

WATER RELIABILITY

Water makes it possible.

IRVINE RANCH WATER DISTRICT

Comprehensive Annual Financial Report
For Fiscal Year Ended June 30, 2014
Irvine, California

Water makes it possible.

Comprehensive Annual Financial Report

For Fiscal Year Ended June 30, 2014

Irvine Ranch Water District
Irvine, California

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Prepared by:

Irvine Ranch Water District

Finance Department

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Financial Section

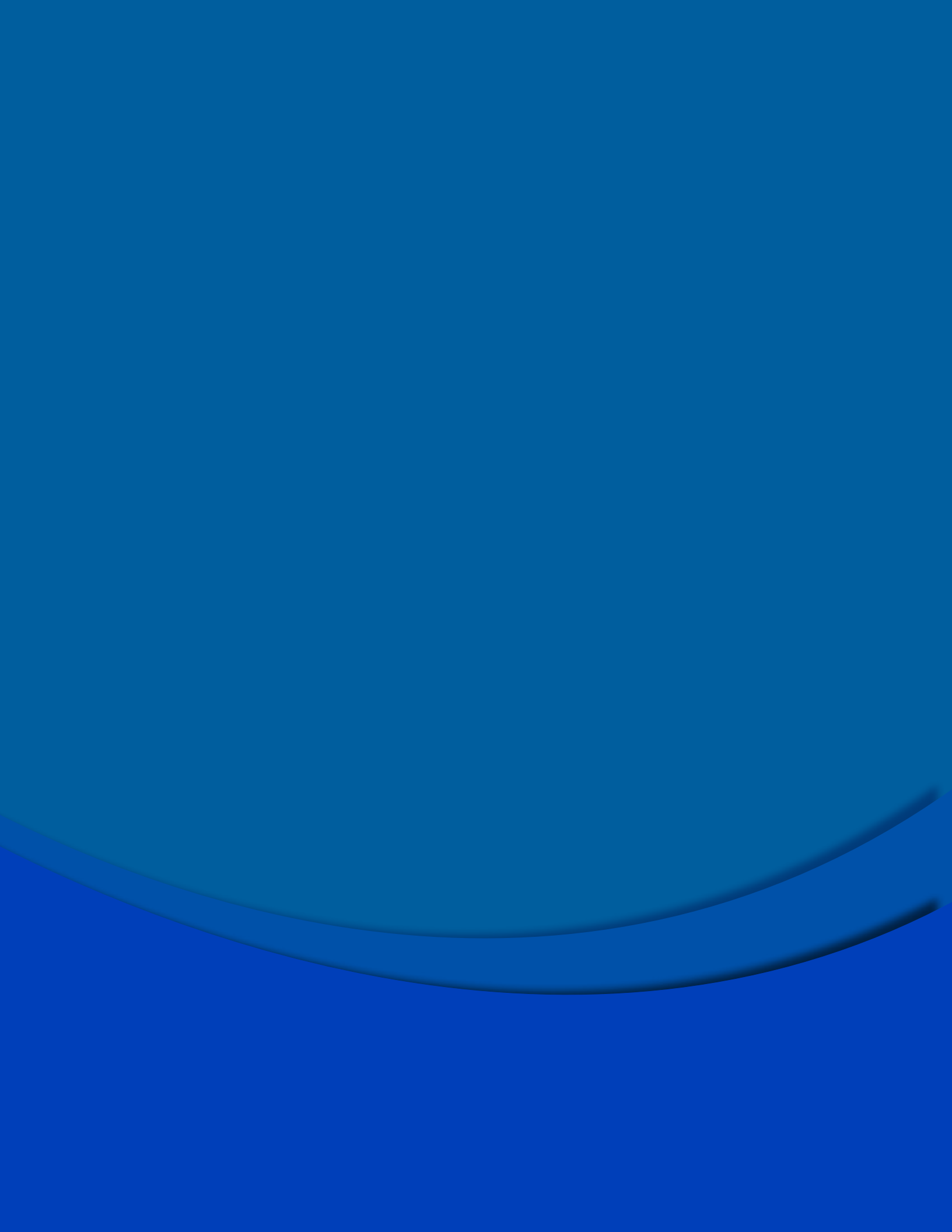
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INTRODUCTORY SECTION





December 15, 2014

To The Board of Directors,
Irvine Ranch Water District:

Management of the Irvine Ranch Water District (IRWD or the District) has prepared a Comprehensive Annual Financial Report of IRWD for the fiscal year ended June 30, 2014. This document, which contains a complete set of basic financial statements, is presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. State law requires that all special-purpose local governments publish these basic financial statements within six months of the close of the agency's fiscal year.

This report contains management's representations concerning the finances of the District. Management assumes full responsibility for the completeness and reliability of the information contained in this report. To provide a reasonable, rather than absolute, basis for making these representations, IRWD management has established a comprehensive framework of internal controls. These controls are designed to protect the District's assets from loss, theft, or misuse, and to ensure sufficiently reliable information for the preparation of the District's basic financial statements in conformity with GAAP. The District's internal controls have been designed to provide appropriate assurance that the basic financial statements will be free from material misstatement. As management, we assert that this financial report is complete and reliable in all material respects.

The District's basic financial statements have been audited by Mayer Hoffman McCann, P.C., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the basic financial statements of the District for the fiscal year ended June 30, 2014 were free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. The independent auditor rendered an unmodified opinion that the District's basic financial statements for the fiscal year ended June 30, 2014 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

A profile of the District is presented in this Introductory Section. In the Financial Section, Management's Discussion and Analysis (MD&A) immediately follows the independent auditor's report and provides an overview and analysis of the basic financial statements. This letter of transmittal and introduction is designed to complement the MD&A and should be read in conjunction with it.

Profile of Irvine Ranch Water District

Overview

Irvine Ranch Water District was established in 1961 as a California Water District under the provisions of the California Water Code. As a special district, IRWD focuses on four primary services - providing potable water, collecting sewage, producing and distributing recycled and other non-potable water, and implementing urban runoff source control and treatment programs.

IRWD is an independent public agency governed by a five-member, publicly elected Board of Directors. The members of the Board each have varied professional backgrounds, coupled with an average tenure for the Board members of approximately 20 years. The District is a leader in developing and implementing resource management initiatives such as water recycling, urban runoff and water conservation, and in financial management practices such as variable rate debt financing and long-term infrastructure replacement program development and funding.

The District serves a 181 square mile area, which includes all of the City of Irvine and portions of the cities of Tustin, Newport Beach, Costa Mesa, Orange and Lake Forest, as well as certain unincorporated areas of Orange County. Extending from the Pacific Coast to the top of the foothills of eastern Orange County, the District's region is semi-arid with a mild climate and an average annual rainfall of approximately 12 inches. The total estimated population served is 370,000 through approximately 103,000 water and over 97,000 sewer service connections. The number of service connections has increased by approximately 16% over the last ten years.

The District provides its core services to its customers by focusing on the following areas:

- *Operational Reliability* – having multiple sources of water supply and various sewage treatment alternatives to ensure reliable services.
- *Organizational Strength* – having professional staff work in close collaboration with the Board of Directors striving to exceed the expectations of our customers.
- *Long-Term Financial Planning* – ensuring sufficient funds are available to construct, operate, and replace facilities, while maintaining competitive rates now and in the future.

Services

The District is functionally organized into four core service areas:

Drinking or “Potable” Water System

For many years, the District received virtually all of its drinking water from imported sources. To minimize its dependence on imported water, in 1979, the District began to develop a series of local wells known as the Dyer Road Wellfield to pump high quality groundwater from the Orange County

Groundwater Basin, managed by the Orange County Water District (OCWD). The District also operates and treats groundwater produced from the Deep Aquifer Treatment System (DATS), Irvine Desalter Project (IDP), and Wells 21 and 22 Desalter Facility. In addition, the District operates wells in the Lake Forest area, which is outside of the current boundaries of OCWD. In Fiscal Year (FY) 2013-14, the largest component of the District's water supply was local groundwater, which accounted for 56% of its total water supply.

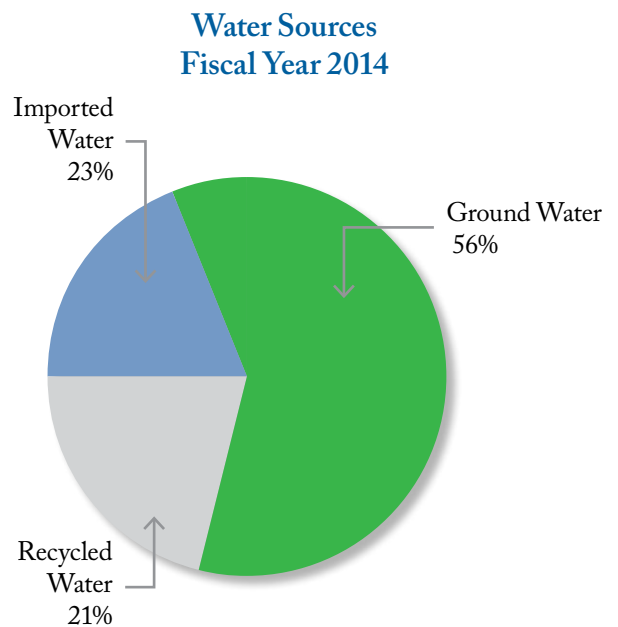
Groundwater typically is less expensive and has been more reliable than imported water because it does not have to be transported over hundreds of miles into Southern California and subsequently treated.

The District purchased 23% of its water supply in FY 2013-14 from the Metropolitan Water District, the region's wholesale water supplier. This water is imported from the Colorado River, which is transported approximately 240 miles through deserts and over mountain ranges to Southern California, and from the Delta, which is transported approximately 400 miles from Northern California.

Recycled Water System

The District treats sewage to provide water for irrigation and industrial purposes which reduces its reliance on the more expensive imported water and increases its system reliability. Sewage from the community is collected and recycled to California State Water Resources Control Board standards at the Michelson Water Recycling Plant and the Los Alisos Water Recycling Plant, which have the combined capacity to produce nearly 36 million gallons of recycled water per day. Once treated, the recycled water is used in the system, which in FY 2013-14 accounted for approximately 21% of the District's total water supply. Approximately 83% of all business and community landscaped areas (parks, school grounds, golf courses, street medians, etc.) in the District's service area are irrigated with recycled water. The District also provides recycled water for various industrial and commercial uses. IRWD's ultimate goal is to recycle all its sewage flows whereby recycled water will represent 25% of its total water supply. This increase in recycled water supply will also provide a substantial portion of the water needed to support future growth and redevelopment.

The District operates 5 wells and reservoirs that collect local water for non-potable uses, including Irvine Lake, a 25,000 acre-feet reservoir which receives stream flow (native water) coming from the Santiago Creek watershed. This water is used primarily in the foothills area of the District for agricultural and other irrigation purposes, and supplements the recycled water system during peak demand periods. In addition, the District has approximately 5,200 acre feet of recycled water storage capacity and is currently evaluating additional recycled water storage projects.



Sewage Collection and Treatment System

The District has an extensive network of gravity sewers, force mains, sewage lift stations, and siphons that convey sewage to two District-owned treatment plants. In FY 2013-14, the District treated approximately 91% of its sewage while the remainder of the sewage collected by the District was diverted to capacity owned at the Orange County Sanitation District treatment facilities. The District plans to expand its treatment capacity and this will result in increased water recycling capabilities to serve its growing population. This expansion is discussed in more detail in the Major Initiatives section of this document.

Urban Runoff Source Control and Treatment System

IRWD is statutorily authorized to control and treat urban runoff, and conducts various projects and programs as part of an effort to protect the quality of water within the San Diego Creek watershed. In the early 1990s, the District reconstructed wetlands at the San Joaquin Marsh where natural biological processes remove a substantial amount of the pollutant load from San Diego Creek before it reaches environmentally sensitive Upper Newport Bay. In light of this success, the District obtained special legislation allowing it to add urban runoff treatment to its services, and operates a regional urban runoff treatment project known as the Natural Treatment System. As of June 30, 2014, the Natural Treatment System consists of 20 wetland treatment sites located throughout the District's service area with several more currently under construction. The District has mechanisms in place to fund the operation of these systems.

People

The District employs approximately 330 staff who are responsible for daily operations and implementing strategic objectives and policies set forth by the Board. The District actively promotes the training and education of employees to increase effectiveness and retention. The average tenure of the employees is approximately 10 years. A succession planning program at all levels of the organization has been developed to ensure long-term workforce stability. The District hired Jenny Roney as Director of Human Resources in September 2013. The District promoted Paul Weghorst to Executive Director of Water Policy and Fiona Sanchez to Director of Water Resources in February 2014.

Legislative and Regulatory Affairs

The District actively monitors and works to influence state and federal legislation, policies and regulatory actions that could affect IRWD's operations, existing and future facilities and strategic planning efforts. The Board of Directors is frequently engaged in and takes active positions on relevant pending legislation and regulatory actions. In 2014, the District successfully influenced legislation that was enacted to improve groundwater management throughout the State of California. IRWD's efforts ensured that the District's ability to make use of local groundwater and to operate its water banking projects in Kern County were protected. The District and its Board of Directors also participate in state and regional trade associations including the Association of California Water Agencies, the California Association of Sewer Agencies, the WaterReuse Association and the California Special District Association.

Infrastructure Assets

The District builds and maintains significant capital infrastructure in order to provide superior service to its customers. The table below provides key information relating to its water and sewer systems.

Infrastructure Assets			
	2005	2010	2014
Potable System			
Miles of Water Line	990	1,169	1,597
Number of Storage Tanks	27	37	36
Maximum Storage Capacity (acre feet)	418	456	456
Number of Pumping Plants	24	45	41
Number of Wells	21	24	26
Well Production Capacity (cfs)	100	117	124
Water Banking Storage Capacity (acre feet)	-	57,600	59,600
Non-Potable and Recycled Systems			
Miles of Recycled Line	307	407	503
Number of Storage Tanks	14	11	12
Number of Open Reservoirs	4	4	5
Maximum Storage Capacity (acre feet)	23,696	23,703	24,155
Number of Pumping Plants	17	18	19
Number of Wells	3	5	5
Well Production Capacity (cfs)	3.8	9.8	9.8
Sewer System			
Miles of Sewer Line	656	940	1,009
Number of Lift Stations	16	15	11
Treatment Plants	2	2	2
Treatment Capacity (mgd)	22.5	25.5	35.5
Sewage Flows to Michelson Plant	44%	73%	76%
Sewage Flows to Los Alisos Plant	17%	16%	15%
Sewage Flows to Orange County Sanitation District	39%	11%	9%
1 acre foot = 325,900 gallons			
cfs = cubic feet per second			
mgd = millions gallons per day			

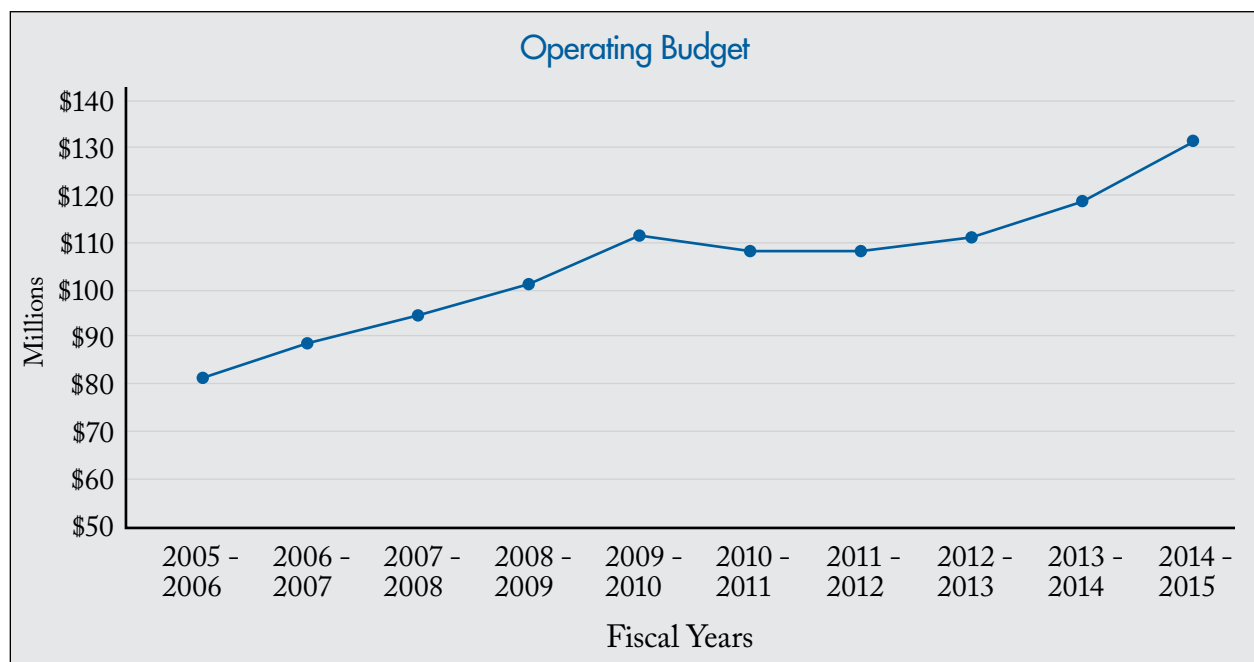
Financial Plan

Each year, the Board approves an annual operating budget. The goal of the District's operating budget process is to appropriately fund the resources required to provide excellent service to its customers as cost-efficiently as possible. The graph below shows the approved operating budget over the last 10 years. Increases reflect costs associated with customer growth within the District as well as an increase in overall operating expenses. Increases have been kept to a minimum by aggressively pursuing reductions in expenses to offset uncontrollable expenses, such as pass-through rate increases from outside agencies.

The approved FY 2014-15 budget increased to \$130.6 million from \$117.1 million in FY 2013-14, or 11.6%. The primary drivers for the increases were an assumed increase in purchased water associated with the warm dry weather and an increase in electricity costs from the District's third party provider.

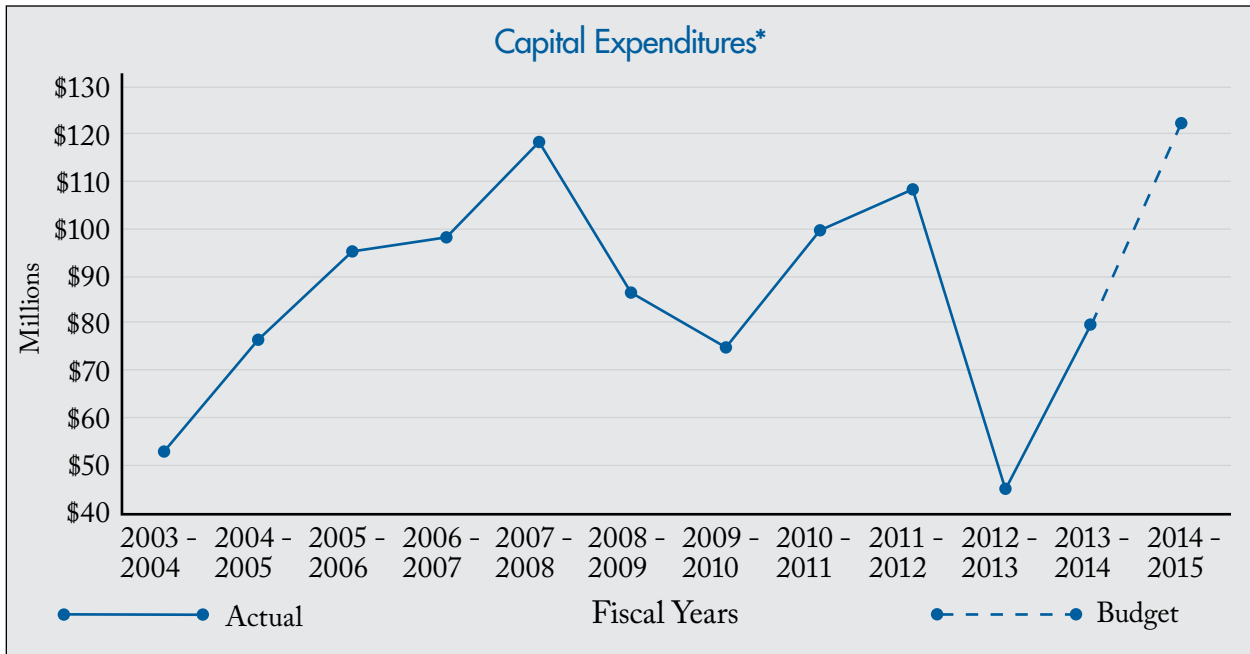


Wells 21 & 22 Water Treatment Plant



The Board also approves an annual capital budget based on new, enhancement and replacement infrastructure needs. Below are the actual capital expenditures thru FY 2013-14. The reduced spending in 2012-13 from prior years represents the District's focus on the completion of several projects and the design period for two new key projects, MWRP Biosolids and Energy Recovery Facilities and the Baker

Water Treatment plants, both of which began construction in FY 2013-14. For FY 2014-15, the adopted capital budget was \$153.7 million. Many capital budget projects extend beyond one fiscal year. The District's capital program currently includes more than 500 active and planned projects with expenditures estimated at more than \$600 million over the next 20 years.



