

**MUNICIPAL WATER DISTRICT
OF ORANGE COUNTY**

**FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2013**

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Independent Auditors' Report



INDEPENDENT AUDITORS' REPORT

Board of Directors
Municipal Water District of Orange County
Fountain Valley, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Municipal Water District of Orange County (District), as of and for the year ended June 30, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District, as of June 30, 2013, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the financial statements, in 2013, the District adopted new accounting guidance, GASB Statements Nos. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* and 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedule of funding progress for the other post-employment benefit plan on pages 3 through 9 and 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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Prior-Year Comparative Information

We have previously audited the 2012 financial statements of the District, and we expressed an unmodified audit opinion on the financial statements in our report dated January 7, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2013, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Laguna Hills, California
December 19, 2013

Management's Discussion and Analysis
(Unaudited)

**MUNICIPAL WATER DISTRICT OF ORANGE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

The following is a brief discussion of the Municipal Water District of Orange County's (District) activities and financial performance for the year ended June 30, 2013. Please read in conjunction with the District's basic financial statements and accompanying notes which follow this section.

FINANCIAL HIGHLIGHTS

- The District's revenues were \$176.0 million in FY 2012-13, compared to \$186.4 million in the prior fiscal year, a 5.6% decrease.
- The District's expenses were \$180.0 million in FY 2012-13, compared to \$186.6 million in the prior fiscal year, a 3.5% decrease.
- The District's assets at June 30, 2013 were \$40.3 million, a 15.4% decrease compared to total assets of \$47.7 million at June 30, 2012.
- The District's liabilities at June 30, 2013 were \$35.0 million, an 8.8% decrease compared to total liabilities of \$38.3 million at June 30, 2012.
- The District's net position at June 30, 2013 were \$5.4 million, a 42.7% decrease compared to net position of \$9.4 million at June 30, 2012.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus applied. The accompanying financial statements are reported using the economic resources measurement focus, and the accrual basis of accounting.

Under the economic resources measurement focus all assets and liabilities (whether current or noncurrent) associated with these activities are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The District's financial statements, prepared in accordance with generally accepted accounting principles (GAAP), offer key, high-level financial information about District activities during the reporting period. The financial statements of the District consist of three interrelated statements designed to provide the reader with relevant information on the District's financial condition and operating results. These statements offer short-term and long-term financial information about the District's activities utilizing the full accrual basis of accounting.

The *Statement of Net Position* includes all of the District's assets, less liabilities, and provides information about the nature and amounts of investments in resources (assets) and the obligations to the District's creditors (liabilities), with the difference being reported as Net Position. It also provides the basis for computing rate of return, evaluating the capital structure of the District, and assessing the liquidity and financial flexibility of the District.

**MUNICIPAL WATER DISTRICT OF ORANGE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
JUNE 30, 2013**

All of the current year's revenues and expenses are accounted for in the *Statement of Revenues, Expenses, and Changes in Net Position*. This statement measures the District's operations over the past year and can be used to determine whether the District has successfully recovered all its projected costs through its rates and other service related charges.

The final required financial statement is the *Statement of Cash Flows* which presents information about the District's cash receipts and cash payments during the reporting period classified as cash receipts, cash payments, and net changes in cash resulting from operations, and investing, non-capital financing, and capital and related financing activities. This statement also provides comparative information on the sources and uses of the District's cash during the reporting period.

FINANCIAL ANALYSIS OF THE DISTRICT

Our analysis of the District begins on page 3 of the Management's Discussion and Analysis. One of the most important questions asked about the District's finances is: "Is the District, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the District's activities in a way that will help answer this question. These two statements report the net position of the District and changes in them. You can think of the District's net position (the difference between assets and liabilities) as one way to measure financial health or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. However, you will need to consider other non-financial factors, such as changes in economic conditions, population growth, changes in rates and charges and new or changed government legislation or accounting standards.

**MUNICIPAL WATER DISTRICT OF ORANGE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
JUNE 30, 2013**

STATEMENT OF NET POSITION

Net position is the difference between assets, less liabilities, and may serve over time as a useful indicator of a government's financial position. The following is a summary of the District's Statement of Net Position.

**Table 1
Condensed Statements of Net Position
(In thousands of dollars)**

	<u>FY 2013</u>	<u>FY 2012</u>	<u>Variance</u>	<u>Total Percent Change</u>
Current Restricted Assets	\$ 4,194	\$ 8,877	\$ (4,683)	-52.8%
Current Unrestricted Assets	35,145	37,672	(2,527)	-6.7%
Capital Assets	983	1,117	(134)	-12.2%
Noncurrent Unrestricted Assets	-	13	(13)	-
Total Assets	40,322	47,679	(7,357)	-15.4%
Liabilities Payable from Restricted Current Assets	3,045	4,099	(1,054)	-25.7%
Liabilities Payable from Unrestricted Current Assets	31,880	34,211	(2,331)	-6.8%
Noncurrent Unrestricted Liabilities	32	-	32	-
Total Liabilities	34,957	38,310	(3,353)	-8.8%
Net Position:				
Net Investment in Capital Assets	982	1,117	(135)	-12.1%
Restricted for Trustee Activities	1,149	4,778	(3,629)	-76.0%
Unrestricted	3,234	3,474	(240)	-6.9%
Total Net Position	\$ 5,365	\$ 9,369	\$ 4,004)	-42.7%

As can be seen from the table above, net position decreased by \$4.0 million from Fiscal Year 2012 to 2013. This decrease is the result of the following:

- Current Restricted Assets decreased by \$4.7 million due mainly to a refund to the member agencies for the T2 charge of \$3.7 million and lower grant receivables of \$777,560.
- Liabilities Payable from Restricted Current Assets decreased \$1.1 million due to the use of Advances from Participants to cover the current fiscal years expenses.
- Net Investment in Capital Assets decreased by \$135,000 mainly due to the annual depreciation expenses.

