



December 14, 2015

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

We have audited the financial statements of the business-type activities of the East Orange County Water District (the "District") for the year ended June 30, 2015, and have issued our report thereon dated December 14, 2015. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated May 15, 2015, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the District. Such considerations are solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we also performed tests of the District's compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with those provisions is not an objective of our audit.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

Generally accepted accounting principles provide for certain required supplementary information (RSI) to supplement the basic financial statements. Our responsibility with respect to the MD&A, the Schedule of Proportionate Share of the Net Pension Liability and the Schedule of Contributions to Pension Plan, which supplements the basic financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI was not audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we do not express an opinion or provide any assurance on the RSI.

We have not been engaged to report on the Introductory Section and Supplementary Information of the Combining Schedule of Net Position and Combining Schedule of Revenues, Expenses, and Changes in Net Position, which accompany the financial statements but are not RSI. Our responsibility with respect to this other information in documents containing the audited financial statements and auditor's report does not extend beyond the financial information identified in this report. We have no responsibilities for determining whether this other information is properly stated. This other information is not audited and we do not express an opinion or provide any assurance on it.

Planned Scope and Timing of the Audit

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested.

Our audit included obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity.

We performed the audit according to the planned scope and timing previously communicated to you.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the basic financial statements.

New Accounting Standards

GASB has issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. This Statement establishes standards for measuring and recognizing liabilities, deferred outflow of resources, deferred inflows of resources, and expense/expenditures for pension plans. This Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. This statement became effective for periods beginning after June 15, 2014. See Note 8 for prior period adjustment as a result of implementation.

GASB has issued Statement No. 69, *Government Combinations and Disposals of Government Operation*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. This statement became effective for periods beginning after December 15, 2013 and did not have a significant impact on the District's financial statements for year ended June 30, 2015.

GASB has issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. This statement establishes standards relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. This statement became effective for periods beginning after June 15, 2014. See Note 8 for prior period adjustment as a result of implementation.

No other new accounting policies were adopted and the application of existing policies was not changed during 2015. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the District's financial statements were:

- Management's estimate for the allowance for doubtful accounts is based on the District's historical data with the collectability of its accounts receivable. We evaluated the key factors and assumptions used to develop the estimate for the allowance for doubtful accounts in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the net pension liabilities is based on the actuarial valuation on total pension liability and based on audited financial statements on fiduciary net position for CalPERS plans. We evaluated the key factors and assumptions used to develop the net pension liability in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- Note 1 – Summary of Significant Accounting Policies
- Note 2 – Cash and Investments
- Note 7 – Defined Benefit Pension Plans
- Note 8 – Prior Period Adjustments

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

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

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 14, 2015.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters


We applied certain limited procedures to the MD&A, the Schedule of Proportionate Share of the Net Pension Liability and the Schedule of Contributions to Pension Plan, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were not engaged to report on the Introductory and Supplementary Information of the Combining Schedule of Net Position and Combining Schedule of Revenues, Expenses, and Changes in Net Position, which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

Restriction on Use

This information is intended solely for the use of the Board of Directors and management of the East Orange County Water District and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