*Actual capital expenditures excluding overhead, intangibles and capitalized interest.

User Rates & Charges

User rates and charges are primary used for funding the District's operation and maintenance expenses. The District separates the cost of constructing water and sewer infrastructure from the cost of daily operations and maintenance. User rates, as discussed below, are billed to customers on a monthly basis, and include a component for the inevitable replacement of existing infrastructure. Setting replacement monies aside in advance helps stabilize rates and avoids significant potential future rate swings.

The District allocates capital costs throughout its service area through the use of water and sewer improvement districts, for which general obligation bond authorization is obtained and used as needed to fund capital projects. Ad valorem property tax rates are set annually by the District, as are connection fees paid by property developers and landowners. Generally, the District's policy is to allocate the cost of infrastructure evenly between the developer/landowners and the ultimate property owners who benefit from the water and sewer infrastructure.

Water Rates

The District's rate structure for water use is separated into a commodity charge component and a service charge component. The commodity charge reflects the cost of the District's water supplies while the service charges fund the remaining fixed operational expenses of the District. For FY 2013-14, the District's water fixed service charge was \$9.85 per month (for the Irvine Ranch and Los Alisos rate areas). The District has a long history of planning for the inevitable replacement of capital infrastructure, and has set monies aside into enhancement and replacement funds for this purpose. In FY 2013-14, the monthly fixed service charge includes a user enhancement and replacement component of \$0.70 and \$0.80 respectively per month, intended to fund current and future capital costs that provide reliability and redundancy to the District's infrastructure.

The District has a five-tiered rate structure that promotes water use efficiency. A basic use allocation is established for each customer account that provides a reasonable amount of water for the customer’s needs and property characteristics, giving consideration to factors such as the number of occupants, type or classification of use, size of lot or irrigated area, evapotranspiration rate for the billing period and other consistently applied criteria. The chart below illustrates the five-tier structure that reflects the increased cost associated with usage in the higher tiers.

FY 2013-14 Residential Rate Structure – Potable Water (Commodity Charge)*

Tier	Percent of Estimated Customer Need	Cost per ccf
Low Volume	0 – 40%	\$0.91
Base Rate	41 – 100%	\$1.27
Inefficient	101 – 150%	\$2.86
Excessive	151 – 200%	\$4.80
Wasteful	201% +	\$9.84

One ccf (100 cubic feet) = 748 gallons

*This rate structure is for the Irvine Ranch rate area. Customers of the former Orange Park Acres Mutual Water Company and the former Los Alisos Water District are on a separate rate structure based on their respective consolidation agreements.

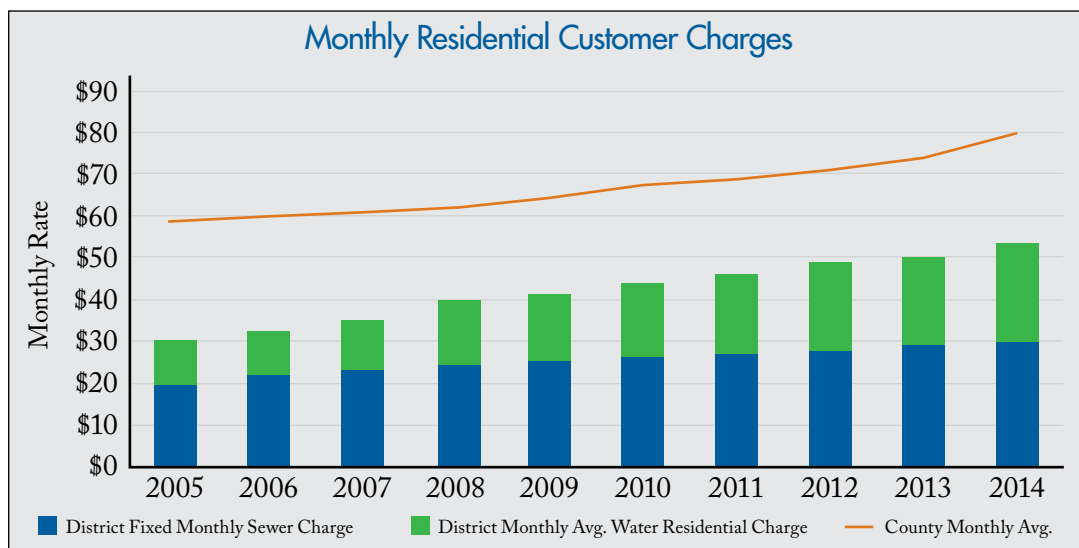
Approximately 80% of the District’s customers are within the first two tiers and 95% of customers fall within the District’s first 3 tiers, making IRWD rates among the lowest in Orange County.

Sewer Rates

The District’s sewer rates are also among the lowest in Orange County, with a fixed monthly service charge of \$18.40 in FY 2013-14 for a typical residential customer that covers the collection and treatment of sewage. This monthly service charge also includes a user enhancement and replacement component of \$0.70 and \$6.05, respectively, per month, which is intended to fund current and future capital costs to replace, refurbish and upgrade the existing system. The monthly service fee of \$6.05 includes \$1.00 to fund the construction of the MWRP Biosolids and Energy Recovery Facilities discussed in more detail under *Major Initiatives – Expanded Water Recycling Options and System Reliability*. These components are projected to grow annually.

Historic Rate Trends

The following chart reflects the annual “base rate” charge for an average customer’s water and sewer service through FY 2013-14. The District raised rates in each of the last twelve years due largely to increased costs for wholesale supplies and fixed service costs for both water and sewer, including funding for future infrastructure development.



The District has completed five consolidations over the last seventeen years – Santa Ana Heights Mutual Water Company in 1997, Carpenter Irrigation District in 2000, Los Alisos Water District in 2001, Santiago County Water District in 2006, and Orange Park Acres Mutual Water Company in 2008, resulting in approximately a 20% increase to the District’s customer base.

The integrated services at the District allow for reduced overhead and administrative costs and lower rates and charges to the customers of the consolidated District. When considering requests for consolidation, the District looks for increased efficiencies through economies of scale and mutual benefits from combined expertise and resources.

Customers served by the districts consolidating with IRWD buy-in to the District’s existing infrastructure and, when completed, receive the benefit of lower rates, enhanced reliability and increased services.

Factors Affecting Financial Condition

The information presented in the Financial Section is perhaps best understood in the context of the economic environment in which the District operates, which is discussed below.

State and Local Economy

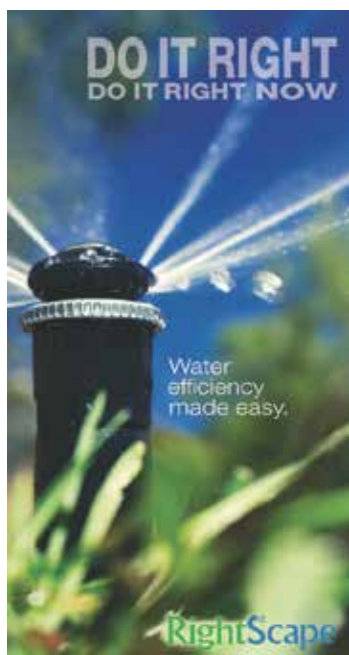
Orange County is the third most populous county in California with over 3.1 million residents and a varied economy in which no single industry is considered dominant. With a location central to Orange County, the District’s service area is the home to numerous corporate headquarters such as Taco Bell Corporation, Allergan Inc., Oakley and Broadcom Corporation. The District is also home to various educational institutions, including University of California Irvine, Concordia University, two community colleges, and other colleges and universities with satellite campuses.

During FY 2013-14, the District continued to expand its operating facilities to accommodate more than 1,960 new water service connections constructed within District boundaries. There remains about 25% of future development, including the Northern Sphere of Irvine, Lake Forest and property from two de-commissioned military bases. Needs of these areas have been included in the planning and facilities included in the capital budget.

The assessed value of land in the District’s service area has grown significantly in the last decade from \$22.1 billion in 2005 to more than \$42.2 billion in 2014, demonstrating the strength of the local economy.

The State of California’s financial condition has historically impacted local governments such as cities, counties and special districts. In 1992, special districts were subjected to legislation that shifted substantial amounts of property tax revenue to the State. In FY 2009-10, the State borrowed approximately \$2 million from the District, with the obligation required to be repaid within three years with interest. In June 2013, the State repaid the District with interest. Under Proposition 1A, the State can only exercise its borrowing right again one more time prior to 2019.

Drought and the Water Use Efficiency



*Water Efficient
Landscaping Programs*

The District is a leader in the innovation and implementation of water use efficiency measures that promote the most efficient use of water both on a per capita and per acre basis. As a result, the District believes it is well positioned to handle the effects of the current drought. IRWD has led the use of recycled water starting in the late 1960s and presently serves over 5,400 sites with more than 30,000 acre feet of recycled water annually which currently contributes 21% of the District's total water supply. The District's allocation-based rate structure, implemented in 1991, was carefully designed to promote the efficient use of water by providing customers pricing signals related to over-use of water. This structure, which IRWD updated in 2009 and again in 2014, is recognized as a model for other agencies to emulate. The State Water Resources Control Board recently approved IRWD's allocation-based rate structure as an alternative method to water conservation in lieu of implementing the requirements of Emergency Drought Regulations that went into effect in July 2104. IRWD was one of only two agencies that received approval of an alternative plan within the State of California. IRWD customers have one of the lowest residential gallons per capita per day rates in California.

The District's Water Use Efficiency Plan is a comprehensive strategy that includes not only environmental considerations, but also addresses the considerable positive financial benefits of water use efficiency for the District and its customers. Specifically:

- As demands for water increase, the District's unit cost of water tends to increase due to the need to purchase more of the expensive imported water.
- Reduced urban runoff (typically the result of "over-watering") minimizes water quality degradation from fertilizers, pesticides and animal waste in creeks, rivers and the ocean.
- Reducing water demands also reduces energy demands on electricity, which is needed to convey water.
- Reduced water use indoors results in reduced sewage generation and attendant treatment costs and capital costs for additional infrastructure.

The basic tenets of the Water Use Efficiency Plan include local, state and national policy development and leadership, rate structure improvements, focused customer interface, extensive education and outreach, research and technology advances, and the development of financial incentives. Staff regularly updates the Board on the effectiveness of the Plan and funding needs.

During the past fiscal year, the District provided financial incentives to residential and business customers to install water efficient devices such as high efficiency clothes washers, toilets, irrigation equipment, and conversions from high water use turf landscapes to water-efficient landscapes.

Due to the investments made by the District to diversify its resources, expand the use of recycled water and improve water use efficiency, IRWD provides reliable, high quality water to its customers at the lowest possible cost.

Financial Planning & Budgeting

Short-Term

The Board of Directors approves operating and capital budgets annually and allocates required funding accordingly. The General Manager has limited discretion to transfer capital between activities and Board approval is required for any overall increase or substantial changes. Throughout the fiscal year, actual expenditures are compared to budget. Variances between budget and actual results are analyzed and evaluated to ensure the District's financial goals and objectives are being met.



Michelson Water Recycling Plant

The budget process is further supported by the District's long-term financial models, enabling the Board to make informed decisions on setting rates and charges that ensure the long-term stability of the District. Funding needs are assessed annually using these financial planning models.

Long-Term

Meeting the goals of reliable, cost effective long-term water and sewer service requires substantial planning for both capital improvements and changing operating conditions. The District's capital program anticipates the need to update, expand or provide redundancy as well as refurbish and replace existing facilities as they reach the end of their useful life. District staff identifies future infrastructure requirements well in advance of needs to ensure the necessary funding for those projects is available. Capital projects are funded through a combination of connection fees, property taxes and user rates.

The District has a long history of planning for the enhancement and replacement of aging water and sewer infrastructure. Recognizing that infrastructure replacement is both inevitable and costly, the District established infrastructure Enhancement and Replacement Funds to provide funding for updating, expanding, redundancy, as well as replacing and refurbishing various components of the water and sewer systems. The objective of the funds are to help moderate the financial impact on future user rates attributable to expenditures associated with enhancing and replacing capital facilities. For FY 2013-14, the combined water and sewer user enhancement/replacement fees were \$8.25 per month. For FY 2014-15, the combined water and sewer user enhancement/replacement fees are \$8.90 per month. The increase is part of a planned approach to avoid significant rate fluctuations resulting from future major capital initiatives.

Over time, the District has evolved from a newly developing area towards being built-out. While many of the projects slated for construction will provide additional capacity for ultimate demands, the focus of the District is transitioning from building new infrastructure projects to ongoing operations and maintenance activities, as well as upgrading and replacing existing infrastructure. Connection fees paid by developers, which contributed \$22.4 million to new capital in FY 2013-14 will decline as the District nears build-out. The District has developed a sophisticated financial model to factor in such variables as future development, construction costs, growth rates, inflation, redevelopment and other items in order to project rate setting for funding future capital needs.

In 2011, the District undertook a strategic process to review and, if appropriate, develop modifications to the current capital funding plan. The plan allocates funding responsibility for capital facilities to the area which will benefit from the respective facilities and separates areas on the basis of projected timing of development so that construction can be matched to the development. The process resulted in a master consolidation plan that combined areas (referred to as improvement districts) in order to maintain the future financial viability of each area. Diversification of the District's water supply and sewage treatment options are also major objectives of the District's master plans. Those objectives are discussed in more detail in the *Major Initiatives* section of this introduction.

The District's approach to infrastructure replacement and funding reflects industry best practice and illustrates the District's commitment to financial stability and protection of its customers from significant future rate increases.

Pension Funding

The District recognizes that defined benefit plans and the related future pension obligations pose significant issues for many government agencies. The District has taken a proactive approach to address the issue by establishing a Pension Benefits Trust (Pension Benefits Trust) to fund the PERS unfunded liability, providing the District with an alternative to PERS that allows for investment by a professional fund management team selected and monitored by the District. The Pension Benefits Trust holds the funding contributions from the District pending future remittance to the PERS pension trust fund which will pay all retiree benefit payments to employees associated with the plan. Future contributions will be transferred to PERS at the District's discretion.

Investment policy and asset allocation decisions relating to the Trust are made by a Retirement Board consisting of 2 members from the IRWD Board of Directors and the General Manager. In FY 2013, the District made a \$35.0 million contribution to the Pension Benefits Trust, bringing the District to a 94.6% funded ratio as of June 30, 2013. In FY 2014, the District made an additional contribution of \$2.2 million to the Pension Benefits Trust. As of June 30, 2014, the fair market value of the assets in the Pension Benefits Trust was approximately \$42.6 million, further reducing the unfunded liability by an additional \$7.6 million. The assets were invested in the Vanguard Institutional Index Fund, Fidelity Concord Spartan International Fund, Metropolitan West Total Return Bond Fund, and Federated Government Obligations Money Market Fund.

Cash Management Policies and Practices

The District is regulated by State law (primarily California Government Code Section 53600, et seq.) as to the types of fixed-income securities in which it can invest cash assets. In addition, the Board of Directors annually adopts an investment policy that is generally more restrictive than the State codes. The District's standard practice is to maintain an appropriate balance between safety, liquidity and yield of investments while meeting required expenditures. This balance must be upheld in conformance with all applicable State laws, the District's investment policy, and prudent cash management principles.

For FY 2013-14, the District's fixed-income investment portfolio consisted primarily of short-term securities with a portfolio average maturity of approximately 15 months. These securities included U.S. government agency notes, U.S. government agency discount notes, the State-managed Local Agency Investment Fund, local government investments, and a mutual fund of U.S. Treasury securities.

The annual return on all of the District's cash investments in FY 2013-14 was approximately 0.40%. Including real estate investments, the weighted average rate of return was 2.50% for the same period.

At June 30, 2014, the District's cash assets totaled approximately \$317 million. Cash balances are allocated to various funds including the Replacement Fund, New Capital Fund, Capital Enhancement Fund, Construction Fund, Debt Service Fund and others. Unspent bond proceeds for future construction represent \$5.0 million of total cash assets at year end.

IRWD Joint Powers Agency

The JPA Issue I and Issue II refunding bonds and underlying investment securities matured in their entirety in FY 2013-14. Under the terms of the Joint Powers Agreement dated December 22, 1986, the JPA's existence terminated automatically on March 15, 2014, upon the retirement of all outstanding bonds of the JPA. As of June 30, 2014, the JPA's assets and liabilities had a \$0 balance as reflected on the Statement of Net Position.

Real Property Investments

As a means to match its long-term responsibility to replace water and sewer facilities when they reach the end of their useful lives with long-term funding investments, the District obtained legislative authority from the State to invest a portion of its capital facilities Replacement Fund in real property located in Orange County.

As of June 30, 2014, the District has an interest in five properties with a book value of \$45.6 million and a weighted average return (on original cost) for FY 2013-14 of 11.8%. Net revenues of \$5.8 million generated in FY 2013-14 from the District's real estate investments are retained within the Replacement Fund.

Debt Management Policies and Practices

The District has strived to minimize the cost of its long-term debt. In 1984, the District obtained State legislation that allowed for the use of variable rate debt to help achieve this goal. The Board also minimizes its exposure to interest rate risk by balancing its fixed and variable rate debt and has leveraged the opportunities provided by the low interest rate environment.

The District has primarily used General Obligation (G.O.) bonds and Certificates of Participation (COPs) to fund its capital facilities. As of June 30, 2014, there were eight outstanding general obligation bond issues with a balance of \$340.9 million in variable rate mode and \$175.0 million in fixed rate mode (excluding any unamortized premium or discount). The District also has one outstanding COPs issue with a balance of \$67.3 million in fixed rate mode. The District has secured direct pay letters of credit to enhance certain issues of its variable rate debt.

Under California law, all of the G.O. bonds are secured by the District's ability to levy ad valorem property taxes in the applicable improvement districts to pay debt service. Although the District has elected to use a combination of ad valorem property taxes and other legally available funds to pay debt service, the legal authority exists to fully fund G.O. bond debt service through such ad valorem taxes.

The COPs issue is secured by certain revenues of the overall District, predominantly user rates. The District is required under some of its debt covenants to collect revenues which will be at least sufficient to yield net revenues equal to 125% of senior debt service payable during the fiscal year. Prior to FY 2003-04, all of the District's outstanding debt was in a variable rate mode and the Board of Directors took certain actions to manage and mitigate the interest rate risk. First, the Board adopted a policy to maintain a target amount of investment assets equal to at least 75% of the outstanding un-hedged variable rate debt. In addition, the District began an interest rate swap program under which \$130 million notional amount of LIBOR-based fixed payer swaps were executed. These interest rate swaps have allowed the District to limit the risk exposure on approximately \$194 million* (or 56.9%) of its variable rate debt to approximately 4.01%. (*Assumes a historical ratio for the tax-exempt SIFMA Index versus taxable 1-month LIBOR of 67%).

In FY 2010-11, the District issued \$175 million of general obligation fixed rate debt utilizing the taxable Build America Bond (BABs) program. BABs, created under the American Recovery and Reinvestment Act, are taxable bonds with subsidy payments made by the Treasury Department to issuers equaling 35% of the interest costs. In FY 2013-14, the Federal subsidy payments were cut by 7.2% under Congressionally-mandated sequestration. As a result of the reduced subsidy payments, the net interest rate for the District's BABs issue increased from 4.30% to 4.47%.

The District maintains a healthy balance between fixed and variable rate debt. As of June 30, 2014, the District's outstanding debt portfolio included fixed rate debt at 41.5%, synthetically fixed (hedged) variable rate debt at 33.3% and unhedged variable rate debt at 25.2%, resulting in an average all-in cost of debt of approximately 3.30% for the year.

Risk Management

The District utilizes a combination of self-insurance and third-party liability insurance to minimize loss exposures from property claims, third-party liability claims and workers compensation claims. The District self-insures the first \$25,000 per occurrence for property losses, \$100,000 per occurrence for third-party liability claims and \$125,000 per occurrence for workers compensation claims. Various control techniques used to minimize loss include, but are not limited to, routine employee safety meetings and training sessions, the use of uniform language in contracts designed to limit or prevent liability exposure, and development of emergency plans, including a business continuation plan.

Major Initiatives

The District's major initiatives during FY 2013-14 include continuing programs to secure water supplies, as well as expanding sewage treatment capacity and diverting sewage flows, water education programs, and the continuing implementation of the Water Use Efficiency Plan.