**MUNICIPAL WATER DISTRICT OF ORANGE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
JUNE 30, 2013**

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

While the Statement of Net Position shows the change in financial position of net assets, the Statement of Revenues, Expenses, and Changes in Fund Net Position provides information as to the nature and source of these changes. The District reported a decrease in net assets of \$4.0 million for the year ended June 30, 2013, as compared to a decrease of \$158,000 for the year ended June 30, 2012. The following is a summary of the change in the District's net position.

**Table 2
Condensed Statements of Revenues,
Expenses, and Changes in Net Position
(In thousands of dollars)**

	<u>FY 2013</u>	<u>FY 2012</u>	<u>Variance</u>	<u>Total Percent Change</u>
Operating Revenues	\$ 172,357	\$ 182,777	\$ (10,420)	-5.7%
Special Projects Revenue	3,422	3,469	(47)	-1.4%
Non-operating Revenues	181	183	(2)	-1.1%
Total Revenues	175,960	186,429	(10,469)	-5.6%
Other Operating Expense	172,697	182,967	(10,270)	-5.6%
Special Projects Expense	3,422	3,469	(47)	-1.4%
Depreciation Expense	145	151	(6)	-4.0%
Special Item	3,700	-	3,700	0.0%
Total Expenses	179,963	186,587	(6,623)	-3.5%
Change in Net Position	(4,003)	(158)	(3,846)	2,434.2%
Beginning Net Position	9,369	9,527	(158)	-1.7%
Ending Net Position	\$ 5,366	\$ 9,369	\$ (4,004)	-42.7%

A closer examination of the source of changes in net position reveals that the District's operating revenues decreased by \$10.4 million in Fiscal Year 2013 due mainly to lower water sales caused by wetter and cooler weather.

Total expenses decreased by \$6.6 million due mainly to:

- Lower cost of water purchased in the amount of \$11 million from Metropolitan in Fiscal Year 2013.
- Election expense of \$497,000 incurred in Fiscal Year 2013.
- Special Item of \$3.7 million was due to a refund to the member agencies for the T2 charge collected in prior years (see note 10).

**MUNICIPAL WATER DISTRICT OF ORANGE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
JUNE 30, 2013**

CAPITAL ASSETS

The following is a summary of the District's capital assets at June 30, 2013 and June 30, 2012.

**Table 3
Capital Assets
(In thousands of dollars)**

	<u>FY 2013</u>	<u>FY 2012</u>	<u>Variance</u>	<u>Total Percent Change</u>
Leasehold Improvements	\$ 2,796	\$ 2,786	\$ 10	0.4%
Furniture & Fixtures	537	619	(82)	-13.2%
Subtotal	3,333	3,405	(72)	-2.1%
Less Accumulated Depreciation	(2,350)	(2,288)	(62)	2.7%
Net Capital Assets	\$ 983	\$ 1,117	\$ (134)	-12.0%

Additional information regarding capital assets can be found in Note 1 of the notes to financial statements.

DEBT ADMINISTRATION

The District had no debt outstanding as of June 30, 2013. No new long-term debt was incurred in the year ended June 30, 2013, and the District does not plan to issue new debt in the year ending June 30, 2014.

**MUNICIPAL WATER DISTRICT OF ORANGE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
JUNE 30, 2013**

BUDGETARY HIGHLIGHTS

The District is governed by a Board of Directors consisting of seven elected members. The Board adopts an annual appropriated budget for the prior to the start of the fiscal year. The Budget may be revised by Board action during the fiscal year. An actual vs. budget comparison statement for FY 2012-13 is presented in Table 4 to demonstrate compliance with the adopted budget.

**Table 4
FY 2013 Actual vs. FY 2013 Budget
(In thousands of dollars)**

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>	<u>Total Percent Change</u>
Revenues:				
From Operations	\$175,779	\$162,448	\$ 13,331	8.2%
Non-operating Revenues	181	164	17	10.4%
Total Revenues	175,960	162,612	13,348	8.2%
Expenses:				
From Operations				
Cost of Water	165,887	151,904	13,983	9.2%
Other Operating	10,231	9,070	1,161	12.8%
Depreciation	145	150	(5)	-3.4%
Special Item	3,700	-	3,700	100.0%
Total Expenses	179,963	161,124	18,839	11.7%
Change In Net Position	\$ (4,003)	\$ 1,488	\$ (5,491)	-369.1%

The variances on the budget to actual are as follows:

- Revenues from operations were \$13 million higher than budget due to unbudgeted basin replenishment water purchased in Fiscal Year 2013.
- Cost of Water purchased was \$14 million higher than budget due to unbudgeted basin replenishment water purchased in Fiscal Year 2013.
- Other Operating expenses are higher than budget due to increase of election expense, legal and salaries and benefits.
- Special Item of \$3.7 million was due to a refund to the member agencies for the T2 charge collected in prior years (see note 10).

**MUNICIPAL WATER DISTRICT OF ORANGE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
JUNE 30, 2013**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The District's Board of Directors and management considered many factors during preparation and approval of the annual budget for FY 2013-14. The budgeted operating expenses total \$168.6 million and operating and non-operating revenues total \$168.8 million.

Historically, the District's has recouped the cost of water purchased from the resale of imported water to the District's 28 water agencies located in Orange County. In addition MWDOC charges both a per acre-foot surcharge and a per retail meter charge to cover its operating budget. Over the years, the District's operating revenue has been approximately 65% from per retail connection charges, and 35% from per acre-foot charges. Beginning in 2011-12, MWDOC began transitioning from the two-component rate structure to one involving only a single component. Over a five year period, ending in 2015-16, MWDOC would transition from a water rate structure involving a per acre-foot charge and a per retail meter charge to 100% on the per retail meter charge.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is intended to provide the Board of Directors, customers, taxpayers, creditors, and other interested parties with a general overview of the District's financial operations and condition at the year ended June 30, 2013, and to demonstrate the District's accountability for the funds it receives. If you have questions about this report or need additional information, you may contact the Municipal Water District of Orange County, Finance Dept., at 18700 Ward Street, Fountain Valley, CA 92708, (714) 963-3058, www.mwdoc.com.