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

Santa Ana, California

**East Orange County Water District
Summary of Audit Differences
For the Year Ended June 30, 2015**

Account	Description	Debit	Credit
Adjusting Journal Entries JE # 1			
AJE - To record PPA for change in accounting princ. GASB 68/71 at 6/30/14.			
1900-10	Deferred Outflow - ER cont after M/D - WZ	24,104.99	
1900-20	Deferred Outflow - ER cont after M/D- RZ	28,710.01	
3001-10	UNAPPROPRIATED-0365	236,624.92	
3001-20	UNAPPROPRIATED-0366	281,829.74	
2901-10	Net Pension Liability - WZ		248,958.03
2901-20	Net Pension Liability - RZ		296,518.97
2902-10	Changes in ER Prop and Diff in Contrib-WZ		11,771.88
2902-20	Changes in ER Prop and Diff in Contrib-RZ		14,020.78
Total		571,269.66	571,269.66
Adjusting Journal Entries JE # 2			
AJE - To record change in net pension liability to pension expense per CalPERS Actuarial.			
2901-10	Net Pension Liability - WZ	66,752.77	
2901-20	Net Pension Liability - RZ	79,505.23	
5490-10	Pension expense(income) - WZ		66,752.77
5490-20	Pension expense(income) - RZ		79,505.23
Total		146,258.00	146,258.00
Adjusting Journal Entries JE # 3			
AJE - To defer investment earnings (greater)/less than expected for measurement period on pension plan investments			
5490-10	Pension expense(income) - WZ	999.07	
5490-10	Pension expense(income) - WZ	61,229.37	
5490-20	Pension expense(income) - RZ	1,189.93	
5490-20	Pension expense(income) - RZ	72,926.63	
2903-10	Deferred Inflows-Proportions DOPA - WZ		999.07
2903-20	Deferred Inflows - Proportion DOPA- RZ		1,189.93
2904-10	Deferred Inflows - Earnings DOPA- WZ		61,229.37
2904-20	Deferred Inflows - Earnings DOPA - RZ		72,926.63
Total		136,345.00	136,345.00
Adjusting Journal Entries JE # 4			
AJE - To recongnize in FY2014 deferred pension expense contributions as pension expense in CY FY2015.			
5490-10	Pension expense(income) - WZ	24,104.99	
5490-20	Pension expense(income) - RZ	28,710.01	
1900-10	Deferred Outflow - ER cont after M/D - WZ		24,104.99
1900-20	Deferred Outflow - ER cont after M/D- RZ		28,710.01
Total		52,815.00	52,815.00

**East Orange County Water District
Summary of Audit Differences (Continued)
For the Year Ended June 30, 2015**

Adjusting Journal Entries JE # 5			
AJE - To defer FY2015 pension contribution made after MD.			
1900-10	Deferred Outflow - ER cont after MD - WZ	13,091.98	
1900-20	Deferred Outflow - ER cont after MD- RZ	15,593.07	
1901-10	Deferred Outflow- ER contri after MD PEPRA - WZ	2,386.33	
1901-20	Deferred Outflow - ER contrib after MD PEPRA - RZ	2,842.21	
5429-10	PERs expense - Employee pickup - WZ	8,235.62	
5429-20	PERs expense - Employee pickup - RZ	9,808.95	
5420-10	Retirement-PERS-WZ		2,386.33
5420-10	Retirement-PERS-WZ		8,235.62
5420-10	Retirement-PERS-WZ		13,091.98
5420-20	Retirement-PERS-RZ		2,842.21
5420-20	Retirement-PERS-RZ		9,808.95
5420-20	Retirement-PERS-RZ		15,593.07
Total		51,958.16	51,958.16
Adjusting Journal Entries JE # 6			
AJE - To amortize difference in proportions - Deferred Inflows			
2902-10	Changes in ER Prop and Diff in Contrib-WZ	3,097.86	
2902-20	Changes in ER Prop and Diff in Contrib-RZ	3,689.68	
5490-10	Pension expense(income) - WZ		3,097.86
5490-20	Pension expense(income) - RZ		3,689.68
Total		6,787.54	6,787.54
Adjusting Journal Entries JE # 7			
AJE - To expense AMP prepaid per client at 6/30/15			
5290-10	Amp-Fap Lease Expense-WZ	38,000.00	
1502-10	Prepaid-Amp Diemer		38,000.00
Total		38,000.00	38,000.00
Adjusting Journal Entries JE # 8			
AJE - To record OCWD replenishment assessment at 6/30/15			
5050-20	OCWD- Replenish Assessment-RZ	118,044.60	
2101-20	Accrued Expenses-RZ		118,044.60
Total		118,044.60	118,044.60
Adjusting Journal Entries JE # 9			
AJE - To reclass IRWD Revenue account to proper GL at 6/30/15.			
5299-10	Miscellaneous Exp-WZ	6,313.52	
4901-10	Reimbursed - IRWD		6,313.52
Total		6,313.52	6,313.52