Water Supply Reliability

Groundwater Program

One of the goals of the District's Water Resources Master Plan is to identify a reliable water supply mix which includes developing sufficient groundwater production capacity to pump to the Basin Production Percentage (BPP) set by the Orange County Water District (OCWD) and have enough capacity to meet demands during outage conditions. In 2014, additional areas within IRWD's service area were annexed into OCWD which will allow the District to increase production of groundwater pumped from the basin. Currently, from the Dyer Road Well Field the District has the ability to produce 28,000 acre feet per year (AFY) of clear groundwater that requires no treatment, other than disinfection. The District is in the process of replacing its Orange Park Acres Well which will produce another 900 AFY of clear groundwater. The District also produces 8,300 AFY of groundwater that requires treatment at its Deep Aquifer Treatment System (DATS) which removes organic color and 5,100 AFY of groundwater treated at the Irvine Desalter Project (IDP) which removes salts and nitrates. IRWD's recently completed Wells 21 & 22 Desalter Facility provides an additional 6,300 AFY of treated groundwater to the District's local supply mix. In addition, the District operates 5 wells for non-potable uses.

Water Banking

In addition to developing the local groundwater system, the District has diversified its water supply portfolio by developing a water bank in Kern County, California. The purpose of the water bank is to improve the District's water supply reliability by capturing water during wet hydrologic periods for use during severe dry periods or imported water supply interruptions. The water bank is an important part of the District's ability to deliver water under such conditions.

Opportunities for groundwater banking programs in Southern California are limited and more expensive. In contrast, the extensive groundwater basin in Kern County is managed to allow storage of water by outside entities. In 2006, the District purchased approximately 640 acres of high quality groundwater recharge land that overlies the regional Kern County groundwater basin along the Kern River. In 2010, the District purchased an additional 323 acres of recharge land in the same area. The District has completed construction of 761 acres of groundwater recharge ponds on the combined properties.

To operate its water bank, the District has entered into a 30-year water banking partnership with the Rosedale-Rio Bravo Water Storage District (Rosedale) in Kern County. The District's partnership program with Rosedale provides long-term equity ownership of water banking capacity rather than typical contract or lease arrangements employed by most other agencies. As of June 30, 2014, approximately 38,500 acre feet (AF) of water has been recharged at the District's water banking facilities. It is anticipated that an additional 500 AF will be stored by the end of 2014. The majority of this stored water was made available through a 28-year Exchange Agreement that the District has with Buena Vista Water Storage District (BVWSD) in Kern County and agreements with three separate State Water Project Contractors throughout California. The terms of these agreements require that half

of the water be returned to the originating water districts within 5 to 10 years with the balance of the water being available to the District for its use. As of June 30, 2014, the District owned approximately 18,400 AF of water in storage at its water banking facilities and related programs. Seven groundwater wells that can be used to recover water from the water bank have been constructed on the District's water banking properties. Wellheads and pipelines have also been constructed to convey water from these wells to the Cross Valley Canal and to the California Aqueduct. These recovery facilities were successfully used to recover and deliver 1,000 AF water for use by IRWD in 2014, verifying that all necessary agreements and facilities are in place for IRWD to make use of water stored in the water banking projects under periods of severe drought or during periods of supply interruptions. In addition, these wells have been used in 2014 to return water to IRWD's exchange partners.

The District is currently finalizing an Environmental Impact Report (EIR) for the construction and operation of recovery wells on additional lands purchased in 2010. This EIR is expected to be circulated for public review in early 2015 and construction of the additional wells will begin after the document is certified and approved by the District and Rosedale's Board of Directors.



Baker Water Treatment Plant

The Baker Water Treatment Plant (WTP), which is currently under construction, is anticipated to be online and operational in the spring of 2016. The Baker WTP will produce approximately 28 million gallons per day of drinking water and will be capable of treating imported water from Metropolitan Water District of Southern California and local untreated water from Irvine Lake. The Baker WTP will utilize microfiltration and ultraviolet disinfection as the primary treatment processes. Although the Baker WTP will be owned and operated by the District, partial capacity in the plant is being purchased by four other water agencies located in Southern Orange County. The Baker WTP will provide an operational source of supply to the project participants and, in the event of a short-term water shortage emergency, will provide regional water reliability to other neighboring Southern Orange County water agencies. The project cost is estimated at approximately \$103 million, with IRWD responsible for approximately 23% of the total cost.

Syphon Recycled Water Seasonal Storage Facility

Syphon Reservoir, located in the northern portion of Irvine, is a sixty-year-old irrigation reservoir historically used by the Irvine Company for agricultural purposes. The District purchased Syphon Reservoir from the Irvine Company in January 2010 and is in the process of converting the reservoir into a recycled water seasonal storage facility. Seasonal storage reservoirs allow the District to store excess recycled water produced in the winter months for use in higher demand summer months. This will increase water reliability by reducing the District's dependency on imported water from MWD used to supplement the recycled water system. The existing Syphon Reservoir was integrated into the recycled water system in October 2014.

In 2013, the District completed a feasibility study to increase storage capacity in Syphon Reservoir from its current 450 AF up to potentially 5,000 AF. Additional storage will allow the District to recycle more of the sewage flows to the MWRP. An expansion of Syphon Reservoir to 5,000 AF would allow for recycling 100% of the sewage flows tributary to MWRP and reduce the District's need to supplement the recycled water system with imported water in dry years. The District is currently evaluating funding alternatives for the reservoir expansion.



Biosolids and Energy Recovery Facilities Project

Department of Water Resources and varies each year based on rainfall and other available water supply.

Water Rights

The District owns 1,747 acre feet of State Water Project water rights within the Dudley Ridge Water District located in Kings County, Ca. The rights provide another source of water supply to enhance reliability. The District receives an allotment of water on an annual basis as determined by the

Expanded Water Recycling Options and System Reliability

The District is continuing its program to increase the reliability of the sewage system by diversifying treatment options and increasing the reliability of critical sewage collections facilities. The goals of the program are to collect sewage in the most cost effective method available, create a high quality and reliable recycled water supply for irrigation and commercial uses, and minimize environmental impacts and risks. Sewage collected throughout the District is treated at three locations: the Michelson Water Recycling Plant (MWRP), the Los Alisos Water Recycling Plant (LAWRP) and at the Orange County Sanitation District (OCSD). The District owns and operates the MWRP and LAWRP, and owns capacity in the OCSD facilities.

Expanding existing infrastructure for sewage treatment has four primary benefits including:

- Increased recycled water production and utilization,
- Decreased exposure to external treatment costs and operational constraints,
- Decreased dependencies on imported water supplies, and
- Lower total cost.

The most recent example of expanded water recycling reliability is a major capacity expansion of the MWRP from 18 million gallons per day (mgd) to 28 mgd, completed in 2014.

The two plants operated by the District currently have capacities of 28 (MWRP) and 7.5 (LAWRP) mgd, with a collective capacity of 35.5 mgd. Ultimately, the capacity for these treatment facilities is planned to be 33 and 7.5 mgd, with a collective capacity of 40.5 mgd.



Michelson Water Recycling Plant

In addition to the projects identified above, the District has evaluated alternative approaches to recover the solids and biogas generated by its water recycling facility. The evaluation of alternative approaches for handling MWRP solids, currently conveyed to Fountain Valley for treatment by OCSD, included consideration of many factors such as costs and potential community impacts. The District has elected to design and build new capital facilities at the MWRP to thicken, digest, dewater, and dry biosolids to allow safe reuse of pellets as either fertilizer or e-fuel, which will reduce the District's treatment costs. The process also allows for the conversion of biogas into energy thereby further reducing the District's dependency and costs from its third party electricity provider. The construction of the MWRP Biosolids Handling and Energy Recovery Facilities is anticipated to be completed in 2016 at an estimated project cost of \$212 million.

Community Education and Outreach

The District's commitment to community education and outreach recognizes the significant impact lifelong water education can have on a community. Today, the District's water efficiency and environmental programs provide a key Best Management Practice under the California Urban Water Conservation Council's memorandum of understanding dedicated to increasing efficient water use statewide. From student water and science education programs to resident tours, IRWD is dedicated to teaching value and fostering appreciation for water and the environment which are both vital resources.

Community water education and an awareness of water use efficiency begin at a young age. The District provides innovative water education programs to students in its' service area through a unique partnership with the Discovery Science Center. These exceptional programs are available to all kindergarten through middle school students in any public, private or home school in our service area and meet all California curriculum content standards while bringing water education to life for our students. The partnership with the Discovery Science Center allows the District to effectively reach students in its service area with innovative and informative water education. Through these programs, the District teaches the next generation of community members to be good stewards of its precious water and environmental resources.

The District's San Joaquin Marsh Campus, which houses the IRWD Learning Center and Visitors Center, is the embodiment of the District's dedication to lifelong water education. The location of the Campus at the San Joaquin Marsh provides a wide variety of educational venues and teaching opportunities utilizing the District's Natural Treatment System, the Butterfly Garden, and the San Diego Creek. The Learning Center is a dedicated facility for water education in our community. The Learning Center features two state-of-the-art classrooms and a patio that can be utilized as an outdoor learning facility. Throughout the year, the Learning Center houses not only the District's education programs but also its resident tours, community events, and programs run by the District's Marsh partner, Sea & Sage Audubon. The Visitor's Center at the historic Irvine Ranch Marsh House provides informative self-guided tours on the District's environmental and water use efficiency efforts and is open to the public seven days a week.

These programs and the District Marsh Campus provide the backbone of the District's community education and outreach efforts. In addition, the District offers water use efficiency workshops and webinars; customized in-class lectures for high school and college classes; and customized tours for community organizations in our service area. Teaching children and in turn, their families about water and the environment at an early age coupled with extensive customer outreach helps teach the community as a whole about the importance of protecting vital resources and the value of water.

Awards and Acknowledgments

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Irvine Ranch Water District for its comprehensive annual financial report (CAFR) for the fiscal years ended June 30, 2004 through June 30, 2013. In order to be awarded a Certificate of Achievement, IRWD was required to publish an easily readable and efficiently organized CAFR that satisfied both GAAP and applicable legal requirements.

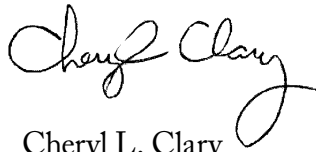
A Certificate of Achievement is valid for a period of one year. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and are submitting it to the GFOA to determine its eligibility for another certificate.

Staff would like to acknowledge the IRWD Board of Directors for their unfailing support and for maintaining the highest standards of professionalism in the management of the District's operations and finances. We would also like to thank the dedicated employees of the District for their commitment to providing high quality service to the District's customers. The preparation of this report would not have been possible without the efficient and dedicated service of the entire Finance Department staff. We also wish to express our appreciation to all staff that assisted and contributed to the preparation of this report.

Respectfully submitted,



Paul A. Cook
General Manager



Cheryl L. Clary
Executive Director of Finance & Administration

Irvine Ranch Water District

List of Principal Officials

Board of Directors

President and Director
Vice President and Director
Director
Director
Director

Steven E. LaMar
Peer A. Swan
Mary Aileen Matheis
Douglas J. Reinhart
John B. Withers

Executive Management:

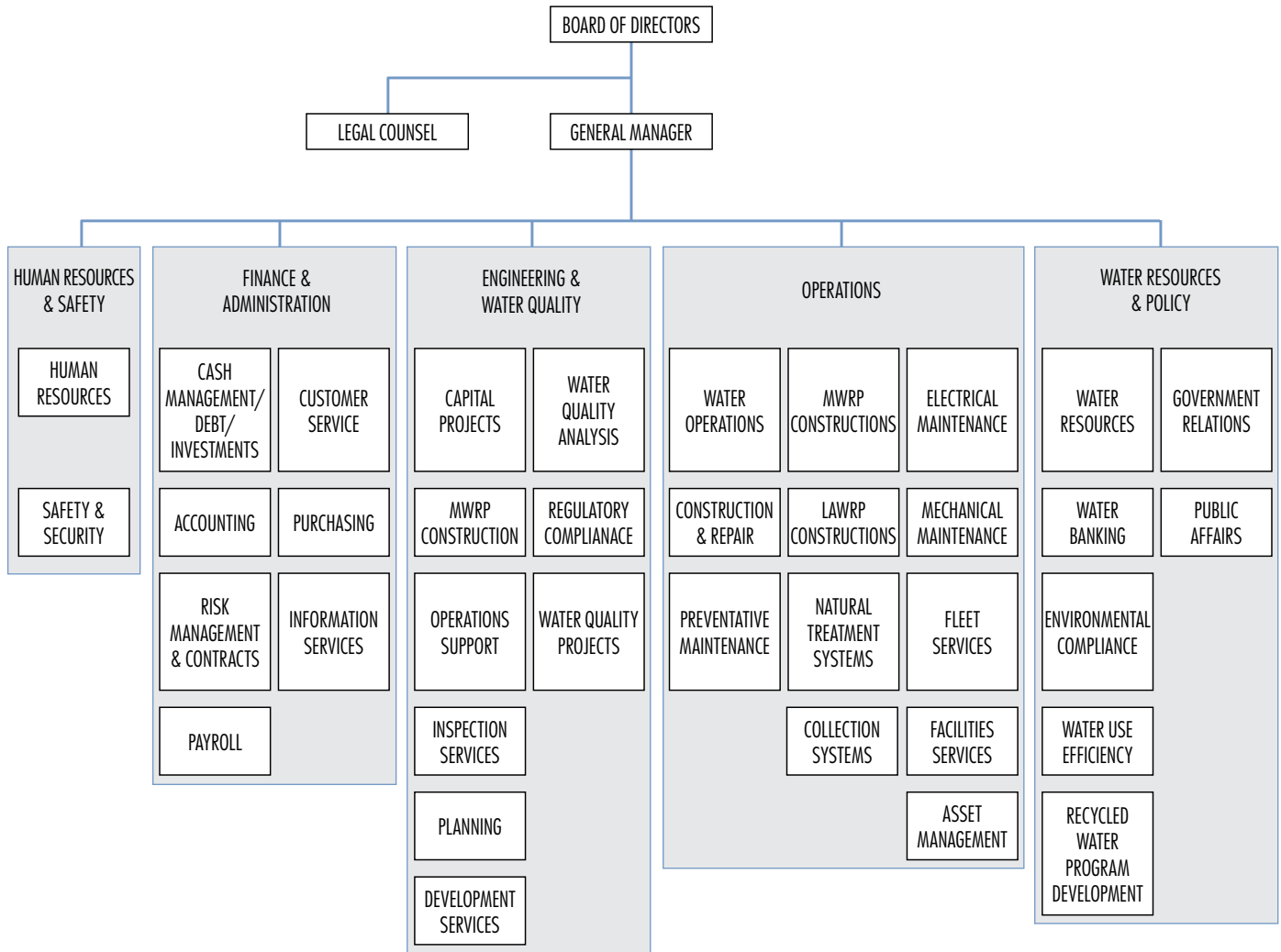
General Manager
Executive Director of Finance & Administration
Executive Director of Operations
Executive Director of Engineering & Water Quality
Executive Director of Water Resources & Policy
Director of Human Resources
Director of Water Resources
Director of Public Affairs
Director of Administrative Services
Director of Treasury and Risk Management

Paul A. Cook
Cheryl L. Clary
Patrick O. Sheilds
Kevin L. Burton
Paul A. Weghorst
Jenny L. Roney
Fiona M. Sanchez
Beth M. Beeman
Tony J. Mossbarger
Robert C. Jacobson

Irvine Ranch Water District

Organizational Chart (By Function)

Fiscal Year 2013-14





Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**Irvine Ranch Water District
California**

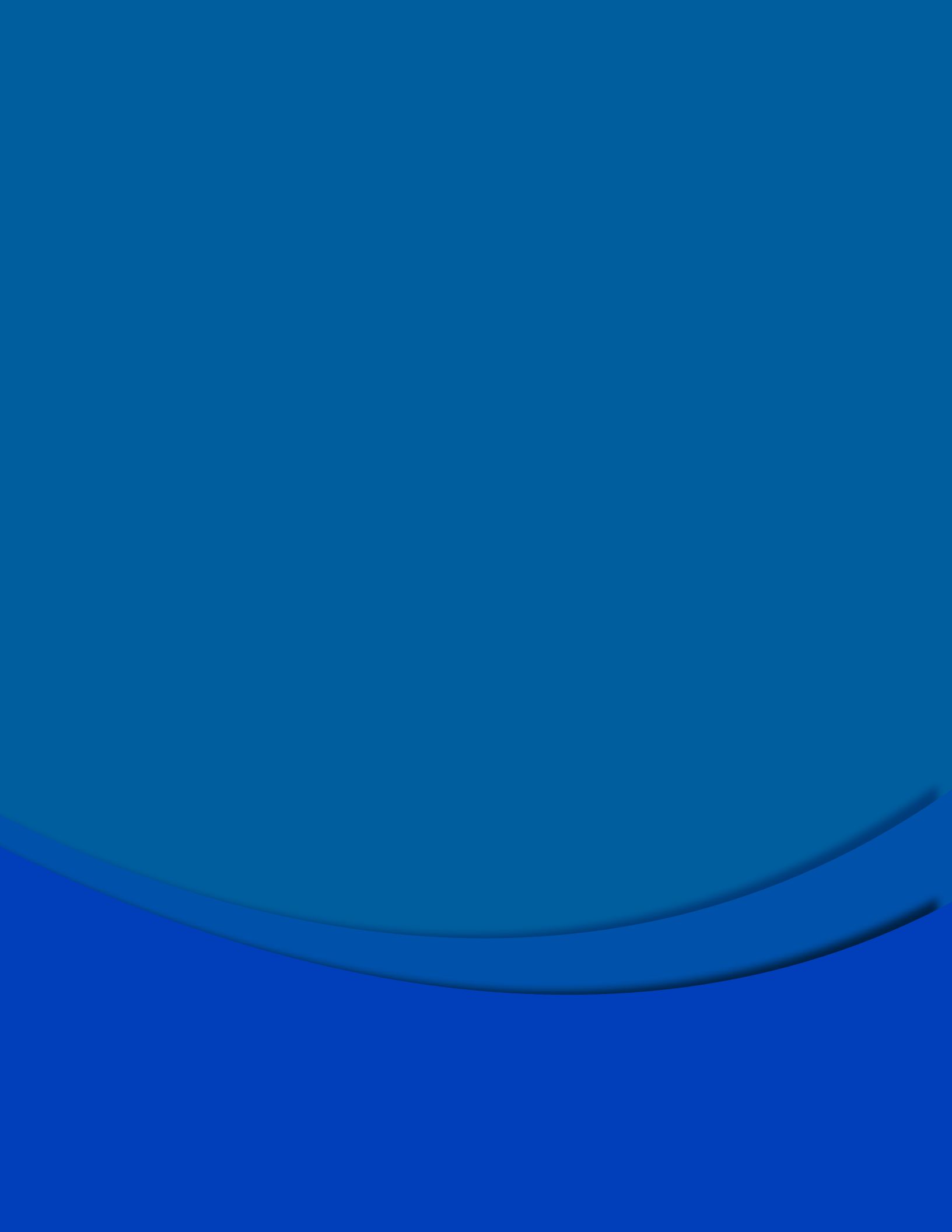
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

Executive Director/CEO

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FINANCIAL SECTION



Financial Section

Irvine Ranch Water District
Fiscal Year Ended June 30, 2014



Mayer Hoffman McCann P.C.
An Independent CPA Firm

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Board of Directors
Irvine Ranch Water District
Irvine, California

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of the Irvine Ranch Water District, as of and for the year ended June 30, 2014, 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 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 opinions.

Member of Kreston International - a global network of independent accounting firms

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of the Irvine Ranch Water District, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described further in note 1 to the financial statements, during the year ended June 30, 2014, the District implemented GASB Statement No. 65. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the District's 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 9, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis* 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The *introductory section* and the *statistical section* are presented for purposes of additional analysis and are not a required part of the basic financial statements. The *introductory section* and the *statistical section* have 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.

Board of Directors
Irvine Ranch Water District
Page three

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2014 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 internal control over financial reporting and compliance.

Mayer Hoffman McCann P.C.

Irvine, California
December 1, 2014

Management's Discussion and Analysis

The following discussion and analysis of the financial performance of the Irvine Ranch Water District (District) provides an overview of the District's financial activities for the fiscal year ended June 30, 2014. This section should be read in conjunction with the basic financial statements and notes to the basic financial statements, which follow this analysis.