Basic Financial Statements

Statement of Net Position
Statement of Revenues, Expenses and Changes in Net Position
Statement of Cash Flows

MUNICIPAL WATER DISTRICT OF ORANGE COUNTY

Statement of Net Position

June 30, 2013

(with comparative data as of June 30, 2012)

	<u>2013</u>	<u>2012</u>
<u>ASSETS</u>		
Current Assets:		
Restricted Assets:		
Cash and Cash Equivalents (Note 2)	\$ 2,810,231	\$ 7,231,063
Accounts Receivable Other	1,383,544	1,641,096
Accrued Interest Receivable	677	4,954
	<hr/>	<hr/>
Total Restricted Assets	4,194,452	8,877,113
Unrestricted Assets:		
Cash and Cash Equivalents (Note 2)	4,308,620	3,235,358
Investments (Note 2)	2,380,121	3,090,528
Accounts Receivable:		
Water Sales	28,188,179	31,071,698
Other	171,106	177,283
Accrued Interest Receivable	29,482	34,610
Deposits and Prepaid Expenses	67,748	62,277
	<hr/>	<hr/>
Total Unrestricted Assets	35,145,256	37,671,754
Total Current Assets	<hr/>	<hr/>
	39,339,708	46,548,867
Noncurrent Assets:		
Unrestricted Assets:		
Capital Assets, Net (Note 4)	982,541	1,116,728
Net Other Post Employment Benefits (OPEB) Asset (Note 8)	-	12,692
	<hr/>	<hr/>
Total Noncurrent Assets	982,541	1,129,420
TOTAL ASSETS	<hr/>	<hr/>
	40,322,249	47,678,287

MUNICIPAL WATER DISTRICT OF ORANGE COUNTY

Statement of Net Position (Continued)

June 30, 2013

(with the comparative data as of June 30, 2012)

	<u>2013</u>	<u>2012</u>
<u>LIABILITIES</u>		
Current Liabilities:		
Payable from Restricted Assets		
Accrued Liabilities	382,222	462,079
Advances from Participants	1,233,803	2,265,746
Due to Participants (Note 5)	1,429,394	1,371,316
	<hr/>	<hr/>
Total Payable from Restricted Assets	3,045,419	4,099,141
Unrestricted Liabilities:		
Accounts Payable, Metropolitan Water District of Southern California	30,875,672	33,548,640
Accrued Liabilities	1,003,929	661,990
	<hr/>	<hr/>
Total Unrestricted Liabilities	31,879,601	34,210,630
Total Current Liabilities	<hr/>	<hr/>
	34,925,020	38,309,771
Noncurrent Liabilities:		
Unrestricted Liabilities:		
Net Other Post Employment Benefits (OPEB) Obligation (Note 8)	31,956	-
	<hr/>	<hr/>
Total Noncurrent Liabilities	31,956	-
	<hr/>	<hr/>
TOTAL LIABILITIES	34,956,976	38,309,771
<u>NET POSITION</u>		
Invested in Capital Assets	982,541	1,116,728
Restricted for Trustee Activities	1,149,032	4,777,971
Unrestricted	3,233,700	3,473,816
	<hr/>	<hr/>
TOTAL NET POSITION	<hr/>	<hr/>
	\$ 5,365,273	\$ 9,368,516

MUNICIPAL WATER DISTRICT OF ORANGE COUNTY
Statement of Revenues, Expenses and
Changes in Net Position
For the Fiscal Year Ended June 30, 2013
(with comparative data for the Year Ended June 30, 2012)

	<u>2013</u>	<u>2012</u>
Operating Revenues:		
Water Sales	\$ 172,357,485	\$ 182,776,850
Special Projects Revenue	2,304,765	1,610,165
Federal Grant Revenue	426,896	957,068
State Grant Revenue	690,152	901,763
Total Operating Revenues	175,779,298	186,245,846
Operating Expenses:		
Cost of Water Sold	165,887,498	176,861,788
Salaries and Employee Benefits	4,152,834	4,039,267
General and Administrative	2,656,812	2,065,999
Special Project Expenses (Note 6)	3,421,812	3,468,996
Depreciation	144,826	151,274
Total Operating Expenses	176,263,781	186,587,324
Operating (Loss)	(484,484)	(341,478)
Nonoperating Revenues:		
Investment Income	157,801	155,183
Other Income	23,442	27,833
Total Non-Operating Revenues	181,243	183,016
Income Before Special Items	(303,241)	(158,462)
Special Items:		
Distribution of Funds to Member Agencies (Note 10)	3,700,002	-
Total Special Items	3,700,002	-
Change in Net Position	(4,003,243)	(158,462)
NET POSITION - BEGINNING OF YEAR	9,368,516	9,526,978
NET POSITION - END OF YEAR	\$ 5,365,273	\$ 9,368,516

MUNICIPAL WATER DISTRICT OF ORANGE COUNTY

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2013

(with comparative data for the Year Ended June 30, 2012)

