>	<u>-</u>	<u>18,620,924</u>

East Orange County Water District
Combining Schedule of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2013

	<u>Wholesale</u>	<u>Retail</u>	<u>Internal Balances</u>	<u>Total</u>
Operating revenues:				
Water sales:				
Wholesale	\$ 5,994,399	-	(370,494)	5,623,905
Retail	-	1,035,133	-	1,035,133
Meter and standby service charges	181,399	314,437	(26,655)	469,181
Capacity and connection fees	261,423	246,773	(18,708)	489,488
Other connection fees	59,567	-	-	59,567
Other service charges	34,395	14,353	-	48,748
Total operating revenues	6,531,183	1,610,696	(415,857)	7,726,022
Operating expenses:				
Source of supply – water purchases	5,974,883	370,494	(370,494)	5,974,883
Source of supply – in-lieu purchases credit	-	(22,431)	-	(22,431)
Source of supply – standby service charges	181,399	26,655	(26,655)	181,399
Source of supply – capacity and connection fees	261,423	18,708	(18,708)	261,423
Source of supply – replenishment assessment	-	165,370	-	165,370
Total source of supply	6,417,705	558,796	(415,857)	6,560,644
Pipeline capacity lease	14,000	-	-	14,000
Pumping	2,144	64,266	-	66,410
Treatment, transmission and distribution	309,340	413,633	-	722,973
General and administrative	193,297	154,695	-	347,992
Total operating expenses	6,936,486	1,191,390	(415,857)	7,712,019
Operating income(loss) before depreciation	(405,303)	419,306	-	14,003
Depreciation	(297,544)	(192,186)	-	(489,730)
Operating income(loss)	(702,847)	227,120	-	(475,727)
Non-operating revenues(expenses):				
Property taxes	669,704	357,263	-	1,026,967
Rental income – cellular antennas	98,478	-	-	98,478
Interest and investment earnings	18,784	697	-	19,481
Change in fair-value of cash equivalents and investments	(16,837)	(166)	-	(17,003)
Interest income – note receivable – AMP	10,108	-	-	10,108
Interest expense – note payable – DWR	-	-	-	-
Other, net	119,755	53,506	-	173,261
Total non-operating revenues, net	899,992	411,300	-	1,311,292
Change in net position	197,145	638,420	-	835,565
Net position, beginning of year	11,644,441	5,418,207	-	17,062,648
Net position, end of year	\$ 11,841,586	6,056,627	-	17,898,213

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Report on Compliance and Internal Controls



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Independent Auditor's Report on Internal Control Over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
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 financial statements of the East Orange County Water District (District) as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated October 31, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, 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*.

**Independent Auditor's Report on Internal Controls Over Financial Reporting
And on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*, (continued)**

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



Charles Z. Fedak: Company CPAs - An Accountancy Corporation

Charles Z. Fedak & Company, CPAs - An Accountancy Corporation
Cypress, California
October 31, 2014