Financial Highlights:

- Total assets and deferred outflow of resources exceed total liabilities by \$1,389.6 million (net position), representing \$981.3 million in net investment in capital assets, \$187.9 million restricted for water services and operation and \$220.4 million restricted for sewer services and operation. This is an increase of \$28.4 million or 2.1 percent over the prior year net position of \$1,361.2 million.
- Total assets are \$2,030.2 million, a decrease of \$604.1 million or 22.9 percent over the prior year primarily due to maturities of the JPA investment in March 2014.
- Total revenues are \$204.4 million, an increase of \$8.3 million or 4.2 percent over the prior year primarily as a result of higher operating revenues associated with higher sales due to increased customer demand and a Board approved rate increase.
- Total expenses are \$210.7 million, a decrease of \$6.6 million or 3.0 percent over the prior year primarily due to lower non-operating expenses relating to principal maturities of the JPA bonds.
- Capital contributions are \$34.7 million, an increase of \$0.3 million or 0.8 percent over the prior year due primarily to higher connection fees associated with increased housing activity by developers.
- Total debt was \$591.4 million, a decrease of \$644.1 million or 52.1 percent over the prior year. The decrease in overall debt is due primarily to principal payments of \$642.3 million including \$617.1 million JPA bonds during the current fiscal year.
- The District funded \$2.2 million in excess of its annual required contribution to the Irvine Ranch Water District Post-Employment Benefits Trust (Pension Benefits Trust) in order to reduce its unfunded pension liability. The Pension Benefits Trust was established in the prior fiscal year to fund the PERS unfunded liability, providing the District with an alternative to PERS that allows for investment by a professional fund management team selected and monitored by the District, with future excess contributions transferred to PERS at the District's discretion. The current fiscal year's contribution is included in the net pension asset of \$51.9 million and is discussed in detail in Note 13 of the Notes to the Basic Financial Statements.

More detailed analysis about the overall District's financial position and operations is provided in the following sections.

Overview of the Financial Statements:

The basic financial statements of the District consist of the financial statements (the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, the Statement of Cash Flows, Statement of Fiduciary Net Position, and Statement of Changes in Fiduciary Net Position) and notes to the basic financial statements. The basic financial statements are prepared using the accrual basis of accounting. This report also contains other supplementary information in addition to the basic financial statements.

Statement of Net Position depicts the District's financial position at June 30, the end of the District's fiscal year. The statement of net position shows all financial assets and liabilities of the District. Net position represents the District's residual interest after liabilities are deducted from assets and deferred outflows of resources. Net position is displayed in two components: net investment in capital assets and restricted for water and sewer services.

Management's Discussion and Analysis (Continued)

Statement of Revenues, Expenses and Changes in Net Position provides information on the District's operations and can be used to determine whether the District has recovered all of its costs through operating and non-operating revenues.

Statement of Cash Flows provides information on the District's cash receipts, cash payments and changes in cash resulting from operations, investments and financing activities.

Fiduciary Fund is used to account for resources held for the benefit of parties outside the government. The District's fiduciary fund consists of the Pension Benefits Trust fund, which is maintained to account for assets held by the Pension Benefits Trust in a trustee capacity. The Pension Benefits Trust was established to fund the PERS unfunded liability, providing the District with an alternative to PERS that allows for investment by a professional fund management team selected and monitored by the District, with future excess contributions transferred to PERS at the District's discretion.

Notes to the Basic Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

The **Other Information** includes *required supplementary information* concerning the District's progress in funding its obligations to provide pension and other post-employment benefits to its employees.

Financial Analysis of the District:

The following condensed schedules contain summary financial information extracted from the basic financial statements to assist general readers in evaluating the District's overall financial position and results of operations as described in this Management's Discussion and Analysis (MD&A). Increases or decreases in these schedules can be used as performance indicators to assess whether the District's overall financial position has improved or deteriorated. Other external factors such as changes in economic conditions, customer growth, and legislative mandates should also be considered as part of this assessment.

Table 1 - Summary of Net Position (in millions)

	2014	2013	Increase/(Decrease)	
			Amount	Percentage
Assets				
Current and other assets	\$ 348.9	\$ 983.5	\$ (634.6)	-64.5%
Capital assets, net	1,567.5	1,506.1	61.4	4.1%
Other noncurrent assets	113.8	144.7	(30.9)	-21.4%
Total assets	2,030.2	2,634.3	(604.1)	-22.9%
Deferred Outflow of Resources				
Deferred refunding charges	1.6	9.8	(8.2)	-83.7%
Accumulated decrease in fair value of swap agreements	36.1	37.5	(1.4)	-3.7%
Total deferred outflow resources	37.7	47.3	(9.6)	-20.3%
Liabilities				
Current and other liabilities	54.9	672.7	(617.8)	-91.8%
Long-term liabilities	623.4	647.7	(24.3)	-3.8%
Total liabilities	678.3	1,320.4	(642.1)	-48.6%
Net Position				
Net investment in capital assets	981.3	918.1	63.2	6.9%
Restricted for water services	187.9	208.8	(20.9)	-10.0%
Restricted for sewer services	220.4	234.3	(13.9)	-5.9%
Total net position	\$ 1,389.6	\$ 1,361.2	\$ 28.4	2.1%

Management's Discussion and Analysis (Continued)

Financial Position Summary:

The Statement of Net Position reflects the District's financial position as of June 30. The statement includes assets, deferred outflow of resources, and liabilities. The net position represents the District's net worth including, but not limited to, capital contributions and investments in capital assets. A condensed summary of the District's total net position at June 30 is set in Table 1.

As shown in Table 1, the District's total assets decreased \$604.1 million or 22.9 percent. This is due primarily to a decrease of \$639.0 million in the JPA investment and related JPA interest receivable resulting from the JPA investment maturities in March 2014. The decrease was partially offset by an increase of \$19.8 million in cash from the maturity of JPA investment and \$3.6 million capital project deposits from the State of California and local agencies. The District's other noncurrent assets decreased \$30.9 million or 21.4 percent over the prior fiscal year primarily due to an increase of \$23.8 million in capital spending of the District's bond proceed cash and investments.

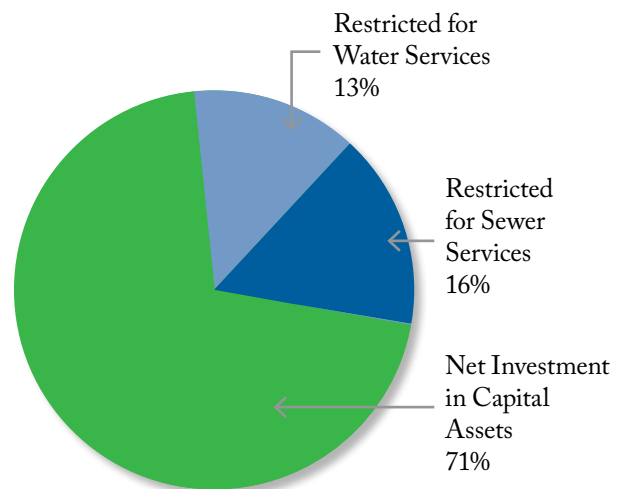
The District's deferred outflow of resources decreased \$9.6 million or 20.3%. This is due primary to a decrease of \$8.2 million in deferred refunding charges of general obligation bonds, JPA revenue bonds, and certificates of participation. Deferred refunding charges are the difference in the carrying value of refunded debt and the reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The accumulated fair value of swaps decreased from negative \$37.5 million mark to market value to negative \$36.1 million mark to market value during the fiscal year and are also reflected in the deferred outflow of resources.

The District's total liabilities decreased \$642.1 million or 48.6 percent from \$1,320.4 million in the prior fiscal year to \$678.3 million in the current fiscal year. The principal reason is a reduction in the District's debt due primarily to principal payments of \$642.3 million including the two \$617.1 million JPA bond issues during the current fiscal year. The decrease was partially offset by an increase of \$3.6 million in capital project deposits payable to the State of California and local agencies. The District's long-term liabilities decreased \$24.3 million or 3.8 percent over the prior fiscal year primarily due to a reclassification of \$18.4 million of general obligation bonds and certificates of participation from long-term liabilities to current liabilities. In addition, the decrease in long-term liabilities was related to \$4.2 million of principal payoff of general obligation bonds.

Net position at end of the current fiscal year increased from \$1,361.2 million in the prior fiscal year to \$1,389.6 million in the current fiscal year, an increase of \$28.4 million or 2.1 percent in the District's overall financial condition.

Net position consists of net investment in capital assets and restricted net position. Net investment in capital assets reflects the difference between capital assets, net of accumulated depreciation/amortization and the liabilities attributable to their acquisition, construction, or improvement of those assets. Net investment in capital assets was \$981.3 million or 70.6 percent of total net position, an increase of \$63.2 million or 6.9 percent from the prior fiscal year. This resulted primarily from an increase in the net

Net Position at June 30, 2014



Management's Discussion and Analysis (Continued)

capital assets associated with project spending of capital projects program. Restricted net position for water services were \$187.9 million or 13.5 percent of total net position. Restricted net position for sewer services were \$220.4 million or 15.9 percent of total net position. Restricted net positions are externally restricted by a creditor such as through debt covenants or restricted by law or enabling legislation.

Activities and Changes in Net Position:

The Statement of Revenues, Expenses, and Changes in Net Position summarizes the District's operations during the current fiscal year. A Summary of the District's changes in net position for the fiscal years ended June 30, is included in Table 2 below:

	2014	2013	Increase/(Decrease)	
			Amount	Percentage
Operating Revenues				
Water sales and service charges	\$ 66.3	\$ 62.6	\$ 3.7	5.9%
Sewer sales and service charges	58.1	53.1	5.0	9.4%
Total operating revenues	124.4	115.7	8.7	7.5%
Non-operating Revenues				
Property taxes	42.8	41.1	1.7	4.1%
Interest income	1.0	0.2	0.8	400.0%
Increase (decrease) in fair value of investments	(16.2)	(29.1)	12.9	-44.3%
JPA investment income	29.5	49.1	(19.6)	-39.9%
Real estate income	11.9	10.8	1.1	10.2%
Other income	11.0	8.3	2.7	32.5%
Total non-operating revenues	80.0	80.4	(0.4)	-0.5%
Total revenues	204.4	196.1	8.3	4.2%
Operating Expenses				
Water services expenses	71.3	65.8	5.5	8.4%
Sewer services expenses	46.3	46.2	0.1	0.2%
Depreciation	46.8	47.5	(0.7)	-1.5%
Total operating expenses	164.4	159.5	4.9	3.1%
Non-operating Expenses				
Interest expense	15.8	16.8	(1.0)	-6.0%
JPA interest expense	17.2	28.9	(11.7)	-40.5%
Real estate expense	6.1	6.0	0.1	1.7%
Other expense	7.2	6.1	1.1	18.0%
Total non-operating expenses	46.3	57.8	(11.5)	-19.9%
Total expenses	210.7	217.3	(6.6)	-3.0%
Income/(loss) before capital contributions	(6.3)	(21.2)	14.9	-70.3%
Capital contributions	34.7	34.4	0.3	0.8%
Change in Net Position	28.4	13.2	15.2	115.0%
Beginning Net Position	1,361.2	1,348.0	13.2	1.0%
Ending Net Position	\$ 1,389.6	\$ 1,361.2	\$ 28.4	2.1%

Revenues:

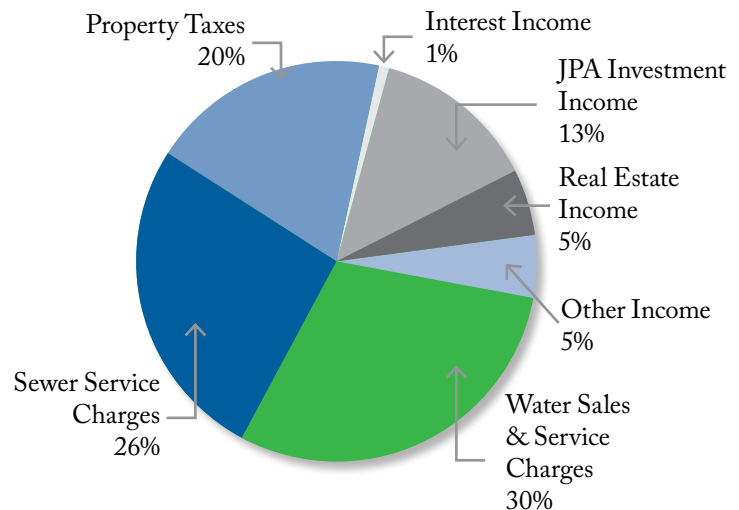
As shown in Table 2, the District's operating revenues total \$124.4 million or 60.9 percent of total revenues. Water sales contribute 53.3 percent to total operating revenues and sewer sales contribute 46.7 percent to total operating revenues. Operating revenues increased by \$8.7 million or 7.5 percent from the prior fiscal year. Overall, approximately 62 percent of the operating revenue increase is attributable to customer growth in the District's service areas due to increased housing activity and a warmer, drier year.

Management's Discussion and Analysis (Continued)

The remaining increase in operating revenue is attributable to a Board approved rate increase. Consumption increased by 3,615 acre-feet or 4.2 percent from 86,335 acre-feet in the prior fiscal year to 89,950 acre-feet in the current fiscal year. The chart below illustrates the sources of revenue for the fiscal year ended June 30, 2014, excluding the change in the fair market value of investments.

Net non-operating revenues account for 39.1 percent of total revenue for the fiscal year ended June 30, 2014 and decreased \$0.4 million or 0.5 percent from the prior year due primarily to the decrease in the JPA investment income resulting from the JPA investment maturities in March 2014. Excluding the decrease in the fair value of investments, non-operating revenues account for 31.2 percent of total revenues and consist primarily of property tax revenue allocated to the District from the County, the JPA investment income, and real estate income generated from the District's real estate investment assets.

Sources of Revenue for Fiscal Year Ended June 30, 2014
(excluding change in fair market value of investments)

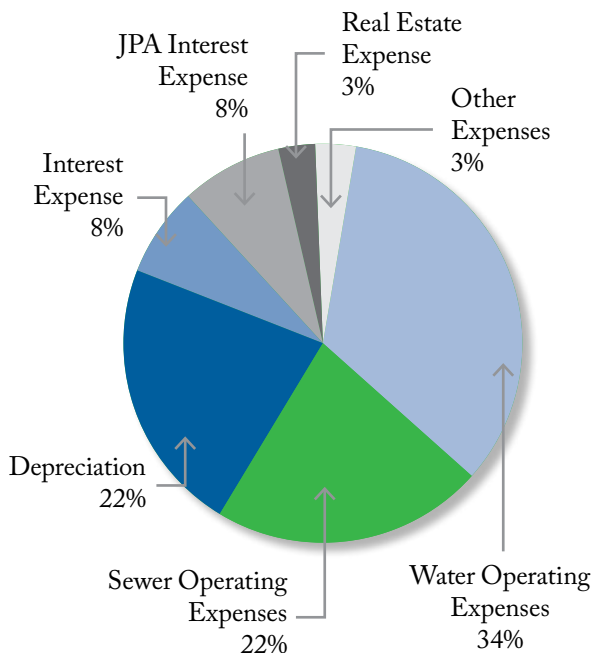


Expenses:

As shown in Table 2, operating expenses total \$164.4 million, of which \$117.6 million relates to cost of service. This represents 94.5 percent of related revenues before depreciation. Operating expenses

comprised of water and sewer expenses, excluding depreciation, increased by \$5.6 million or 5.0 percent over the prior year. Water services expense totaled \$71.3 million, an increase of \$5.5 million or 8.4 percent. This is due primarily to an increase in pumped water of 7,258.0 acre-feet (\$2.3 million), higher electricity costs associated with the pumping (\$2.0 million), and expense projects related to the District's capital program (\$1.0 million).

Functional Expenses for Fiscal Year Ended June 30, 2014



Sewer service expenses totaled \$46.3 million, which is an increase of \$0.1 million or 0.2 percent over the prior year. The increase is primarily due to higher labor costs and related general and administrative expenses of the sewer and recycled operations, partially offset by a decrease in sewer expense projects related to the District's capital program.

Non-operating expenses decreased by \$11.5 million or 19.9 percent primarily due to a decrease of \$11.7 million or 40.5 percent in JPA interest expense resulting from the principal maturities of the JPA bonds Issue #1 and Issue #2 in March 2014.

Management's Discussion and Analysis (Continued)

Capital Contributions:

Capital contributions totaled \$34.7 million, an increase of \$0.3 million or 0.8 percent over the prior year. This is due primarily to an increase in connection fees from developers as a result of higher housing activity. During the current fiscal year, the District added over 3,900 new connections for a total of \$22.4 million of connection fees. The District also received \$9.2 million of donated facilities from developers and \$3.1 million of grants from federal and state agencies during the year.

Capital Assets:

The District's investment in capital assets consists of the following as of June 30:

	2014	2013	Increase/(Decrease)	
			Amount	Percentage
Waterworks in service	\$ 921.9	\$ 890.0	\$ 31.9	3.6%
Sewer plant in service	946.5	920.7	25.8	2.8%
Less: accumulated depreciation	(641.9)	(597.8)	(44.1)	7.4%
Land and water rights	86.3	85.6	0.7	0.8%
Construction in progress	254.7	207.6	47.1	22.7%
Total	\$ 1,567.5	\$ 1,506.1	\$ 61.4	4.1%

Capital assets, net of depreciation increased \$61.4 million or 4.1% from \$1,506.1 million in the prior fiscal year to \$1,567.5 million in the current fiscal year. The increase in the net capital assets was primarily due to an increase \$104.7 million of Construction in Progress during the current fiscal year. The following is a list of top 10 capital projects in the current fiscal year (in millions):

<u>Project Description</u>	<u>Amount</u>
MWRP Biosolids and Energy Recovery Facilities	\$ 38.9
MWRP Expansion Phase II	10.8
Utility Billing Oracle CC&B Implementation	7.0
Well 115 Replacement Well/Wellhead & Site Acquisition	3.0
OPA/Regional Groundwater Project	1.9
16581Bak Code 4224 Columbus Square Backbone Water	1.8
Syphon Reservoir Interim Improvements	1.8
PA18 Phase I Recycled Water Pipelines	1.4
IDF Chlorine Injection Line Replacement	1.4
16581Bak Code 4224 Columbus Square Backbone Sewer	1.0
Total	\$ 69.0

Total projects transferred from Construction in Progress to Capital Assets and depreciated during the fiscal year ended June 30, 2014 were \$57.6 million.

Additional information on the District's capital assets can be found in Note 5 of the Notes to the Basic Financial Statements.

Management's Discussion and Analysis (Continued)

Debt Administration:

As shown below in Table 4, as of June 30, 2014, the District had total debt outstanding of \$591.4 million, a decrease of \$644.1 million or 52.1 percent from the prior fiscal year.

	2014	2013	Increase/(Decrease)	
			Amount	Percentage
General obligation bonds	\$ 515.9	\$ 535.6	\$ (19.7)	-3.7%
Joint Powers Agency bonds	-	618.5	(618.5)	-100.0%
Certificates of participation	73.5	79.2	(5.7)	-7.2%
Notes payable	2.0	2.2	(0.2)	-9.1%
Total	\$ 591.4	\$ 1,235.5	\$ (644.1)	-52.1%

During the current fiscal year, the decreases in the District's total debt were primarily due to principal maturities of \$642.3 million. In March 2014, the JPA bonds Issue #1 and Issue #2 in the amount of \$617.1 million matured. The District also amortized \$1.8 million of JPA bonds and certificates of participation during the current fiscal year.

The JPA Issue #1 and Issue #2 refunding bonds and underlying investment securities matured in their entirety in FY 2013-14. Under the terms of the Joint Powers Agreement dated December 22, 1986, the JPA's existence terminated automatically on March 15, 2014, upon the retirement of all outstanding bonds of the JPA.

The District's rated debt obligations have received the following ratings from the three major rating agencies:

Fitch Ratings:	AAA
Moody's:	Aa1
Standard and Poor's:	AAA

Additional information on the District's long-term debt can be found in Note 9 of the Notes to the Basic Financial Statements.

Contacting the District's Financial Management:

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general review of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Executive Director of Finance & Administration at the Irvine Ranch Water District, 15600 Sand Canyon Avenue, Irvine, California 92618-7500.

Irvine Ranch Water District
Statement of Net Position
June 30, 2014
(with comparative data as of June 30, 2013)
(amounts expressed in thousands)

	2014	2013
ASSETS		
Current Assets:		
Cash and Investments (note 2)	\$ 300,908	\$ 275,905
Receivables:		
Customer accounts receivable	8,164	8,354
Interest receivable	239	310
Joint Powers Agency (JPA) interest receivable	-	18,102
Notes receivable, current portion	1	12
Allen-McColloch Pipeline receivable, current portion (note 8)	1	530
Due from other agencies (note 16)	21,218	38,669
Other receivables	3,251	4,273
Total receivables	32,874	70,250
Other Current Assets:		
Inventories (note 4)	3,047	4,241
Prepaid items and deposits	12,122	12,232
JPA investment program, current portion	-	620,895
Total other current assets	15,169	637,368
Total current assets	348,951	983,523
Noncurrent Assets:		
Capital Assets (note 5):		
Waterworks in service	921,899	889,988
Sewer plant in service	946,524	920,658
Subtotal	1,868,423	1,810,646
Less accumulated depreciation	(641,897)	(597,774)
Total capital assets being depreciated, net	1,226,526	1,212,872
Land and water rights	86,252	85,569
Construction in progress	254,747	207,613
Total capital assets, net	1,567,525	1,506,054
Other Noncurrent Assets:		
Bond proceed cash and investments (note 2)	5,234	29,083
Investments - swap collateral (note 2)	9,721	14,536
Investment in installment sale agreement (note 2)	1,123	-
Unamortized debt issuance expense	-	2,208
Notes receivable, net of current portion	126	127
Allen-McColloch Pipeline receivable, net (note 8)	3	1,854
Real estate investments (note 7)	45,612	46,811
Net pension asset (note 13)	51,937	50,148
Total other noncurrent assets	113,756	144,767
Total noncurrent assets	1,681,281	1,650,821
TOTAL ASSETS	2,030,232	2,634,344
DEFERRED OUTFLOW OF RESOURCES		
Deferred refunding charges	1,586	9,759
Accumulated decrease in fair value of swap agreements (note 3)	36,064	37,493
TOTAL DEFERRED OUTFLOW OF RESOURCES	37,650	47,252

See accompanying notes to the basic financial statements.