	<u>2013</u>	<u>2012</u>
Cash Flows from Operating Activities:		
Cash received from member agencies-water deliveries	\$ 175,241,004	\$ 186,881,498
Cash payments to Metropolitan Water District of Southern California	(168,560,465)	(179,828,565)
Cash payments for salaries and employee benefits	(4,124,681)	(4,470,330)
Cash payments for general and administrative expenses	(2,297,673)	(1,912,250)
Cash received from special projects	3,679,365	3,942,502
Cash payments for special projects	(4,533,612)	(3,751,446)
	<hr/>	<hr/>
Net Cash (used) Provided by Operating Activities	(596,062)	861,409
	<hr/>	<hr/>
Cash Flows from Noncapital and Related Financing Activities:		
Other income	23,442	27,833
Acquisition of capital assets	(10,639)	(110,509)
Proceeds from RPOI participants (Note 5)	58,078	50,447
Payment to Member Agencies (Note 10)	(3,700,002)	-
	<hr/>	<hr/>
Net Cash (used) by Noncapital and Related Financing Activities	(3,629,121)	(32,229)
	<hr/>	<hr/>
Cash Flows from Investment Activities:		
Investment income	139,103	158,652
Investments sold	738,510	499,398
	<hr/>	<hr/>
Net Cash Provided by Investment Activities	877,613	658,050
	<hr/>	<hr/>
Net increase (decrease) in cash and cash equivalents	(3,347,570)	1,487,230
Cash and cash equivalents at beginning of year	10,466,421	8,979,191
	<hr/>	<hr/>
Cash and Cash Equivalents at End of Year	\$ 7,118,851	\$ 10,466,421
	<hr/> <hr/>	<hr/> <hr/>
Financial Statement Presentation:		
Cash and Cash Equivalents (Restricted)	\$ 2,810,231	\$ 7,231,063
Cash and Cash Equivalents (Unrestricted)	4,308,620	3,235,358
	<hr/>	<hr/>
Totals	\$ 7,118,851	\$ 10,466,421
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MUNICIPAL WATER DISTRICT OF ORANGE COUNTY

Statement of Cash Flows (Continued)

For the Fiscal Year Ended June 30, 2013

(with comparative data for the Year Ended June 30, 2012)

	<u>2013</u>	<u>2012</u>
Reconciliation of Operating (Loss) to Net Cash Provided for Operating Activities		
Operating Loss	\$ (484,484)	\$ (341,478)
Adjustments to Reconcile Operating Loss to Net Cash Provided (used) by Operating Activities:		
Depreciation	144,826	151,274
Change in Assets and Liabilities:		
Decrease in accounts receivable - water deliveries	2,883,519	4,104,649
Decrease in accounts receivable - other	18,869	95,723
Increase in deposits and prepaid expenses	(5,472)	1,987
Decrease in accounts receivable - special projects	257,553	473,506
Increase in accrued liabilities	373,894	(375,024)
(Decrease) in accrued liabilities	(79,856)	(287,979)
Increase (Decrease) in special projects	(1,031,944)	5,529
(Decrease) in accounts payable to Metropolitan Water District of Southern California	(2,672,967)	(2,966,777)
Total Adjustments	<u>(111,578)</u>	<u>1,202,887</u>
Net Cash Provided by Operating Activities	<u>\$ (596,062)</u>	<u>\$ 861,409</u>

Notes to Financial Statements

Municipal Water District of Orange County
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

(1) Organization and Summary of Significant Accounting Policies

Reporting Entity

The Municipal Water District of Orange County (the District) was formed as a municipal water district on January 11, 1951 under the Municipal Water District Act of 1911. The District is a wholesale water supplier and resource planning agency that serves all of Orange County through 28 cities and water agencies (except the Cities of Anaheim, Fullerton, and Santa Ana which are independent member agencies of the Metropolitan Water District of Southern California ("Metropolitan). As a public agency member of the Metropolitan, the District purchases imported water from Metropolitan and provides the water to the District's 28 member agencies, which provide retail water services to approximately 2.3 million residents with the District's service area of approximately 600 square miles. The District's primary sources of water from Metropolitan are the California State Water Project (SWP) and the Colorado River Aqueduct.

The District is an independent special district of the State of California governed by an elected seven-member board. On January 2001, the District merged with the Coastal Municipal Water District (Coastal) under the recommendation of the Local Agency Formation Commission of Orange County (LAFCO) as part of an effort to streamline local government. The consolidation of the two agencies allows the new district to more efficiently provide wholesale water services at an improved efficiency for the benefit of residents living throughout the service area.

The District's reporting entity includes the accounts of the District and the Municipal Water District of Orange County Water Facilities Corporation (WFC). Formed as a separate California nonprofit corporation on April 20, 1978 to assist in the financing of the Allen-McColloch Pipeline (AMP) and the Flow Augmentation Project (FAP), the WFC has no employees (see Note 5). The WFC is governed by a seven-member board comprised of the District's board members. The WFC had no activity or balances for the year ended June 30, 2013 and is kept active for potential future financing arrangements. WFC is a blended component unit of the District and the District has operational responsibility for WFC.

Basic Financial Statements

The District's basic financial statements consist of the Statement of Net Position the Statement of Revenues, Expenses and Changes in Net Position, the Statement of Cash Flows, and the Notes to the Basic Financial Statements.

Basis of Presentation

The District accounts for its activities as an enterprise fund. An enterprise fund is a proprietary type fund used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The District's basic financial statements have been prepared on the accrual basis of accounting, and are presented on an economic measurement focus reporting all economic resources and obligation for the period ended June 30, 2013.

Municipal Water District of Orange County
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

Net Position

In the Statement of Net Position, net position is classified in the following categories:

- Net investment in capital assets – This amount consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets as applicable.
- Restricted net position – This amount consists of restricted assets reduced by liabilities. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.
- Unrestricted net position – This amount is the net amount of the assets and liabilities that are not included in the determination of net investment in capital assets or the restricted component of net position.

When both restricted and unrestricted resources are available, it is the District's policy to use restricted resources first and then unrestricted resources as they are needed.

Operating and Non-Operating Revenues and Expenses

The District's primary purpose is to provide a dependable wholesale supply of imported water for its 28 member agencies. Accordingly, operating revenues, such as charges for services (water sales less the cost of water) result from exchange transactions, associated with the principal activity of the District, the purchase and resale of imported water to the District's member agencies.

Revenues from federal and state grants, reimbursements from participants and special projects (see Note 6), as well as special projects expenses are defined as operating revenues and expenses, respectively. Non-operating revenues consist of investment income and other miscellaneous income.

Water Sales and Cost of Water Sold

Historically, the District's primary source of revenue has been from the resale of imported water to the District's 28 member agencies located in Orange County. Based on Metropolitan's cost of water, each year the Board of Directors approves water rates comprised of a per retail connection charge, readiness to serve charge and a per acre-foot charge. Metropolitan's rates are based on cost of service studies performed on a biennial basis. Water rates are not subject to regulation by the California Public Utilities Commission or by any other local, state, or federal agency. Revenue from sales of water is recognized on the accrual basis as water is delivered.

Over the years, the District's revenue has been approximately 65% from a per retail connection charges, and 35% from per acre-foot charges. In June 2010, MWDOC and its member agencies came to agreement on changes to MWDOC's structure of charging for its services. First, MWDOC agreed to segregate our services between "Core" services and "Choice" services to give our agencies more "choices" to the services received. It was also agreed that, in addition to the cost of water and other charges from Metropolitan, MWDOC would transition its method of charging for "Core" services in the following manner. Commencing in fiscal year 2011 -12, MWDOC would begin transitioning to a 100% fixed charge. In the first year of this process, 80% of MWDOC's water rate charges for its operating budget would be fixed, and 20% would be based on water sales charges. Each year for the subsequent four years, MWDOC would increase the amount on fixed charges by 5%, reaching 100% in fiscal year 2015-16.

Choice services would be charged directly to the agencies as a "fee for service". These changes to the rate structure were determined to be more equitable among MWDOC's member agencies.

Investments

The District's investment policy and delegation of investment authority, is reviewed and approved each year by the Board of Directors. The investment policy authorizes the Director of Finance/Treasurer to invest, reinvest, sell or exchange permitted fixed income securities in accordance with the California Government Code. The District accounts for investments in debt securities at fair market value (the value at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale). Investment income from restricted assets remains restricted.

Municipal Water District of Orange County
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

Cash and Cash Equivalents

Cash and cash equivalents are defined as cash and short-term, highly liquid investments (i.e., Local Agency Investment Fund and Orange County Investment Pool) which are readily convertible to cash and mature within ninety (90) days of original purchase.

Accounts Receivable

The District extends credit to customers in the normal course of operations. Management believes all accounts receivable are collectible. In the event any accounts receivable are determined they are uncollectible, an allowance is recorded.

Capital Assets

Capital Assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and useful life greater than one (1) year. Upon retirement, sale or other disposition of capital assets, the cost and related accumulated depreciation are removed from respective accounts and any gains or losses are recognized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from 3 to 5 years for furniture, fixtures, and equipment, and 30 years for leasehold improvements.

Deposits and Prepaid Expenses

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

Compensated Absences

As vacation leave is a vested employee benefit, the District is obligated to compensate employees for all earned but unused vacation days. Employee vacation days are accrued each pay period and reported as accrued liabilities. Depending on the length of employment, employees earn a minimum of 10 to a maximum of 26 vacation days per year. Accumulated vacation days may not exceed 1.5 times the number of days earned per year without prior approval of the General Manager. On the other hand, sick leave time is a non-vested employee benefit (i.e. accumulated sick leave is not payable in the event of employee termination); is considered a contingent liability; and is not reflected in the accompanying financial statements.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that could affect certain reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates. Also, the preparation of the financial statements inherently requires rounding of amounts and estimates. Management believes that any differences due to rounding are not material.

Budgetary Policy and Control

The District Administrative Code requires that a budget be prepared each year under direction of the General Manager based on estimates of revenues and expected expenditures. The District's Board of Directors adopted an annual budget of expenditures for the period ended June 30, 2013. All amendments to the budget, or transfers of operating budget appropriations to or from reserve accounts, require Board approval. The General Manager is authorized to transfer budget amounts within programs. The legal level of budgetary control is at the total fund level.

Municipal Water District of Orange County
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

New Accounting and Reporting Requirements

For the fiscal year beginning July 1, 2012 the District is required to apply the following GASB Statements:

GASB Statement No. 62 – In December 2010, GASB issued Statement No. 62 – *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: 1) Financial Accounting Standards Board (FASB) Statements and Interpretations, 2) Accounting Principles Board Opinions, and 3) Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. This statement also supersedes Statement No. 20 – *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretation that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement. The District implemented this pronouncement, effective July 1, 2012.

GASB Statement No. 63 – In June 2011, GASB issued Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and amends the net asset reporting requirements in Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The Statement is effective for periods beginning after December 15, 2011. The District implemented this pronouncement, effective July 1, 2012.

Effective in Future Years

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

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

GASB Statement No. 67 – In June 2012, GASB issued Statement No. 67 – *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statement No. 25 – *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and Statement No. 50 – *Pension Disclosures*, as they relate to pension plans that are not administered through trust covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pension. The Statement is effective for periods beginning after June 15, 2013, or the 2013-2014 fiscal year. This statement is specifically for pension plan providers.

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

Municipal Water District of Orange County
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For the Year Ended June 30, 2013

effective for periods beginning after June 15, 2014, or the 2014-2015 fiscal year. The District has not determined the effect on the financial statements.