Irvine Ranch Water District
Statement of Net Position
June 30, 2014
(with comparative data as of June 30, 2013)
(amounts expressed in thousands)
(Continued)

	2014	2013
LIABILITIES		
Current Liabilities:		
Account payable and accrued expenses	25,758	21,414
Customer deposits and advance payments	4,009	264
Accrued interest:		
General obligation bonds	1,501	1,683
JPA revenue bonds	-	4,519
Other accrued interest payable	2,347	2,384
Current portion of long-term liabilities:		
General obligation bonds (note 9)	12,100	15,500
Certificates of participation (note 9)	6,271	5,661
JPA revenue bonds (note 9)	-	618,544
Notes payable (note 9)	257	256
Other long term liabilities (note 9)	1,527	1,380
Unearned revenue (note 10)	525	525
Claims liability (note 17)	564	562
Total current liabilities	54,859	672,692
Long-Term Liabilities:		
General obligation bonds, net of current portion (note 9)	503,800	520,100
Certificates of participation, net of current portion (note 9)	67,294	73,564
Notes payable, net of current portion (note 9)	1,727	1,984
Other long term liabilities (note 9)	2,912	2,716
Unearned revenue, net of current portion (note 10)	8,374	8,900
Claims liability, net of current portion (note 17)	612	526
Net OPEB obligation (note 14)	2,625	2,444
Swap liability (note 3)	36,064	37,493
Total long-term liabilities	623,408	647,727
TOTAL LIABILITIES	678,267	1,320,419
NET POSITION (note 12):		
Net investment in capital assets	981,310	918,073
Restricted for water services	187,877	208,779
Restricted for sewer services	220,428	234,325
TOTAL NET POSITION	\$ 1,389,615	\$ 1,361,177

See accompanying notes to the basic financial statements.

Irvine Ranch Water District
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2014
(with comparative data for the Fiscal Year Ended June 30, 2013)
(amounts expressed in thousands)

	2014	2013
OPERATING REVENUES:		
Water sales and service charges	\$ 66,321	\$ 62,565
Sewer sales and service charges	58,109	53,085
Total operating revenues	124,430	115,650
OPERATING EXPENSES:		
Water:		
Water services	57,624	51,163
General and administrative	13,660	14,619
Sewer:		
Sewer services	37,715	38,189
General and administrative	8,612	8,048
Depreciation	46,809	47,539
Total operating expenses	164,420	159,558
Operating income (loss)	(39,990)	(43,908)
NONOPERATING REVENUES (EXPENSES):		
Property taxes	42,751	41,068
Interest income	1,079	224
Increase (decrease) in fair value of investments	(16,177)	(29,180)
JPA investment income	29,522	49,178
Real estate income	11,899	10,789
Other income	10,974	8,323
Interest expense	(15,836)	(16,770)
JPA interest expense	(17,166)	(28,884)
Real estate expense	(6,139)	(6,047)
Other expenses	(7,163)	(6,110)
Total nonoperating revenues (expenses)	33,744	22,591
Income (loss) before capital contributions	(6,246)	(21,317)
CAPITAL CONTRIBUTIONS:		
Donated facilities	9,171	9,742
Connection fees	22,429	17,314
Other	3,084	7,479
Increase (decrease) in net position	28,438	13,218
NET POSITION AT BEGINNING OF YEAR	1,361,177	1,347,959
NET POSITION AT END OF YEAR	\$ 1,389,615	\$ 1,361,177

See accompanying notes to the basic financial statements.

Irvine Ranch Water District
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2014
(with comparative data for the Fiscal Year Ended June 30, 2013)
(amounts expressed in thousands)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers and users	\$ 128,861	\$ 117,426
Cash paid to suppliers of goods and services	(46,570)	(44,143)
Cash paid for employees services	(43,856)	(78,805)
Net cash provided by (used for) operating activities	38,435	(5,522)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Property tax receipts	40,614	39,089
Net cash provided by noncapital financing	40,614	39,089
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(98,217)	(64,942)
Proceeds from disposition of capital assets	312	257,355
Refunding of long term debt	-	(256,282)
Principal payments on long-term liabilities	(642,367)	(57,856)
Interest and issuance costs on long term liabilities	(29,134)	(40,623)
Developer connection fees and related receipts	25,513	24,793
Net cash provided by (used for) capital and related financing activities	(743,893)	(137,555)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment earnings	48,237	49,799
Investment earnings in real estate	6,959	6,256
Proceeds from sale or maturity of investments	816,716	156,483
Purchases of investments	(200,785)	(193,108)
Collections on notes receivable	2,392	514
Additions to notes receivable	-	(14)
Net cash provided by (used for) investing activities	673,519	19,930
Net increase (decrease) in cash and cash equivalents	8,675	(84,058)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	105,524	189,582
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 114,199	\$ 105,524

See accompanying notes to the basic financial statements.

Irvine Ranch Water District
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2014
(with comparative data for the Fiscal Year Ended June 30, 2013)
(amounts expressed in thousands)
(Continued)

	2014	2013
Reconciliation of cash and cash equivalents to amounts reported on the Statement of Net Assets:		
Cash and investments	\$ 300,908	\$ 275,905
JPA investment program, current portion	-	620,895
Bond Proceed cash and investments	5,234	29,083
Investments - swap collateral	9,721	14,536
Investment in installment sale agreement	1,123	-
Subtotal	316,986	940,419
Less long-term investments	(202,787)	(834,895)
Cash and cash equivalents at end of year	\$ 114,199	\$ 105,524
Reconciliation of operating income to net cash provided by (used for) operating activities:		
Operating income (loss)	\$ (39,990)	\$ (43,908)
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:		
Other nonoperating income	10,974	8,323
Other nonoperating expenses	(7,163)	(6,110)
(Gain) loss on disposition of capital assets	9,205	16,737
Depreciation	46,809	47,539
(Increase) decrease in customer receivables	190	(1,816)
(Increase) decrease in other receivables	1,022	4,302
(Increase) decrease in inventories	1,194	(2,008)
(Increase) decrease due from other agencies	9,716	11,299
(Increase) decrease in prepaid expenses and other assets	110	1,409
(Increase) decrease in net pension asset	(1,789)	(38,543)
Increase (decrease) in accounts payable and accrued expenses	4,345	(3,553)
Increase (decrease) in customer deposits and advance payments	3,745	(185)
Increase (decrease) in compensated absences	324	195
Increase (decrease) in claims payable	88	1,088
Increase (decrease) in unearned revenue	(526)	(525)
Increase (decrease) in net OPEB obligation	181	234
Net cash provided by (used for) operating activities	\$ 38,435	\$ (5,522)
Noncash investing, capital and financing activities:		
Contributions of capital assets from developers	\$ 9,171	\$ 9,742
Unrealized gain (loss) on investments	(16,177)	(29,180)
Total noncash investing, capital and financing activities	\$ (7,006)	\$ (19,438)

See accompanying notes to the basic financial statements.

Irvine Ranch Water District
Statement of Fiduciary Net Position
Fiduciary Fund - Pension Benefits Trust Fund
June 30, 2014
(with comparative data as of June 30, 2013)
(amounts expressed in thousands)

	2014	2013
ASSETS		
Cash and investments (note 2)	\$ 42,570	\$ 35,000
Interest receivable	21	-
TOTAL ASSETS	42,591	35,000
 NET POSITION		
Net position held in trust for pension benefits	\$ 42,591	\$ 35,000

See accompanying notes to the basic financial statements.

Irvine Ranch Water District
Statement of Changes in Fiduciary Net Position
Fiduciary Fund - Pension Benefits Trust Fund
For the Fiscal Year Ended June 30, 2014
(with comparative data for the Fiscal Year Ended June 30, 2013)
(amounts expressed in thousands)

	2014	2013
ADDITIONS		
Contributions:		
Employer	\$ 2,237	\$ 35,000
Total contributions	2,237	35,000
Investment income:		
Interest	21	-
Dividends	868	-
Investments gain	2,206	-
Net increase in the fair value of investments	2,368	-
Total investment earnings	5,463	-
Total additions	7,700	35,000
DEDUCTIONS		
Administrative expenses	109	
Total deductions	109	-
Increase (decrease) in net position	7,591	35,000
NET POSITION AT BEGINNING OF YEAR	35,000	-
NET POSITION AT END OF YEAR	\$ 42,591	\$ 35,000

See accompanying notes to the basic financial statements.

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

(1) Summary of Significant Accounting Policies

(a) Reporting Entity

The Irvine Ranch Water District (District) was formed in 1961 as a special district under Division 13 of the California Water Code (the Act). The District provides potable and recycled water service as well as sewage collection, treatment, and disposal to users within its boundaries.

The District is divided geographically into eight water and ten sewer improvement districts (IDs), as well as several planning areas (PAs) that function as informal improvement districts. Each improvement district is a sub-fund of the District and their primary purpose is to allocate costs and funding on an equitable basis for the construction of water, sewer, and recycled water infrastructure. Most improvement districts have authority to issue general obligation bonds to finance the construction of capital facilities that were identified and valued in a Plan of Works specific to the improvement district. Each improvement district with authority to issue general obligation bonds also has the authority to levy and collect connection fees and ad valorem taxes on the land within its legal boundaries sufficient to meet its general obligation bond indebtedness.

Connection fees which are paid by developers and property taxes which are paid by property owners vary by improvement district based upon, among other considerations, total capital costs, ratio of developed to undeveloped land, and development densities; however, water and sewer user fees are uniform throughout the District, with the exceptions of the Los Alisos and Orange Park Acres service areas. The Los Alisos and Orange Park Acres areas were consolidated into the District in 2001 and 2008, respectively. Los Alisos and Orange Park Acres currently have separate user rate structures for water sales and service charges.

Description of the Reporting Entity

In 2011, the District began a strategic process to review and, if appropriate, develop modifications to the current capital funding plan. The plan allocates funding responsibility for capital facilities to the area which will benefit from the respective facilities and separates areas on the basis of projected timing of development so that construction can be matched to the development. The process resulted in a master consolidation plan that combined areas (referred to as improvement districts) in order to maintain the future financial viability of each area. The financial statements of the District include the financial activities of the following improvement districts and planning areas.

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014
(Continued)

(1) **Summary of Significant Accounting Policies (Continued)**

Description of the Reporting Entity (Continued)

The following is the result of the master consolidation plan:

Old IDs and PAs	New IDs and PAs	Name of New IDs and PAs
112/212	112/212	Former El Toro Marine Base
113/213	113/213	Former Tustin Marine Base
115/215	125/225	Developed/Underlay
120/121 & 220/221	125/225	Developed/Underlay
130/230	125/225	Developed/Underlay
135/235	125/225	Developed/Underlay
140	125	Developed/Underlay
240	240	Newport Coast/Newport Ridge
150/250	125/225	Developed/Underlay
252	252	Santiago Hills
153/253	153/253	Irvine Business District /Spectrum/ Shady Canyon/Laguna Laurel/ East Orange
154	154	Santiago Canyon(s)
256	256	Orange Park Acres
160/161 & 260/261	125/225	Developed/Underlay
182/282	125/225	Developed/Underlay
184/284	125/225	Developed/Underlay
	185/285	Los Alisos Area
186/189 & 286/289	125/225	Developed/Underlay
188/288	188/288	Portola Hills Commercial
100/101/155/156/199 & 200/210/211/299	101/210	Overall District Boundary

Blended Component Units – Blended component units although legally separate entities, are, in substance, part of the District’s operations since they have the same governing board. The District has the following blended component units:

The Irvine Ranch Water District Water Service Corporation – In January 1997, the District formed a 501(c)(4) corporation for the purpose of financing and acquiring water, sewer and other public improvements. The Corporation was created to effect the merger of the Santa Ana Heights Water Company and the issuance of the 2002 Certificates of Participation, 2008 Refunding Certificates of Participation, and 2010 Refunding Certificates of Participation. The Corporation’s bylaws mandate that the members of the District’s Board of Directors shall constitute the Corporation’s five-member Board of Directors. The Irvine Ranch Water District Water Service Corporation does not issue separate financial statements.

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014
(Continued)

(1) **Summary of Significant Accounting Policies (Continued)**

IRWD Water Service Company II, LLC (LLC II) – LLC II was created to effect the merger of the Orange Park Acres Mutual Water Company into the Irvine Ranch Water District. The merger became effective on June 1, 2008. The Orange Park Acres area's financial data and transactions are included in Planning Area 156. The two members of the LLC II are the District and the Irvine Ranch Water District Water Service Corporation (described above). The LLC II does not issue separate financial statements.

Bardeen Partners, Inc. – In March 1991, the District formed a 501(c)(4) corporation for the purpose of accounting for the financial data and transactions for certain of the District's real estate investments, including the investments in Wood Canyon Villas, Sycamore Canyon Apartments, and Irvine Technology Center. Bardeen Partners is governed by a Board of Directors consisting of the five members of the District's Board of Directors. Bardeen Partners does not issue separate financial statements.

Irvine Ranch Water District Improvement Corporation – In August 1986, the District formed a 501(c)(4) corporation for the purpose of financing water, sewer and other public improvements. The Corporation's only transactions are related to the debt service payments on the outstanding 1986 Certificates of Participation which were refunded by the Irvine Ranch Water District Service Corporation Certificates of Refunding Series 2010. The Corporation is governed by the five members of the Board of Directors of the District. The District accounts for the Corporation's activities in several Improvement Districts. The Irvine Ranch Water District Improvement Corporation does not issue separate financial statements. There is no current activity for the Corporation.

(b) **Basic Financial Statements**

The basic financial statements are comprised of the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, the Statement of Cash Flows, the Statement of Fiduciary Net Position – Fiduciary Fund, the Statement of Changes in Fiduciary Net Position – Fiduciary Fund, and the Notes to the Basic Financial Statements.

(c) **Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The District's financial activities are accounted in an enterprise fund (proprietary fund type). A fund is an accounting entity with a self-balancing set of accounts established to record the financial position and results of operations of a specific governmental activity.

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014
(Continued)

(1) **Summary of Significant Accounting Policies (Continued)**

(c) **Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)**

The activities of enterprise funds closely resemble those of ongoing businesses in which the purpose is to conserve and add to basic resources while meeting operating expenses from current revenues. Enterprise funds account for operations that provide services on a continuous basis and are substantially financed by revenues derived from user charges. In addition, the District accounts the Irvine Ranch Water District Post-Employment Benefits Trust (Pension Benefits Trust) as a fiduciary fund. The Pension Benefits Trust fund is maintained to account for assets held in a trustee capacity. Both the enterprise fund and the Pension Benefits Trust fund utilize the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized as they are incurred. Internal activity has been eliminated in the accompanying basic financial statements.

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with water and sewer operations. The principal operating revenues of the District are charges to customers for sales and services. Operating expenses include cost of sales and services, general and administrative expenses and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Capital contributions consist of contributed capital assets, connection fees, grants and other charges that are legally restricted for capital expenditures by state law or by the Board action that established those charges.

Net position of the District is classified into two components: (1) net investment in capital assets and (2) restricted net position. These classifications are defined as follows:

Net Investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation reduced by the outstanding balances of notes or borrowing that are attributable to the acquisition of the asset, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt.

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

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014
(Continued)

(1) **Summary of Significant Accounting Policies (Continued)**

(c) **Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)**

When both restricted and unrestricted resources are available for use, the District uses unrestricted resources first, and then restricted resources as they are needed. For capital expenditures, legally available restricted bond proceeds are used first, then other restricted resources, and then unrestricted resources are used if needed.

(d) **Property Taxes**

The District is authorized under the Act to levy taxes on all taxable property (lands only) within its boundaries for the purposes of paying certain of its debt obligations, subject to certain limitations in the Act, the Revenue and Taxation Code and the California Constitution. The District also receives a portion of the County's 1% ad valorem property taxes from certain lands within its boundaries. Property tax revenue is recognized in the fiscal year in which the taxes are levied.

The property tax calendar is as follows:

Lien date:	January 1
Levy date:	July 1
Due date:	First installment – November 1 Second installment – February 1
Delinquent date:	First installment – December 10 Second installment – April 10

The assessment, levy and collection of property taxes are the responsibility of the County of Orange, and are remitted to the District periodically.

(e) **Cash and Cash Equivalents**

For the purposes of the statement of cash flows, cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash or so near to their maturity that they present insignificant risk of changes in value because of changes in interest rates, and have an original maturity date of 3 months or less.

(f) **District Investments**

Investments are reported in the accompanying Statement of Net Position at fair value, except for certain investment contracts that are reported at cost because they are not transferable and they have terms not affected by changes in market interest rates.

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014
(Continued)

(1) Summary of Significant Accounting Policies (Continued)

(f) District Investments (Continued)

Changes in fair value that occur during the fiscal year are recognized as increase (decrease) in fair value of investments reported for that fiscal year. Interest income includes interest earnings on the District's investments.

(g) Pension Benefits Trust Investments

Investments of the Pension Benefits Trust are reported in the accompanying Statement of Fiduciary Net Position at fair value.

In the Statement of Changes in Fiduciary Net Position, changes in fair value that occur during the fiscal year are recognized as increase (decrease) in fair value of investments reported for that fiscal year. Interest income is recorded on the accrual basis. Dividends are recorded on the payment date.

(h) Real Estate Investments

Real estate investments consist of a wholly-owned apartment complex and three commercial office buildings. The District is also a party to a real estate limited partnership in which the District has a 50% or less ownership interest and does not exercise control. The limited partnership is accounted for using the cost method of accounting.

(i) Inventory and Prepaid Items

Water inventory is stated at its purchase cost using the first in, first out method. Inventory is recorded when purchased, and expensed at the time the inventory is consumed. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

(j) Capital Assets and Depreciation

Capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated assets are valued at their estimated fair market value on the date received. The District capitalizes all assets with a historical cost of at least \$2,500 and a useful life of at least three years. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Depreciation is computed utilizing the straight-line method over the following estimated useful lives:

Buildings and Structures	3 to 100 years
Transmissions and Distributions	10 to 75 years
Machinery and Equipment	3 to 50 years

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014
(Continued)

(1) Summary of Significant Accounting Policies (Continued)

(k) Capitalized Interest

Interest costs on related borrowings are capitalized during the construction period of major capital asset additions. The capitalized interest is recorded as part of the asset to which it is related and is depreciated over the estimated useful life of the related asset.

(l) Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District only has two items that qualify for reporting in this category. Deferred refunding charges reported in the statement of net position result from the difference in the carrying value of refunded debt and the reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Accumulated decrease in fair value of swap agreements reported in the statement of net position results from the changes in fair market value of the fixed payer interest rate swaps.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District does not have any items that qualified for reporting in this category.

(m) Compensated Absences

During the current fiscal year, the District changed its policy in compensated absences. The District's policy permits employees to accumulate earned but unused vacation and sick leave benefits up to certain limits. Earned vacations pay to a maximum of 320 hours (or more with written approval of the General Manager). Sick leave hours accrue at the rate of one day per month and employees may elect to receive cash for accumulated sick leave for up to 96 hours in excess of the first 80 hours accumulated. 50% of accumulated sick leave up to a maximum of 960 hours may be paid upon termination of employment. All accumulated vacation and vested sick leave pay is recorded as expense at the time the benefit is earned.

(n) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014
(Continued)

(1) **Summary of Significant Accounting Policies (Continued)**

(o) **Comparative Financial Statements and Reclassifications**

The information included in the accompanying financial statements for the prior year has been presented for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Certain amounts presented in the prior year financial statements have been reclassified in order to be consistent with the current year's presentation.

(p) **Adopted GASB Pronouncements**

GASB Statement No. 65 - The GASB has issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement specifies the items that were previously reported as assets and liabilities that should now be reported as deferred outflows of resources, deferred inflows of resources, outflows of resources, or inflows of resources. The statement was implemented effective July 1, 2013. Deferred refunding charges reported in the statement of net position result from the difference in the carrying value of refunded debt and the reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

GASB Statement No. 66 - The GASB has issued Statement No. 66, *Technical Corrections-2012; an amendment of GASB Statements No. 10 and No. 62*. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2012. The Statement was implemented effective July 1, 2013, which had no impact on the District.