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

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

(2) Cash and Investments

Cash and investments at June 30, 2013, are classified in the accompanying financial statements as follows:

Statement of net position:	
Cash and Cash Equivalents (Restricted)	\$ 2,810,231
Cash and Cash Equivalents (Unrestricted)	4,308,620
Investments (Unrestricted)	<u>2,380,121</u>
Total Cash and Investments	<u>\$ 9,498,972</u>

Cash and investments as of June 30, 2013 consist of the following:

Cash on hand	\$ 500
Deposits with financial institutions	432,758
Investments	<u>9,066,714</u>
Total Deposits and Investments	<u>\$9,498,972</u>

Investments Authorized by the California Government Code and the District's Investment Policy

The table below identifies the investment types that are authorized for the District by the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Obligations	None	None	None
U.S. Government Sponsored Entities Securities	5 years	None	None
Corporate Securities	5 years	30%	None
Corporate Securities (Reserve Fund)	5 years	20%	None
Commercial Paper	None	20%	10%
Negotiable Certificates of Deposit	None	20%	None
Bankers' Acceptances	None	20%	20%
Repurchase Agreements	None	10%	None
Money Market Mutual Funds	N/A	20%	10%
County Investment Pool	N/A	None	None
State Investment Pool	N/A	None	None

Municipal Water District of Orange County
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Disclosures Relating to Interest Rate Risk

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

<u>Investment Type</u>		<u>Remaining Maturity (in Months)</u>		
		<u>12 Months or Less</u>	<u>13 to 24 Months</u>	<u>25-60 Months</u>
Negotiable Certificates of Deposits	\$ 299,158	\$ 200,340	\$ -	\$ 98,818
Corporate Securities	2,080,963	-	-	2,080,963
County Investment Pool	2,351,961	2,351,961	-	-
State Investment Pool	<u>4,334,632</u>	<u>4,334,632</u>	-	-
	<u>\$9,066,714</u>	<u>\$6,886,933</u>	<u>\$ -</u>	<u>\$2,179,781</u>

Disclosures Relating to Credit Risk

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

<u>Investment Type</u>		<u>Minimum Legal Rating</u>	<u>Ratings as of Year End</u>			
			<u>A</u>	<u>A-</u>	<u>AA-</u>	<u>Not Rated</u>
Negotiable Certificates of Deposits	\$ 299,158	N/A				\$ 299,158
Corporate Securities	2,080,963	A	\$782,043	\$776,535	\$522,385	
County Investment Pool	2,351,961	N/A				2,351,961
State Investment Pool	<u>4,334,632</u>	N/A				<u>4,334,632</u>
	<u>\$9,066,714</u>		<u>\$782,043</u>	<u>\$776,535</u>	<u>\$522,385</u>	<u>\$6,985,751</u>

Concentration of Credit Risk

The District's investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. At June 30, 2013 the District had investment in more than one issuer (other than U.S. Treasury securities, mutual funds, external investment pools) that represented 5% or more of total District investments as follows:

<u>Issuer</u>	<u>Amount</u>	<u>Percent of Portfolio</u>
MetLife Global Funding	\$522,385	5.76%
Morgan Stanley	\$515,930	5.69%
UBS Financial Services	\$521,100	5.74%

Custodial Credit Risk

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

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and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits:

The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agency. The Government Code also allows financial institutions to secure public agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2013 the District's deposits with financial institutions are covered by FDIC.

Investment in State and County Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California, and in the Orange County Investment Pool (OCIP) under the oversight of the Orange County Treasurer. The fair market value of the District's investment in these pools are reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair market value provided by LAIF and OCIP for the entire LAIF and OCIP portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF and OCIP, which are recorded on an amortized cost basis.

LAIF is a governmental investment pool managed and directed by the California State Treasurer and is not registered with the Securities and Exchange Commission. An oversight committee comprised of California State officials and various participants provides oversight to the management of the fund. The daily operations and responsibilities of LAIF fall under the auspices of the State Treasurer's office.

The Agency is a participant in the County Treasurer's Orange County Investment Pool (OCIP). The OCIP is an external investment pool, is not rated, and is not registered with the Securities Exchange Commission (SEC). The County Treasury Oversight Committee conducts OCIP oversight. Cash on deposit in the OCIP at June 30, 2013, is stated at fair value. The OCIP values participant shares on an amortized cost basis during the year and adjusts to fair value at year-end. For further information regarding the OCIP, refer to the County of Orange Comprehensive Annual Financial Report.

(3) Restricted Assets

Restricted assets are monies held in restricted funds or accounts by the District for the benefit of member agencies, including a rate stabilization fund. As of June 30, 2013, \$4,194,452 was included in trustee Activities

(4) Capital Assets

The following is a summary of capital assets at June 30, 2013 with changes therein:

	<u>2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>2013</u>
Furniture and fixtures	\$ 619,174	\$ -	\$(82,786)	\$ 536,388
Leasehold improvements	<u>2,785,773</u>	<u>10,639</u>	<u>-</u>	<u>2,796,412</u>
	3,404,947	10,639	(82,786)	3,332,800
Less accumulated depreciation	<u>(2,288,219)</u>	<u>(144,826)</u>	<u>82,786</u>	<u>(2,350,259)</u>
Net Capital Assets	<u>\$1,116,728</u>	<u>\$(134,187)</u>	<u>\$ -</u>	<u>\$ 982,541</u>

(5) Trustee Activities

Since 1978, the District has acted as trustee for certain member agencies in the financing, construction and operation of a water pipeline system and related facilities necessary to improve water quality and provide capacity to accommodate new development in the southeastern portion of the District's service area. The original 1979 pipeline project consisted of the construction of a 26-mile pipeline, which was augmented in 1989 with the construction of a 3-mile parallel pipeline and flow control facility. Together these projects, known as the Allen-McColloch Pipeline (AMP) and the Flow Augmentation Project (FAP), were funded through tax-exempt bonds originally issued by WFC and cash participation by some participating agencies.

Municipal Water District of Orange County
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In 1995, the Metropolitan acquired the AMP and FAP pipelines and related facilities. At the same time, all participating agencies agreed upon a Revised Percentage of Investment (RPOI) formula for sharing of revenue from Metropolitan and other participants for capacity swaps until the final payment of all outstanding debt or liabilities in 2016, or sooner.

As trustee, the District records current year transactions to receive payments from the financing member agencies, and to make payments to member agencies which paid cash. For the year ended June 30, 2013, The District received \$1,595,144 from certain AMP member agencies, and disbursed \$1,537,066 by the RPOI formula. As of June 30, 2013, the balance of \$1,429,394 included in "Due to Participants" is to be disbursed to the AMP member agencies in the first quarter of the following fiscal year.

(6) Special Projects Revenue and Expenses

The District receives revenues from member agencies, as well as grants from federal and state agencies, to the benefit of the District's ratepayers for a variety of programs and projects, including water conservation education, water use efficiency, and desalinization feasibility studies. As stipulated in executed grant agreements, the District is reimbursed by the granting agency for eligible grant project expenses which are first incurred by the District. For eligible District-incurred grant expenses not reimbursed by the end of the District's fiscal year, the District accrues revenue for unreimbursed grant funds due the District. As of June 30 2013, the District accrued \$781,972 of grants receivable. The District recognized \$3,421,812 in contributions from Metropolitan and member agencies, federal and state grant revenue, and corresponding expenses, for the year ended June 30, 2013

(7) District Directors and Employees Retirement Plans

(a) Defined Contribution Plan

On January 1, 1997, the District adopted a defined contribution, private Money Purchase Pension Plan (Plan). Employee contributions were made to the Plan until the District joined the California Public Employees Retirement System (CalPERS). Effective, March 1, 2003, District employees became members of CalPERS and employee contributions to the Plan were frozen. Currently, Board members participate in the Plan and contributions are made by the District on behalf of the current participants. The District is required to contribute 10.5% of a participant's gross salary, increasing to 13.5% after one year of service. The District's Board of Directors has the authority to amend or terminate the plan at any time. A summary of this plan's contribution and District payroll information follows:

District contributions for participants	\$22,639
District contributions as a percent of covered payroll	10.5% / 13.5%
Total covered payroll	\$171,179

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

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

Plan Description:

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

Funding Policy:

The District funded employer payroll contributions to CalPERS for the 2.0% at 55 Risk Pool Retirement Plan (Plan) on behalf of eligible District employees. These contributions covered the employee's contribution (7% of annual covered salary), and the employer's contribution (10.238% of annual covered salary) consisting of the actuarially determined remaining amount necessary to fund benefits for its members. The contribution requirements of the plan member are established by State statute and employer contribution rates is

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established, and may be amended by CalPERS. Effective with the 2012/13 budget year, employees began paying 1% of the 7% employee contribution. It is anticipated that this amount will increase by 1% each budget year until the 7% employee contribution is fully funded by the employee. Classic CalPERS members hired after March 1, 2013 are required to pay the entire 7% employee contribution rate; and employees hired after January 1, 2013 that are new to CalPERS, are enrolled in the 2% @ 62 CalPERS Retirement Formula and are required to pay 6.25% of the employee contribution rate with the employer paying 6.25% of the Employer contribution rate, this is pursuant to the Public Employees Pension Reform Act (PEPRA). Employer contributions are included and equaled the required contributions for each period. Recent District contribution rates and amounts are presented in the following table.

<u>Fiscal Year</u>	<u>Contribution Rate (%)</u>	<u>Contribution Amount (\$)</u>
2012-13	17.238	462,463
2011-12	17.059	450,105
2010-11	15.984	433,358

(8) Retiree Medical Plan - Other-Post-Employment Benefits

(a) Plan Description:

Effective October 1, 2011, the District established a Post Retirement Healthcare Plan (Plan), and has contributed to a Section 115 Irrevocable Exclusive Benefit Trust for the pre-funding of post-employment health care costs. Currently, the District provides health insurance for its retired employees and their dependent spouses (if married and covered on the District's plan at time of retirement), or survivors in accordance with Board resolutions. Medical coverage is provided for retired employees who are age 55 or over and who have a minimum of 10 years service with the District.

The District pays 100% of the premium for the single retiree and 80% of the married retiree and spouse until age 65. If a retiree in receipt of these benefits dies before reaching age 65, the surviving spouse will continue to receive coverage that the retiree would have been entitled to until age 65 only. When a retiree reaches age 65 and/or is eligible for Medicare, the District reimburses the retiree up to \$1,800 per calendar year for the cost of Supplemental Medical Insurance and Medicare Prescription Drug (Part D) Insurance. Retirees who complete at least 25 consecutive years of full-time service receive District-paid dental and vision benefits along with the above-mentioned medical coverage until the time of the retiree and spouse's death. Plan benefits and contribution requirements of Plan members and the District are established, and may be amended, by the District's Board of Directors.

The following parties are responsible for administration of the Plan:

- Public Agency Retirement Services (PARS) serves as Trust Administrator and Consultant,
- US Bank serves as Trustee, and
- HighMark Capital Management servers as Investment Manager.

PARS issues monthly account reports to the District and HighMark publishes quarterly performance reports.

(b) Funding Policy:

The contribution requirements of Plan members and the District are established, and may be amended, by the District's Board of Directors. Currently, contributions are not required from Plan members. The District is currently funding the OPEB obligation on a pay-as-you-go basis. For the year ended 2013, the District paid \$155,575 in health care costs for its retirees and their covered dependents

(c) Annual OPEB Cost and Net OPEB Obligation:

The District's annual OPEB cost (expense) is calculated based on the Annual Required Contribution of the employer (ARC), an amount actuarially determined in accordance with GASB Statement 45. The most recent GASB 45 actuarial valuation is dated July 1, 2011. The ARC represents a level of funding that, if paid on an on-going basis, is projected to cover normal costs each year and to amortize any unfunded liabilities of the Plan over a period not-to-exceed 30 years.