GASB Statement No. 70 - The GASB has issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This Statement establishes accounting and financial reporting standards for situations where a state or local government, as a guarantor, agrees to indemnify a third-party obligation holder under specified conditions (i.e., nonexchange financial guarantees). The issuer of the guaranteed obligation can be a legally separate entity or individual, including a blended or discretely presented component unit. Guidance is provided for situations where a state or local government extends or receives a nonexchange financial guarantee. The requirements of this Statement are effective for financial statements for reporting periods beginning after June 15, 2013. The Statement was implemented effective July 1, 2013, which had no impact on the District.

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014
(Continued)

(2) **Cash and Investments**

Cash and investments as of June 30, 2014 are classified in the accompanying financial statements as follows (in thousands):

Statement of Net Position:	
Cash and investments	\$ 300,908
Bond proceed cash and investments	5,234
Investments-swap collateral	9,721
Investment in installment sale agreement	<u>1,123</u>
Total Cash and Investments	<u>316,986</u>
Fiduciary Fund - Pension Benefits Trust:	
Investments	<u>42,570</u>
Total Cash and Investments	<u>\$ 359,556</u>

Cash and investments as of June 30, 2014 consist of the following (in thousands):

District Cash and Investments:	
Cash on hand	\$ 3
Deposits with financial institutions	3,169
Investments	313,814
Total Cash and Investments	<u>316,986</u>
Fiduciary Fund - Pension Benefits Trust:	
Investments	<u>42,570</u>
Total Cash and Investments	<u>\$ 359,556</u>

Investments-Swap Collateral funds are held in separate trust accounts and earn the Federal Funds Effective Rate which was 0.09% as of June 30, 2014.

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014
(Continued)

(2) **Cash and Investments (Continued)**

District Authorized Investment Policy

The following table identifies the investment types that are authorized for the District by the California Government Code, the California Water Code, and the District's investment policy, whichever is most restrictive. The table also identifies certain provisions that address interest rate risk and concentration of credit risk.

Authorized Investment Type	Maximum Maturity⁽¹⁾	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Bankers Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base value	None
Medium-Term Notes	5 years	30%	None
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
Orange County Treasury Pool	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Real Estate Investments	N/A	30% ⁽²⁾	None

⁽¹⁾ Maximum maturity unless express authority has been granted otherwise by the Board of Directors pursuant to the California Government Code Section 53601.

⁽²⁾ 30% of Replacement Fund, as authorized by the California Water Code.

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014
(Continued)

(2) **Cash and Investments (Continued)**

District Investments Authorized by Debt Agreements

Investments of debt proceeds held by the bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District’s investment policy. None of the District’s bond trustees hold any debt proceeds or monies that are subject to investment under the debt agreements.

Pension Benefits Trust (The Trust) Authorized Investment Strategy

The Trust’s investment policy authorizes investment of Trust assets in financial instruments in three broad categories: equity, fixed income, and real estate. These financial instruments can include, but are not limited to, corporate bonds, commercial paper, U.S. government securities, common and preferred stock, real estate investment trusts, and mutual funds. Investments may include derivatives, options and futures as portfolio protection strategies. The following is a summary of the Trust’s investment policy.

The Retirement Board (the “Board”) consists of two IRWD Board members and the General Manager. The Board shall designate multiple investment managers to manage the assets under their supervision subject to the laws of the State of California and Investment Guidelines established by the Board. The long term asset allocation policy including the minimum-maximum asset allocation range for each asset class is as follows:

<u>Asset Classes</u>	<u>Minimum</u>	<u>Maximum</u>
Cash	0%	30%
Public Equity: Domestic & International	30%	80%
Private Equity	0%	5%
Fixed Income	10%	40%
Real Estate	0%	10%

The asset allocation policy will be pursued by the Trust on a long-term basis and be revised if necessary due to market conditions. On a quarterly basis, the Board will monitor the current asset allocation policy against the long term allocation and rebalance as it deems necessary.

Cash equivalent reserves shall consist of cash instruments having a quality rating of A-I, P-I or higher, as established by Moody’s or Standard & Poor’s. Bankers’ acceptances, certificates of deposit and savings accounts must be made of United States banks or financial institutions or United States branches of foreign banks, which are federally insured with unrestricted capital of at least \$50 million. Short-term corporate obligations must be rated A or better by Moody’s or by Standard & Poor’s.

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014
(Continued)

(2) **Cash and Investments (Continued)**

Pension Benefits Trust (The Trust) Authorized Investment Strategy (Continued)

Equity investments are restricted to high quality, readily marketable securities of corporations that are actively traded on a major exchange. Not more than 5% of the total stock portfolio valued at market may be invested in the common stock of any one corporation. Ownership of the shares of one company shall not exceed 2% of those outstanding. Not more than 25% of stock valued at market may be held in any one industry category. The overall non-U.S. equity allocation should include a diverse global mix of at least 10 countries. The emerging markets exposure as defined by Morgan Stanley Capital International Inc. should be limited to 35% of the non-U.S. portion of the portfolio.

Fixed income securities of any one issuer shall not exceed 5% of the total bond portfolio, at time of purchase. The 5% limitation does not apply to issues of the U.S. Treasury or other Federal Agencies. The overall rating of the fixed income assets shall be at least "A", according to one of the three rating agencies (Fitch, Moody's or Standard & Poor's). In cases where the yield spread adequately compensates for additional risk, securities where two of the three rating agencies (Fitch, Moody's or Standard & Poor's) have assigned ratings of Baa3 or BBB- ratings, can be purchased up to a maximum of 20% of total market value of fixed income securities.

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 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 public agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

Disclosures Relating to 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 is maturing or coming near to maturity as necessary to provide the cash flow and liquidity needed for District operations.

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014
(Continued)

(2) **Cash and Investments (Continued)**

Disclosures Relating to Interest Rate Risk (Continued)

Information about the sensitivity of the fair values of the District's and Pension Benefits Trust's investments to market interest rate fluctuations is provided by the following tables that shows the distribution of the District's investments by maturity (in thousands):

District Cash and Investments:

<u>Investment Type</u>	<u>Amount</u>	<u>Remaining Maturity</u>		
		<u>12 Months Or Less</u>	<u>13 to 36 Months</u>	<u>36 Months Or More</u>
Federal Agency Securities ⁽¹⁾	\$ 191,943	\$ 24,999	\$ 166,944	\$ -
Local Agency Investment Fund	111,027	111,027	-	-
Treasury Equivalents ⁽²⁾	9,721	-	9,721	-
Municipal Bonds - Installment Sale	1,123	-	-	1,123
Total	\$ 313,814	\$ 136,026	\$ 176,665	\$ 1,123

Pension Benefits Trust Fund:

<u>Investment Type</u>	<u>Amount</u>	<u>Remaining Maturity</u>			
		<u>12 Months Or Less</u>	<u>13 to 36 Months</u>	<u>36 Months Or More</u>	<u>Not Applicable</u>
Mutual Funds - Equities ⁽³⁾	\$ 32,370	\$ -	\$ -	\$ -	\$ 32,370
Mutual Funds - Fixed Income Bonds	10,172	1,215	1,964	6,993	-
Mutual Funds - Money Market	28	28	-	-	-
Total	\$ 42,570	\$ 1,243	\$ 1,964	\$ 6,993	\$ 32,370

⁽¹⁾Includes \$2.50 million of callable step-up notes issued by Federal Home Loan Mortgage Corp.

⁽²⁾Treasury Equivalents represent invested swap collateral earning the Effective Federal Funds Rate of interest which was 0.09% as of June 30, 2014.

⁽³⁾Equity securities are not subject to interest rate risk.

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014
(Continued)

(2) **Cash and Investments (Continued)**

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 actual rating as of year-end for each investment type (in thousands):

District Cash and Investments:

<u>Investment Type</u>	<u>Rating as of Year End</u>		
	<u>Amount</u>	<u>Between AA- and AA+</u>	<u>Not Rated</u>
Federal Agency Securities	\$ 191,943	\$ 166,944	\$ 24,999
Local Agency Investment Fund	111,027	-	111,027
Treasury Equivalents	9,721	-	9,721
Municipal Bonds - Installment Sale	1,123	-	1,123
Total	<u>\$ 313,814</u>	<u>\$ 166,944</u>	<u>\$ 146,870</u>

Pension Benefits Trust Fund:

<u>Investment Type</u>	<u>Amount</u>
Mutual Funds - Equities	\$ 32,370 ⁽¹⁾
Mutual Funds - Fixed Income Bonds	10,172 ⁽²⁾
Mutual Funds - Money Market	28 ⁽³⁾
Total	<u>\$ 42,570</u>

⁽¹⁾Equity Mutual Funds as of 6/30/2014 include two “index funds” and are each comprised of diversified portfolios of equity securities. Credit ratings are not provided for Equity Mutual Funds.

⁽²⁾The Fixed Income Bonds Mutual Fund is comprised of one diversified portfolio of fixed income securities. As of 6/30/2014, 82.1% of the holdings were rated A-AAA, 10.7% of the holdings were rated B-BBB, and 7.2% of the holdings were rated below B or Not Rated.

⁽³⁾The Money Market Mutual Fund is rated AAA by Standard & Poors, Moody’s and Fitch rating services.

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.

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014
(Continued)

(2) **Cash and Investments (Continued)**

Disclosures Relating to Interest Rate Risk (Continued)

In lieu of issuing third-party debt to fund its share of capital for the Baker WTP, El Toro Water District issued an instrument of indebtedness in the form of an installment sale agreement that the District has purchased as an investment. The District's primary purpose for entering into this agreement was to obtain a specified rate of return over the term of the agreement. The fixed interest rate of 4.57% was established on the date of the first purchase and is set at the Bloomberg A-Rated Utility Index for a 20-year indebtedness as of that date. Terms of the installment sale agreement provide for interest-only payments during construction of the Baker WTP, with principal and interest amortized over a 20-year period upon completion of construction.

District Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments are as follows (in thousands):

District Cash and Investments:

<u>Issuer</u>	<u>Investment Type</u>	<u>Amount</u>
FHLB	Federal Agency Securities	\$ 62,431
FFCB	Federal Agency Securities	44,973
FHLMC	Federal Agency Securities	44,601
FNMA	Federal Agency Securities	39,938
	Total	<u>\$ 191,943</u>

Pension Benefits Trust Concentration of Credit Risk

Pension Benefits Trust Fund:

<u>Fund Name</u>	<u>Amount</u>
Fidelity Spartan International Index Advantage Fund	\$ 10,748
Vanguard Institutional Index I	21,622
Metropolitan West Total Bond Fund	10,172
	Total
	<u>\$ 42,542</u>

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014
(Continued)

(3) Interest Rate Swap Agreements

In September 2003, the District's Board of Directors approved a policy regarding the use of interest rate swap transactions. The policy provides that interest rate swap transactions will be designed to enhance the relationship between risk and return with respect to an investment or a program of investments entered into by the District; and/or to reduce the amount or duration of payment, rate, spread, or similar risk; and/or result in a lower cost of borrowing when used in combination with bonds or other indebtedness of the District. Pursuant to the policy, the Board of Directors authorizes general parameters for interest rate swap transactions while the Finance and Personnel Committee structures specific transactions within the Board-authorized parameters. The Treasurer, with the concurrence of the Chairman of the Finance and Personnel Committee, is authorized to enter into interest rate swap transactions that are within all authorized parameters.

The International Swaps and Derivatives Association, Inc. (ISDA) Master Agreement, including the schedule and credit support annex, is used as the form of contract with interest rate swap counterparties. The District is compliant with all recently enacted Dodd-Frank Protocol provisions implemented during FY 2012-13 regarding swap advisor representation and transparency.

All outstanding interest rate swaps are pay-fixed, receive variable swaps ("fixed payer swaps"). As of June 30, 2014, the notional amount and fair value balance of the District's interest rate swaps is \$130.0 million and \$(36.1) million, respectively. For the year ended June 30, 2014, the increase in fair market value of the fixed payer interest rate swaps was \$1.4 million.

The fair value of the swap agreements at June 30, 2014 is calculated using a zero-coupon method. This method calculates the future net settlement payments required by the swaps, assuming, for the LIBOR fixed payer swaps, that the current LIBOR forward rates implied by the LIBOR yield curves correctly anticipate future LIBOR spot interest rates. These payments are discounted using the spot rates implied by the current yield curves for hypothetical zero-coupon bonds due on the date of each future net settlement of the swaps.

The District's fixed payer swaps were executed in 2004, and became effective in 2006 and 2007. The purpose of the fixed payer swaps was to hedge a portion of the interest rate risk exposure associated with the District's 100% variable rate debt structure at the time the swaps were executed. The interest rate swap notional amounts and maturities are not specifically related to a particular District debt issue, however are considered a hedge of a pooled portion of the District's variable rate debt exposure. The following table displays the objective and terms of the District's interest rate swaps outstanding at June 30, 2014, along with the credit rating of the associated counterparty.

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014
(Continued)

(3) **Interest Rate Swap Agreements (Continued)**

Current Year Active Interest Rate Swaps (in thousands):

Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms	Counterparty Rating
Fixed Payer	Hedge of changes in cash flows on pool of variable rate debt issues	\$ 20,000	6/04/06	6/04/19	Pay 6.200%; receive 1-Mo. LIBOR	A2/A/A
Fixed Payer	Hedge of changes in cash flows on pool of variable rate debt issues	20,000	6/04/06	6/04/19	Pay 6.200%; receive 1-Mo. LIBOR	A/A
Fixed Payer	Hedge of changes in cash flows on pool of variable rate debt issues	30,000	6/17/06	6/17/19	Pay 6.140%; receive 1-Mo. LIBOR	A2/A/A
Fixed Payer	Hedge of changes in cash flows on pool of variable rate debt issues	30,000	3/10/07	3/10/29	Pay 5.687%; receive 1-Mo. LIBOR	A/A
Fixed Payer	Hedge of changes in cash flows on pool of variable rate debt issues	30,000	3/10/07	3/10/29	Pay 5.687%; receive 1-Mo. LIBOR	A2/A/A

The ISDA agreements for the above referenced interest rate swaps include a provision that the counterparties shall be required to post collateral should the mark-to-market value of the total interest rate swap portfolio with the respective counterparty, including any current outstanding swap accruals, exceed a threshold of (\$15.0) million. The amount of the collateral posted shall be the amount of the mark-to-market value plus outstanding swap accrual amounts in excess of (\$15.0) million. As of June 30, 2014, the mark-to-market value of the total interest rate swaps with Citibank N.A. as counterparty exceeded the threshold amount requiring a collateral deposit in the amount of \$8.5 million, and the mark-to-market value of the total interest rate swaps with Merrill Lynch Capital Services, Inc. as counterparty exceeded the threshold amount requiring a collateral deposit in the amount of \$1.2 million. The collateral funds are held in separate trust accounts and earn interest at the Federal Funds Effective Rate (0.09% as of June 30, 2014). Swap collateral funds totaling \$9.7 million are included as non-current Investment-Swap Collateral on the Statement of Net Position as of June 30, 2014.

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014
(Continued)

(3) Interest Rate Swap Agreements (Continued)

Credit risk: The District is exposed to credit risk on interest rate swaps. To minimize its exposure to loss related to credit risk, the District's policy requires that the Finance and Personnel Committee evaluate and approve the counterparty creditworthiness of each counterparty prior to executing an ISDA Agreement, and all current swap agreements include collateral posting provisions. These terms require full collateralization of the fair value of interest rate swaps in asset positions (net of the effect of applicable netting arrangements) should the counterparty's credit rating fall below BBB+ as issued by Fitch Ratings and Standard & Poor's or Baa1 as issued by Moody's Investors Service. Collateral posted is to be in the form of U.S. Treasuries, or other approved securities, held by a third-party custodian.

The District has executed interest rate swap transactions with two counterparties. Their ratings are A2/A/A (62% of net exposure to credit risk) and A/A (38% of net exposure to credit risk) as of June 30, 2014.

Interest rate risk: The District is exposed to interest rate risk on its interest rate swaps. On its fixed payer swaps, as LIBOR's swap index decreases, the District's net payment on the swap increases. Alternatively, on its fixed payer swaps, as LIBOR's swap index increases, the District's net payment on the swap decreases.

Basis risk: The District is exposed to basis risk on its fixed payer swaps because the variable-rate payments received by the District on these swaps are based on a rate or index other than interest rates the District pays on its variable-rate debt, which is remarketed daily or weekly.

Termination risk: The District or its counterparties may terminate an interest rate swap if the other party fails to perform under the terms of the contract. If at the time of termination, an interest rate swap is in a liability position, the District would be liable to the counterparty for a payment equal to the liability, subject to netting arrangements.

Collateral requirements: All of the District's interest rate swaps include provisions that require the District to post collateral in the event its credit rating falls below A as issued by Fitch Ratings and Standard & Poor's or A2 as issued by Moody's Investors Service.

The collateral posted is to be in the form of U.S. Treasuries or other approved securities in the amount of the fair value of interest rate swaps in liability positions net of the effect of applicable netting arrangements. If the District does not post collateral, the swaps may be terminated by the counterparty. The District's credit rating is Aa1/AAA/AAA; therefore, no additional collateral has been posted at June 30, 2014, other than the collateral posted as a result of the mark-to-market valuations at June 30, 2014.

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014
(Continued)

(4) **Inventories**

Inventories consist of available water in storage and materials and supplies in the District's warehouse facility. As of June 30, 2014, the District had 2,052 acre-feet of untreated water stored in the Irvine Lake in the amount of \$1.2 million. In addition, the District had 22,326 acre-feet of banked water in various water bank facilities in the amount of \$0.8 million. Inventories at June 30, 2014 consisted of the following (in thousands):

Water in storage	\$ 2,031
Materials and supplies	<u>1,016</u>
Total	<u>\$ 3,047</u>

(5) **Capital Assets**

Capital Asset activity for the year ended June 30, 2014 is as follows (in thousands):

	Balance at June 30, 2013	Additions	Deletions	Balance at June 30, 2014
Capital assets:				
Land leasehold	\$ 4,860	\$ -	\$ -	\$ 4,860
Buildings and structures	616,944	19,642	(8,070)	628,516
Transmissions and distributions	936,724	40,930	(285)	977,369
Machinery and equipment	252,118	8,850	(3,290)	257,678
Sub-total	<u>1,810,646</u>	<u>69,422</u>	<u>(11,645)</u>	<u>1,868,423</u>
Less: Accumulated depreciation:				
Land leasehold	(777)	(97)		(874)
Buildings and structures	(210,922)	(15,598)	842	(225,678)
Transmissions and distributions	(287,282)	(21,165)	162	(308,285)
Machinery and equipment	(98,793)	(9,949)	1,682	(107,060)
Sub-total	<u>(597,774)</u>	<u>(46,809)</u>	<u>2,686</u>	<u>(641,897)</u>
Total depreciable capital assets, net	1,212,872	22,613	(8,959)	1,226,526
Capital assets, non-depreciable:				
Land and water rights	85,569	693	(10)	86,252
Construction in progress	207,613	104,702	(57,568)	254,747
Total capital assets, net	<u>\$ 1,506,054</u>	<u>\$ 128,008</u>	<u>\$ (66,537)</u>	<u>\$ 1,567,525</u>

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014
(Continued)

(6) Capitalized Amounts

Net interest costs and certain administrative and general expenses relating to assets under construction are charged to construction-in-progress until the assets are ready for their intended use. The amount of administrative and general expenses and net interest costs capitalized to construction-in-progress for the year ended June 30, 2014 is as follows (in thousands):

Administrative and general expenses, capitalized	\$ 9,755
Interest expenses, capitalized*	<u>3,950</u>
	<u>\$ 13,705</u>

* The total amount of interest cost incurred for the year ended June 30, 2014 (both the amounts expensed and the amounts capitalized) was \$36,952, including \$17,166 of interest on JPA Bonds.

(7) Real Estate Investments

Real estate investments are as follows at June 30, 2014 (in thousands):

Wood Canyon Villas, L.P.	\$ 6,000
Sycamore Canyon Apartments	18,950
230 Commerce Office Property	3,885
Waterworks Way Business Park	7,976
Sand Canyon Professional Center	<u>8,801</u>
Total	<u>\$ 45,612</u>

Included in real estate investments are two apartment properties and three commercial office buildings. The District, through Bardeen Partners, Inc., is the sole limited partner in Wood Canyon Villas, L.P. (Wood Canyon), and the sole owner of both Sycamore Canyon Apartments and a commercial office building (230 Commerce). Separate from Bardeen Partners, Inc., the District is the sole owner of two other commercial office buildings (Waterworks Way Business Park and Sand Canyon Professional Center).