Municipal Water District of Orange County
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The following table shows the components of the District's annual OPEB costs for FY 2012-13, the amount actually contributed to the Plan, and changes in the District's net OPEB Asset.

Annual Required Contribution (ARC)	\$ 205,390
Interest on Net OPEB Obligation	24,507
Adjustment to ARC	<u>(29,674)</u>
Annual OPEB Cost	200,223
Contribution made	<u>155,575</u>
Increase in Net OPEB Obligation	44,648
Net OPEB Asset June 30, 2012	<u>(12,692)</u>
 Net OPEB Obligation at June 30, 2013	 \$ <u>31,956</u>

(d) Three-Year Trend Information:

For fiscal year 2012, the District's annual OPEB cost (expense) of \$200,223 was equal to the ARC. Information on the annual OPEB cost, Percentage of Annual OPEB Cost Contributed, and Net OPEB Obligation (Asset) are presented below:

Fiscal Year Ended	Annual OPEB Cost	Actual Contribution (Net of Adjustments)	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
6/30/2011	\$170,117	\$ 34,155	20.08%	\$408,455
6/30/2012	200,223	621,370(1)	310.34%	(12,692)
6/30/2013	200,223	155,575	77.70%	31,956

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

(e) Funded Status and Funding Progress:

As of July 1, 2011, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$1,610,754, and the actuarial value of assets was zero, resulting in an Unfunded Actuarial Accrued Liability (UAAL) of \$1,610,754. The covered payroll (annual payroll of active employees covered by the plan) was \$2,796,645 and the ratio of the UAAL to the covered payroll was 57.60%.

Actuarial valuations of an on-going plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the Plan and the annual required contributions of the District are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

(f) Actuarial Methods and Assumptions:

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets consistent with the long-term perspective of the calculations.

In the July 1, 2011 actuarial valuation report, the projected unit credit cost method was used. The actuarial assumptions included a 6.00% investment rate of return (net of administrative expenses), a trend rate for the fiscal year beginning 2012 of 7% for healthcare costs, and an inflation rate of 6%. The District's unfunded actuarial accrued liability will be amortized by a 30 year level dollar contribution over an open period.

Municipal Water District of Orange County
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

(9) Risk Management

The District is a member of the Association of California Water Agencies Joint Powers Insurance Authority (Insurance Authority). The Insurance Authority is a risk-pooling self-insurance authority, created under provisions of California Government Code Sections 6500 et. seq. The purpose of the Authority is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage for member agencies.

The Insurance Authority bills the District a deposit premium at the beginning of each year, which is placed in a reserve fund to cover the self-insurance portion of any claim. Settlements and/or expenses related to claims during the year are then charged to the reserve. If the balance of the reserve at the end of the year is deemed too low in relation to the amount of outstanding claims, the District is billed for additional premiums. When the claims are fully settled, any amounts remaining in the reserve are refunded to the District.

At June 30, 2013, the District participated in the self-insurance programs of the Insurance Authority as follows:

Property Loss - The Insurance Authority has pooled self-insurance up to \$100,000 per occurrence and has purchased excess insurance coverage up to \$100 million (total insurable value of \$1,248,142). The District has a \$1,000 deductible for buildings, personal property and fixed equipment.

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

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

Public Officials' Liability - The Insurance Authority has pooled self-insurance up to \$2 million per occurrence and has purchased excess insurance coverage up to \$60 million.

Fidelity Bond - The Insurance Authority has pooled self-insurance up to \$100,000 per occurrence and has purchased excess insurance coverage up to \$2 million. The District has a \$1,000 deductible.

Workers' Compensation - The Insurance Authority is self-insured up to \$2 million per occurrence and has purchased excess insurance coverage up to the statutory limit. Employer's liability is insured up to a \$4 million limit with pooled self-insurance up to \$2 million, and has purchased excess insurance coverage up to \$2 million.

The District pays annual premiums to the Insurance Authority for all coverage's. There were no instances in the past three years when a settlement exceeded the District's coverage.

Municipal Water District of Orange County
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

(10) Additional Information

Refund of Tier 2 Rate Surcharge

The Tier 2 Contingency Fund was established to cover the differential costs between METROPOLITAN's Tier 1 and Tier 2 water supply in years where MWDOC purchases Tier 2 water (purchases above 228,130 Acre Feet (AF)) The reason of the fund was to reduce rate volatility and minimize financial risk to the member agencies.

In 2012, MWDOC received an increase to its annual Tier 1 limit by additional 52,000 AF, which significantly minimizes MWDOC's future exposure to Tier 2 purchases; and based on MWDOC's past three year average purchases of 193,000 AF, allowed for the opportunity to refund \$3.7 million of the \$4.7 million fund back to the member agencies.

In 2013, the MWDOC Board authorized staff to distribute \$3.7 million back to the member agencies according to the amount they contributed into the fund.

Required Supplementary Information

(Unaudited)

Municipal Water District of Orange County
 Required Supplementary Information (Unaudited)
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Other Post-Employment Benefit Plan
Schedule of Funding Progress

Retiree Healthcare Plan

Actuarial Valuation Date ⁽¹⁾	Actuarial Accrued Liability (a)	Actuarial Value of Plan Assets (AVA) (b)	Unfunded Actuarial Accrued Liability (UAAL) (a) – (b)	Funded Ratio (b)/(a)	Annual Covered Payroll (c)	UAAL as a % of Payroll Percentage of Covered Payroll [(a)-(b)]/(c)
7/1/2008	\$1,428,095	\$ -	\$1,428,095	0.00%	\$2,707,871	52.74%
7/1/2011	\$1,610,754	\$ -	\$1,610,754	0.00%	\$2,796,645	57.60%

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