The construction of Wood Canyon Villas, a 230-unit apartment complex, was completed in 1993. The complex is located in Orange County, California, and was 93% occupied at June 30, 2014. The Wood Canyon partnership agreement provides the District with a 9% cumulative preferred return on its unrecovered contribution accounts, as defined in the agreement (initially \$6.0 million). The District's capital contributions and preferred return are guaranteed by the principals of the general partner.

In 1992, the District acquired a 450-unit apartment property (original cost, \$34.1 million) in Orange County, California known as Sycamore Canyon Apartments. The property was 96% occupied at June 30, 2014. In addition, the Sycamore Canyon Apartments completed a renovation project in 2007 for a total cost of \$9.6 million.

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014
(Continued)

(7) Real Estate Investments (Continued)

In 2003, the District completed construction of the 41,000 square foot for-lease 230 Commerce general office building located in Irvine, California. Land and construction costs for the project totaled \$5.6 million and the building was 90% occupied as of June 30, 2014.

In November 2008, the District completed construction of a 37,200 square foot for-lease R&D office building located in Irvine, California known as the Waterworks Way Business Park. Construction of the building was a specific facilities requirement of the purchase agreement for land acquired for an adjacent District water treatment facility. Land and construction costs for the office project totaled \$9.0 million. As of June 30, 2014 the building was 100% occupied.

In April 2012, the District completed construction of a 16,350 square foot for-lease medical office building located in Irvine, California known as the Sand Canyon Professional Center. Land and construction cost for the project totaled \$8.4 million and the building was 100% occupied as of June 30, 2014.

Net real estate income as of June 30, 2014 was as follows (in thousands):

Real estate income	\$ 11,899
Real estate expense	(4,139)
Depreciation	<u>(2,000)</u>
	<u>\$ 5,760</u>

(8) Allen-McColloch Pipeline

For several years prior to 1995, the District was a part owner and participant in a 27-mile pipeline through which it received a portion of its water capacity from Metropolitan Water District (MWD). During fiscal year 1995, the District and the other participants sold the pipeline to MWD. In accordance with the sale agreement, the District will receive a total of \$45.6 million over 37 years, representing the District's ownership of approximately 42% of the pipeline project. In addition to the initial cash payment, the District has received \$45.6 million in payments under the agreement of which \$2.5 million was received for the fiscal year ended June 30, 2014. The District's receivable at June 30, 2014 of \$4,000 is presented net of deferred imputed interest.

The sales agreement provides for the District to continue to have rights to the flow capacity from MWD, but MWD is not obligated to deliver an actual flow or quantity of water. The agreement also provides for MWD to forfeit ownership of the pipeline to the former owners (including the District) should it not make all required future payments.

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014
(Continued)

(9) **Long-Term Liabilities**

Long-term liability activity for the year ended June 30, 2014 is as follows (in thousands):

	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014	Due within One Year	Due in more than one Year
General Obligation Bonds:						
1989 C Consolidated	\$ 2,600	\$ -	\$ (2,600)	\$ -	\$ -	\$ -
1991 Consolidated	5,300	-	(5,300)	-	-	-
1993 C Consolidated	37,500	-	(1,400)	36,100	1,500	34,600
1995 Consolidated	18,100	-	(1,900)	16,200	2,000	14,200
2008A Refunding	56,400	-	(1,200)	55,200	1,200	54,000
2009A Consolidated	72,500	-	(2,500)	70,000	2,500	67,500
2009B Consolidated	72,500	-	(2,500)	70,000	2,500	67,500
2010B BABS	175,000	-	-	175,000	-	175,000
2011A-1 Refunding	57,420	-	(1,380)	56,040	1,440	54,600
2011A-2 Refunding	38,280	-	(920)	37,360	960	36,400
Total General Obligation Bonds	535,600	-	(19,700)	515,900	12,100	503,800
JPA Revenue Bonds*:						
2010 Taxable Refunding No. 2	373,625	-	(373,625)	-	-	-
2012 Taxable Refunding No. 1	243,505	-	(243,505)	-	-	-
Unamortized Contribution	1,414	-	(1,414)	-	-	-
Total JPA Revenue Bonds	618,544	-	(618,544)	-	-	-
Certificates of Participation:						
2010 Refunding Certificates	72,490	-	(5,300)	67,190	5,910	61,280
Unamortized Premium	6,734	-	(359)	6,375	361	6,014
Total Certificates	79,224	-	(5,659)	73,565	6,271	67,294
Notes Payable	2,240	-	(256)	1,984	257	1,727
Other Long-Term Liabilities:						
Compensated Absences	3,284	3,376	(3,052)	3,608	1,442	2,166
Other Long-Term Liabilities	812	2,560	(2,541)	831	85	746
Total Other Long-Term Liabilities	4,096	5,936	(5,593)	4,439	1,527	2,912
Total Long-Term Liabilities	\$1,239,704	\$ 5,936	\$(649,752)	\$595,888	\$ 20,155	\$ 575,733

*The JPA Issue #1 and Issue #2 refunding bonds and underlying investment securities matured in their entirety in FY 2013-14. Under the terms of the Joint Powers Agreement dated December 22, 1986, the JPA's existence terminated automatically on March 15, 2014, upon the retirement of all outstanding bonds of the JPA.

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014
(Continued)

(9) Long-Term Liabilities (Continued)

The following schedule summarizes the major terms of outstanding long-term debt (in thousands):

	Date of Issue	Original Issue	Revenue Sources	Final Maturity Date	Interest Rates
General Obligation Bonds:					
1993 Consolidated	May 1, 1993	38,300	(1)(3)	April 1, 2033	Variable
1995 Consolidated	December 1, 1995	40,000	(1)(3)	January 1, 2021	Variable
2008A Refunding	April 1, 2008	60,215	(1)(3)	July 1, 2035	Variable
2009A Consolidated	June 4, 2009	75,000	(1)(3)	October 1, 2041	Variable
2009B Consolidated	June 4, 2009	75,000	(1)(3)	October 1, 2041	Variable
2010B BABS	December 16, 2010	175,000	(1)(2)(3)	May 1, 2040	6.6%
2011A-1 Refunding	April 15, 2011	60,545	(1)(3)	October 1, 2037	Variable
2011A-2 Refunding	April 15, 2011	40,370	(1)(3)	October 1, 2037	Variable
Certificates of Participation:					
2010 Certificates	February 23, 2010	85,145	(2)	March 1, 2032	3.8%

- (1) Ad valorem assessments or, in lieu of assessments, in the District's discretion, charges for water or sewer service
- (2) Available water, sewer, and recycled water revenues
- (3) Proceeds from the sale of property

General Obligation Bonds

The General Obligation Bonds were issued to fund property, water, sewer and recycled water facilities.

The annual debt service requirements for the General Obligation Bonds, including principal and interest payments (based on variable interest rates at June 30, 2014 ranging from 0.03% to 0.07% and the fixed rate for the 2010B BABS issue) are as follows (in thousands):

Fiscal Year	Principal	Interest	Hedging Investments, Net	BAB Federal Subsidy	Total
2015	\$ 12,100	\$ 11,759	\$ 7,516	\$ (3,764)	\$ 27,611
2016	12,600	11,753	7,516	(3,764)	28,105
2017	12,900	11,747	7,516	(3,764)	28,399
2018	13,100	11,741	7,516	(3,764)	28,593
2019	13,400	11,734	7,516	(3,764)	28,886
2020-2024	64,000	58,081	16,558	(18,820)	119,819
2025-2029	82,770	56,023	15,730	(18,162)	136,361
2030-2034	107,715	49,755	-	(16,137)	141,333
2035-2039	153,915	31,405	-	(10,189)	175,131
2040-2042	43,400	1,889	-	(611)	44,678
Total	\$515,900	\$255,887	\$69,868	\$(82,739)	\$758,916

The above table incorporates the net receipts/payments of the hedging instruments that are associated with the variable rate debt issue(s). The amounts assume that current interest rates

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014
(Continued)

(9) Long-Term Liabilities (Continued)

on variable rate bonds and the current reference rates of the hedging instruments will remain the same for their term. As these rates vary, interest payments on variable rate bonds and net receipts/payments on the hedging instruments will vary. Additionally, the above table includes the most recent BABs subsidy reduction of 7.2% under the Congressionally-mandated sequestration which began in FY 2013-14. Refer to Note 3 for additional information regarding the hedging instruments associated with the debt of the District.

Certificates of Participation

In February 2010, the Irvine Ranch Water District Service Corporation issued \$85.1 million of Certificates of Participation Refunding Series 2010 (the Series 2010 Certificates) to refinance the cost of certain capital improvements by refunding the outstanding principal amount of the Certificates of Participation Series 1986 and Series 2008. The annual debt service requirements for the Certificates of Participation, including principal and interest payments, are as follows (in thousands):

Fiscal Year	Principal	Interest	Total
2015	\$ 5,910	\$ 3,188	\$ 9,098
2016	6,545	2,941	9,486
2017	7,135	2,677	9,812
2018	1,615	2,380	3,995
2019	1,795	2,299	4,094
2020-2024	11,855	9,961	21,816
2025-2029	17,885	6,432	24,317
2030-2032	14,450	1,480	15,930
Subtotal	67,190	31,358	98,548
Plus: Unamortized premium	6,375	-	6,375
Total	<u>\$ 73,565</u>	<u>\$ 31,358</u>	<u>\$ 104,923</u>

Notes Payable

The District has one outstanding loan from the State of California to fund reclaimed water projects. The balance on the 2000 loan was \$1.2 million at June 30, 2014. The annual interest rate is 0.00%, however, the loan agreement required the District to prepay interest of \$0.6 million, which is amortized over the life of the loan. The loan is payable annually in fixed installments of \$0.2 million through 2020.

The District also has one outstanding loan which was assumed as a result of its consolidation with the Santiago County Water District. The original loan amount was \$1.3 million. The loan is payable semi-annually with interest at 2.32%. The loan matures in July 2025. The balance of the loan at June 30, 2014 was \$0.8 million.

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014
(Continued)

(9) **Long-Term Liabilities (Continued)**

Notes Payable (Continued)

Amounts required to amortize notes payable at June 30, 2014 are as follows (in thousands):

Fiscal Year	Principal	Interest	Total
2015	\$ 257	\$ 51	\$ 308
2016	258	50	308
2017	260	48	308
2018	262	46	308
2019	263	45	308
2020-2024	564	70	634
2025-2026	120	3	123
Total	<u>\$ 1,984</u>	<u>\$ 313</u>	<u>\$ 2,297</u>

(10) **Unearned Revenue**

Unearned revenue at June 30, 2014 consisted of the following (in thousands):

South County Water Agencies	\$8,899
Unearned revenue, current portion	<u>525</u>
Unearned revenue, net of current portion	<u>\$8,374</u>

On November 10, 2008, the Board approved the South Orange County – Irvine Ranch Water District Interconnection Projects Participation Agreement (Agreement). The Agreement was effective on November 2008 between the District, City of San Clemente (CSC), Laguna Beach County Water District (LBCWD), Moulton Niguel Water District (MNWD), Santa Margarita Water District (SMWD), South Coast Water District (SCWD), Municipal Water District of Orange County (MWDOC), and Orange County Water District (OCWD). The purpose of the Agreement is to allow the South County water agencies (CSC, LBCWD, MNWD, SMWD, and SCWD) to buy capacity in the District system and reimburse the District for various new intertie facilities which ensure that up to 30 cfs of water supply is available in an emergency. The total cost of the agreement was paid in full by each party in the fiscal year ended June 30, 2009. The amount of unearned revenue related to the South County Water Agencies is amortized over 20 years, the term of the Agreement. The amount of amortization for the fiscal year ended June 30, 2014 was \$0.5 million.

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014
(Continued)

(11) Letters of Credit

The District has letters of credit securing the payment of principal and interest on certain General Obligation Bonds. The letters of credit are issued in favor of the trustees and enable the trustees to make drawings against the letters of credit for payment of principal and interest amounts.

The terms of the letters of credit, as of June 30, 2014 are summarized as follows (in thousands):

Letter of Credit	Trustee	Amount	Expiration Date
Bank of America:			
2009 Series B Consolidated	U.S. Bank	\$ 70,782	July 15, 2016
Bank of New York:			
1993 Consolidated	Bank of New York Mellon	36,593	June 2, 2015
Sumitomo Mitsui:			
1995 Consolidated	Bank of New York Mellon	16,440	July 4, 2017
2008 Series A Refunding	Bank of New York Mellon	56,017	July 4, 2017
U.S. Bank:			
2009 Series A Consolidated	U.S. Bank	70,782	July 15, 2016

(12) Net Position

Net position at June 30, 2014 consisted of the following (in thousands):

Net investment in capital assets:	
Property, plant and equipment, net	\$1,567,525
Less:	
Outstanding debt issued to construct capital assets:	
General obligation bonds	(515,900)
Certificates of participation	(73,565)
Notes payable	(1,984)
Add back unspent portion of debt applicable to unspent bond proceeds	5,234
Total net investment in capital assets	<u>981,310</u>
Restricted net position:	
Restricted for water services	187,877
Restricted for sewer services	220,428
Total restricted net position	<u>408,305</u>
Total net position	<u>\$1,389,615</u>

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014
(Continued)

(13) Defined Benefit Pension Plan (PERS)

The District contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement, disability benefits, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Copies of PERS' annual financial report may be obtained from its executive office at 400 "P" Street, Sacramento, California 95814.

Benefit provisions and all other requirements are established by State statute and the District's Board of Directors. Starting July 1, 2008, participants are required to contribute up to 8% of their annual covered salary. During the fiscal year ending June 30, 2014, the District made up to 1.37% of the contributions required of District employees, while the District employees made up to 6.63% of the contribution.

In addition, the District is required to contribute an actuarially determined rate applied to annual covered payroll. The District's contribution rate for the indicated period is 16.795%. The contribution rates for the fiscal year 2014-15 and 2015-16 are 17.737% and 18.331%, respectively.

Under GASB 27, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation (NPO) (negative or positive). The ARC for the period July 1, 2013 to June 30, 2014 has been determined by an actuarial valuation of the plan as of June 30, 2011.

A summary of principal assumptions and methods used to determine the ARC is shown below.

Valuation Date	June 30, 2011
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	19 Years as of the Valuation Date
Asset Valuation Method	15 Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	7.50% (net of administrative expenses)
Projected Salary Increases	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 component of 2.75% and an annual production growth of 0.25%.

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014
(Continued)

(13) Defined Benefit Pension Plan (PERS) (Continued)

Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into PERS. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a 30-year rolling period, which results in an amortization of 6% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, the amortization period may not be lower than the payment calculated over a 30 year amortization period.

The Schedule of Funding Progress (in thousands) below shows the recent history of the actuarial value of assets, actuarial accrued liability, their relationship, and the relationship of the unfunded accrued liability to payroll.

Valuation Date	Accrued Liability	Actuarial Value of Assets	Unfunded Liability (Excess Assets)	Funded Ratios	Annual Covered Payroll	UL As a % of Payroll
6/30/11	\$170,392	\$140,716	\$29,676	82.6%	\$24,379	121.7%
6/30/12	183,096	151,193	31,903	82.6%	24,203	131.8%
6/30/13	197,685	151,955*	45,730	76.9%	25,499	179.3%
6/30/13**	197,685	186,955	10,730	94.6%	25,499	42.1%

*Beginning with the 6/30/2013 valuation, the Actuarial Value of Assets is equivalent to the Market Value of Assets. The Actuarial / Market Value of Assets does not include \$35.0 million of contributions that the District made to the Pension Benefits Trust.

**Includes Pension Benefits Trust assets of \$35.0 million, significantly reducing the District's unfunded liability to \$10.7 million as of June 30, 2013. In FY 2014, the District made an additional contribution of \$2.2 million to the Pension Benefits Trust. As of June 30, 2014, the fair market value of the assets in the Pension Benefits Trust was approximately \$42.6 million, further reducing the unfunded liability by an additional \$7.6 million.

The District recognizes that defined benefit plans and the related future pension obligations pose significant issues for many government agencies. The District has taken a proactive approach to address the issue by establishing a Pension Benefits Trust (Pension Benefits Trust) to fund the PERS unfunded liability, providing the District with an alternative to PERS that allows for investment by a professional fund management team selected and monitored by the District. The Pension Benefits Trust holds the funding contributions from the District pending future remittance to the PERS pension trust fund which will pay all retiree benefit payments to employees associated with the plan. Future contributions will be transferred to PERS at the District's discretion. The funds held in the Pension Benefits Trust are legally protected from the claims of the general creditors of the District. Contributions to the Pension Benefits Trust and earnings on those contributions are irrevocable.

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014
(Continued)

(13) Defined Benefit Pension Plan (PERS) (Continued)

In FY 2013, the District made a \$35.0 million contribution to the Pension Benefits Trust, bringing the District to a 94.6% funded ratio as of June 30, 2013. In FY 2014, the District made an additional contribution of \$2.2 million to the Pension Benefits Trust. As of June 30, 2014, the fair market value of the assets in the Pension Benefits Trust was approximately \$42.6 million, further reducing the unfunded liability by an additional \$7.6 million. The assets were invested in the Vanguard Institutional Index Fund, Fidelity Concord Spartan International Fund, Metropolitan West Total Return Bond Fund, and Federated Government Obligations Money Market Fund. Additional information on the Pension Benefits Trust's investments can be found in Note 2 of the Notes to the Basic Financial Statements.

In the Statement of Net Position as of June 30, 2014, the District has a net pension asset of \$51.9 million consisting of \$52.5 million in contributions in excess of ARC and \$0.6 million of amortization. The District's annual pension cost and net pension asset, computed in accordance with GASB 27, for the year ended June 30, 2014, were as follows (in thousands):

Annual required contribution	\$ 4,337
Interest on beginning pension asset	(3,761)
Adjustment to annual required contribution	<u>4,209</u>
Annual pension cost	<u>4,785</u>
Contribution made	6,574
Increase (decrease) in pension asset	<u>1,789</u>
Net pension asset, beginning of year	<u>50,148</u>
Net pension asset, end of year *	<u><u>\$51,937</u></u>

*Includes \$37.2 million contributed to the Pension Benefits Trust.

The District's annual pension cost, the percentage of annual pension cost contributed to the plan, and the net pension asset for the fiscal year ended June 30, 2014 and the two preceding years were as follows:

Three-Year Trend Information
Annual Pension Cost (Employer Contribution) (in thousands)

Fiscal Year	Employee Contribution (District Paid)	Employer Contribution	Total Employee Contribution (District Paid and Employer Contribution)	Annual Pension Cost (APC)	Percentage of APC Contribution	Net Pension Asset
6/30/12	\$1,025	\$4,643	\$5,668	\$4,321	107.5%	\$11,605
6/30/13	609	42,840	43,449	4,297	997.0%	50,148
6/30/14	394	6,574	6,968	4,785	137.4%	51,937

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014
(Continued)

(14) Other Post Employment Benefits

The District administers three other post employment benefits (OPEB) plans which are subject to changes based on the discretion of the Board:

- **PEMHCA:** The District provides an agent multiple-employer defined benefit healthcare plan to retirees through the California Public Employee Retirement System (CalPERS) under the California Public Employees Medical and Hospital Care Act (PEMHCA), commonly referred to as PERS Health. Employees are eligible for this lifetime benefit if they retire from the District and are eligible to begin drawing a PERS pension.
- **Retiree Health Cost Benefits:** The District also administers a single-employer defined benefit health cost reimbursement plan which provides medical benefits to covered employees and their eligible dependents. Employees are eligible for this benefit if they retire from the District on or after age 55 with at least 10 years of service. The District reimburses retirees for eligible healthcare costs of up to \$300 per month (for retirees with at least 10 years of service at the District), to a maximum of \$600 per month after 25 years of service.
- **Retiree Death Benefit Only Plan:** The District administers a single-employer defined benefit plan. Employees hired on or before December 31, 2008 are eligible for term life insurance with a face amount equal to 100% of their final annual salary at the time of retirement. Employees hired after December 31, 2008 are not currently eligible for this plan.

Membership of the plan consisted of the following at July 1, 2012, the date of latest actuarial valuation:

	PEMHCA	Retiree Health Costs Reimbursement	Retiree Death Benefit Only
Retirees and beneficiaries receiving benefits	64	48	82
Terminated plan members entitled to but not yet receiving benefits	-	5	-
Active plan members	304	304	236
Total	368	357	318

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014
(Continued)

(14) Other Post Employment Benefits (Continued)

The District reports the financial activity of the three plans in its basic financial statements. No separate benefit plan report is issued.

Annual OPEB Cost and Net OPEB Obligation

The required contributions for the District's various other post employment benefits are based on projected pay-as-you go financing requirements, with an additional amount to prefund benefits as determined annually the District's Board of Directors.

The District's annual OPEB expense is based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) as a level dollar open period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the fiscal year ended June 30, 2014, the amount actually contributed for each OPEB benefit, and the changes in the District's net OPEB obligation:

	PEMHCA	Retiree Health Costs Reimbursement	Retiree Death Benefit Only	Total
Annual OPEB cost (expense):				
Annual required contribution	\$ 326,630	\$ 314,239	\$ 25,966	\$ 666,835
Interest on net OPEB obligation	47,922	20,507	29,326	97,755
Adjustment to annual required contribution	(69,283)	(29,648)	(42,399)	(141,330)
Annual OPEB cost (expense)	305,269	305,098	12,893	623,260
Contribution made	(99,157)	(330,620)	(12,070)	(441,847)
Increase (Decrease) in net OPEB obligation	206,112	(25,522)	823	181,413
Net OPEB obligation - beginning of year	1,198,039	512,681	733,161	2,443,881
Net OPEB obligation - end of year	<u>\$1,404,151</u>	<u>\$ 487,159</u>	<u>\$ 733,984</u>	<u>\$2,625,294</u>

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014
(Continued)

(14) **Other Post Employment Benefits (Continued)**

Annual OPEB Cost and Net OPEB Obligation (Continued)

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plans, and the net OPEB obligation for the fiscal year ended June 30, 2014 and the two preceding years were as follows:

Schedule of Employer Contributions

Plan	Fiscal Year Ended	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
PEMHCA	6/30/12	\$255,431	26.14%	\$979,197
	6/30/13	309,171	29.22%	1,198,039
	6/30/14	305,269	32.48%	1,404,151
Retiree Health Costs Reimbursement	6/30/12	283,049	88.07%	498,653
	6/30/13	305,348	95.41%	512,681
	6/30/14	305,098	108.37%	487,159
Retiree Death Benefit Only	6/30/12	13,224	76.56%	731,829
	6/30/13	12,917	89.68%	733,161
	6/30/14	12,893	93.62%	733,984
Total - All Plans	6/30/12	551,704	59.12%	2,209,679
	6/30/13	627,436	62.67%	2,443,881
	6/30/14	623,260	70.89%	2,625,294

Funded Status and Progress

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events in the future. Examples include assumptions about employee turnover, retirement, mortality, and economic assumptions regarding healthcare inflation and interest rates. 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 below shows the recent history of the actuarial value of assets, actuarial accrued liability, their relationship, and the relationship of the unfunded accrued liability to payroll.

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014
(Continued)

(14) Other Post Employment Benefits (Continued)

Funded Status and Progress (Continued)

Plans	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
PEMHCA	1/1/09	\$ -	\$2,140	\$2,140	0.00%	\$23,733	9.0%
	1/1/11	-	2,484	2,484	0.00%	24,695	10.1%
	7/1/12	-	3,202	3,202	0.00%	24,836	12.9%
Retiree Health Costs Reimbursement							
Plan	1/1/09	-	2,357	2,357	0.00%	23,733	9.9%
	1/1/11	-	2,541	2,541	0.00%	24,695	10.3%
	7/1/12	-	3,009	3,009	0.00%	24,836	12.1%
Retiree Death Benefit Only							
Plan	1/1/09	-	402	402	0.00%	23,733	1.7%
	1/1/11	-	365	365	0.00%	24,695	1.5%
	7/1/12	-	439	439	0.00%	24,836	1.8%

Actuarial Methods and Assumptions

The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial assets, consistent with the long-term perspective of the calculations. The actuarial cost method used for determining the benefit obligations is the Projected Unit Credit Cost Method. The actuarial assumptions included a 4.0% investment rate of return, which is the assumed rate of the expected long-term investment returns on plan assets calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 8.0% initially, reduced by decrements of 1% per year to an ultimate rate of 5% after the third year. Both rates included a 4.0% inflation assumption. The UAAL is being amortized as a level dollar open period over 30 years. It is assumed the District's payroll will increase 3% per year.

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014
(Continued)

(15) Deferred Compensation Plans

Retirement for Part Time Employees

The District provides pension benefits for all of its part-time employees through a defined contribution plan, in lieu of providing social security benefits. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The plan is administered as part of the District's Section 457 plan. All part-time and seasonal employees are eligible to participate from the date of employment. Federal legislation requires contributions of at least 7.5% to a retirement plan. For the year ended June 30, 2014, the District's payroll covered by the plan was \$483,248. The District made no employee contributions. Employees contributed \$36,244 (7.5% of current covered payroll) for the year ended June 30, 2014.

Deferred Compensation

All regular, full-time District employees are eligible to participate in the District's deferred compensation program pursuant to Section 457 of the Internal Revenue Code (Plan) whereby they can voluntarily contribute a portion of their earnings into a tax-deferred fund administered by the District and invested through a third party provider. Pursuant to the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), effective January 1, 2002, employees may contribute the lesser of 100% of includible compensation or the maximum dollar amount allowable under Internal Revenue Code Section 457 in effect for the year. The dollar amount currently in effect for calendar year 2014 is \$17,500. After 2008, the limit is being indexed to inflation in \$500 increments.

Effective January 1, 2008, for employees with one year or more of services, the District provides 100% matching up to an annual maximum of 3% of the employee's base salary after one year of service. Such employer contribution amounts are deposited into a money purchase plan pursuant to Section 401(a) of the Internal Revenue Code. During the year ended June 30, 2014, the District contributed \$598,834 to employee accounts under the 401(a) plan.

The assets in both plans are held in trust for the exclusive benefit of the participants and their beneficiaries, and are therefore not reported in the financial statements of the District.

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014
(Continued)

(16) Commitments and Contingencies

Orange County Sanitation District (OCSD)

The District, with OCSD, negotiated an agreement as of July 1, 1985, which has been amended from time to time. The District agreed to annually fund payment of the District's proportionate share of OCSD's joint capital outlay revolving fund (CORF) budget requirements and certain capital improvements, calculated on an annual flow basis using the four highest months of actual flows, during the term of the agreement. The capital assets associated with this agreement are co-owned by the two agencies and provide an operational benefit to both agencies. The District's CORF payments to OCSD for the year ended June 30, 2014 totaled \$1.3 million. The District's share of the jointly funded CORF and capital improvements is included in capital assets in the District's basic financial statements. The accompanying basic financial statements reflect management's best estimate of balances pertaining to this agreement based upon information provided by OCSD. Periodically this information is subjected to further review by the performance of agreed upon procedures when the records for such review have been made available to the District. Adjustments pertaining to the accounting estimates associated with this agreement are recognized as the information for such adjustments becomes available.

The District, with OCSD, negotiated an agreement as of April 2010, providing for treatment and disposal by OCSD of District solids and the temporary lease of capacity in OCSD's solids treatment and disposal facilities through December 31, 2016 with a retroactive component for the lease of capacity back to July 1, 2008. The capacity lease for the fiscal year ended June 30, 2014, estimated at \$1.4 million, is included in Sewer Services as an operating expense.

As of June 30, 2014 \$8.2 million is being held by OCSD to meet the District's share of OCSD budget requirements and is reflected as deposits in the District's basic financial statements. An additional \$21.2 million is being held by OCSD and is reflected as due from other agency in the District's basic financial statements. These funds will be applied by OCSD as payment of operation and maintenance and CORF invoices in subsequent fiscal years, and continue to earn interest at OCSD's rate of return, for the benefit of the District.

Legal Actions

The District is a defendant in various legal actions arising out of the conduct of the District's operations. Management believes that, based on current knowledge, the outcome of these matters will not have a material adverse effect on the District's financial position.

Irvine Ranch Water District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014
(Continued)

(17) 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; and natural disasters for which the District carries commercial insurance.

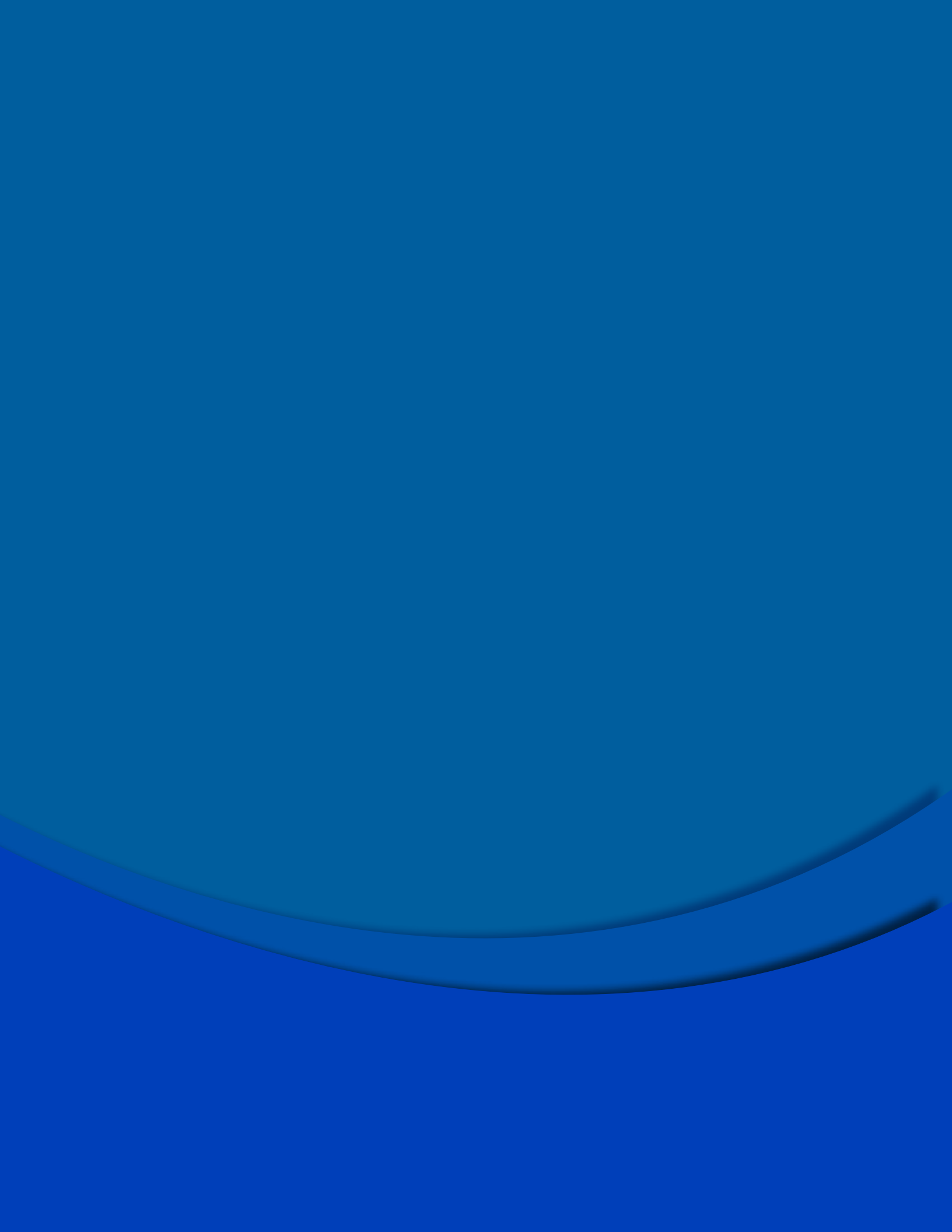
Property, Boiler and Machinery insurance is provided by the California State Association of Counties Excess Insurance Authority. Property insurance includes flood insurance, but does not include earthquake insurance. General and excess liability coverage and workers compensation insurance is provided through participation in the California State Association of Counties Excess Insurance Authority. Pollution and legal liability coverage for the Irvine Desalter Project is provided by a policy with Indian Harbor Insurance Company.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example from salvage or subrogation, are another component of the claims liability estimate. Excess coverage insurance policies cover individual general liability claims in excess of \$100,000 and workers compensation claims in excess of \$125,000. Settlements have not exceeded excess coverage for each of the past three fiscal years.

Changes in the reported liability resulted from the following:

Fiscal Year Ended June 30	Liability Beginning of Year	Claims and Changes in Estimates	Claim Payments	Liability End of Year
2013	\$ -	\$ 1,088	\$ -	\$1,088
2014	1,088	301	(213)	1,176

STATISTICAL SECTION



Statistical Section

Irvine Ranch Water District
Fiscal Year Ended June 30, 2014

This section of the Irvine Ranch Water District's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the District's overall financial health.

Financial Trends Schedules – These schedules contain trend information to help the reader understand how the District's financial performance and well-being have changed over time.

- Net Position
- Changes in Net Position

Revenue Capacity Schedules – These schedules contain information to help the reader assess the factors affecting the District's ability to generate its property and sales taxes.

- Water Sold by Type of Customer
- Water Rates
- Largest Water Customers
- Sewer Rates
- Largest Sewer Customers
- Ad Valorem Property Tax Rates

Debt Capacity Schedules – These schedule present information to help the reader assess the affordability of the District's current levels of outstanding debt and the District's ability to issues additional debt in the future.

- Assessed Valuation and Estimated Actual Value of Taxable Property and 1% Property Tax Revenue
- Direct and Overlapping Property Tax Rates
- Principal Property Taxpayers
- Property Tax Collections/Delinquency
- Outstanding Debt by Type
- Outstanding General Obligation Bonds by Improvement District
- Ratio of General Obligation Debt to Assessed Values
- Ratio of Annual Debt Service Expenditures to Total General Expenditures – Cash Basis
- Debt Service Coverage

Demographic and Economic Information – These schedules offer demographic and economic indicators to help the reader understand the environment within which the District’s financial activities take place and to help make comparisons over time and with other governments.

Principal Employers
Demographic and Economic Statistics

Operating Information – These schedules contain information about the District’s operations and resources to help the reader understand how the District’s financial information relates to the services the District provides and the activities it performs.

Operating Indicators by Function – Water and Sewer Service Connections
Operating Indicators by Function – New Service Connections
Operating Indicators by Function – Average Monthly Usage
Source of Supply and Demand in Acre Feet
Capital Asset Statistics
Full-Time Employees

Irvine Ranch Water District

Net Position
For the Fiscal Years
(in millions)

	Fiscal Year				
	2005	2006	2007	2008	2009
Assets					
Current & other assets	\$ 1,250.6	\$ 1,162.1	\$ 1,088.9	\$ 1,103.8	\$ 1,224.1
Capital assets	1,017.4	1,111.1	1,224.3	1,346.1	1,423.1
Total assets	2,268.0	2,273.2	2,313.2	2,449.9	2,647.2
Deferred Outflow of Resources					
Deferred refunding charges	-	-	-	-	-
Accumulated decrease in fair value of swaps agreements	-	-	-	-	-
Total deferred outflow of resources	-	-	-	-	-
Liabilities					
Current and other liabilities	82.8	91.5	95.3	96.5	99.4
Long-term liabilities	1,058.6	1,068.9	1,022.2	1,074.7	1,190.8
Total liabilities	1,141.4	1,160.4	1,117.5	1,171.2	1,290.2
Net Position					
Net investment in capital assets	730.2	791.0	927.6	977.7	994.3
Restricted for water services	280.4	231.2	229.2	253.8	294.4
Restricted for sewer services	116.0	90.6	38.9	47.2	68.3
Total net position	\$ 1,126.6	\$ 1,112.8	\$ 1,195.7	\$ 1,278.7	\$ 1,357.0

Source: Irvine Ranch Water District Basic Financial Statements

⁽¹⁾ The District implemented GASB No. 65 for the fiscal year ended June 30, 2014 and restated the financial statements for the fiscal year ended June 30, 2013.

Irvine Ranch Water District

Net Position
For the Fiscal Years
(in millions)
(Continued)

	Fiscal Year				
	2010	2011	2012	2013 ⁽¹⁾	2014 ⁽¹⁾
Assets					
Current & other assets	\$ 1,172.3	\$ 1,300.0	\$ 1,167.0	\$ 1,128.2	\$ 462.7
Capital assets	1,396.6	1,430.3	1,508.8	1,506.1	1,567.5
Total assets	<u>2,568.9</u>	<u>2,730.3</u>	<u>2,675.8</u>	<u>2,634.3</u>	<u>2,030.2</u>
Deferred Outflow of Resources					
Deferred refunding charges	-	-	-	9.8	1.6
Accumulated decrease in fair value of swaps agreements	37.4	32.7	53.0	37.5	36.1
Total deferred outflow of resources	<u>37.4</u>	<u>32.7</u>	<u>53.0</u>	<u>47.3</u>	<u>37.7</u>
Liabilities					
Current and other liabilities	67.3	97.7	99.0	672.7	54.9
Long-term liabilities	1,204.3	1,323.7	1,281.8	647.7	623.4
Total liabilities	<u>1,271.6</u>	<u>1,421.4</u>	<u>1,380.8</u>	<u>1,320.4</u>	<u>678.3</u>
Net Position					
Net investment in capital assets	929.5	900.6	943.1	918.1	981.3
Restricted for water services	271.3	234.3	203.4	208.8	187.9
Restricted for sewer services	133.9	206.7	201.5	234.3	220.4
Total net position	<u>\$ 1,334.7</u>	<u>\$ 1,341.6</u>	<u>\$ 1,348.0</u>	<u>\$ 1,361.2</u>	<u>\$ 1,389.6</u>

Source: Irvine Ranch Water District Basic Financial Statements

⁽¹⁾ The District implemented GASB No. 65 for the fiscal year ended June 30, 2014 and restated the financial statements for the fiscal year ended June 30, 2013.

Irvine Ranch Water District

Changes in Net Position For the Past Ten Fiscal Years (in thousands)

	Fiscal Year				
	2005	2006	2007	2008	2009
Operating Revenues					
Water sales and service charges	\$ 33,105	\$ 39,256	\$ 45,138	\$ 48,516	\$ 50,940
Sewer sales and service charges	24,622	29,248	37,649	39,811	41,157
Total operating revenues	<u>57,727</u>	<u>68,504</u>	<u>82,787</u>	<u>88,327</u>	<u>92,097</u>
Operating Expenses					
Water					
Water services	26,644	31,385	34,979	39,029	42,273
General and administrative	7,308	8,625	10,267	11,257	12,536
Sewer					
Sewer services	20,019	19,528	24,570	27,211	28,696
General and administrative	5,571	5,556	6,328	7,259	7,712
Depreciation	26,395	27,135	28,449	31,595	34,699
Total operating expenses	<u>85,937</u>	<u>92,229</u>	<u>104,593</u>	<u>116,351</u>	<u>125,916</u>
Operating income (loss)	<u>(28,210)</u>	<u>(23,725)</u>	<u>(21,806)</u>	<u>(28,024)</u>	<u>(33,819)</u>
Nonoperating Revenues (Expenses)					
Property taxes	7,725	15,237	30,667	34,245	36,240
Investment income	7,695	9,115	10,768	10,674	4,365
Increase (decrease) in fair value of investments	8,864	(53,542)	(3,996)	26,976	9,837
JPA investment income	64,870	63,427	61,793	59,854	57,676
Real estate income	9,076	9,118	9,483	10,478	10,792
Other income	9,753	8,494	10,457	11,130	9,918
Interest expense	(5,092)	(9,286)	(12,762)	(8,515)	(6,061)
JPA interest expense	(61,593)	(60,060)	(58,404)	(56,616)	(54,686)
Real estate expense	(4,131)	(4,493)	(4,562)	(5,149)	(5,698)
Other expenses	(430)	(666)	(883)	(2,288)	(1,535)
Total nonoperating revenue (expenses)	<u>36,737</u>	<u>(22,656)</u>	<u>42,561</u>	<u>80,789</u>	<u>60,848</u>
Income (loss) before capital contributions	8,527	(46,381)	20,755	52,765	27,029
Contributed capital assets	<u>27,374</u>	<u>32,525</u>	<u>52,672</u>	<u>29,319</u>	<u>32,517</u>
Increase (decrease) in net position	<u>35,901</u>	<u>(13,856)</u>	<u>73,427</u>	<u>82,084</u>	<u>59,546</u>
Net position at beginning of year	1,090,754	1,126,655	1,112,799	1,195,761	1,278,703
SCWD Retained Earnings at 6/30/06	-	-	9,535	-	-
OPA Net Assets at 6/1/08	-	-	-	858	-
Prior period adjustments	-	-	-	-	-
Net position at end of year	<u>\$1,126,655</u>	<u>\$1,112,799</u>	<u>\$1,195,761</u>	<u>\$1,278,703</u>	<u>\$1,357,046</u>

Source: Irvine Ranch Water District Basic Financial Statements

Irvine Ranch Water District

Changes in Net Position For the Past Ten Fiscal Years (in thousands) (Continued)

	Fiscal Year				
	2010	2011	2012	2013	2014
Operating Revenues					
Water sales and service charges	\$ 51,268	\$ 54,796	\$ 57,558	\$ 62,565	\$ 66,321
Sewer sales and service charges	45,344	45,375	49,234	53,085	58,109
Total operating revenues	<u>96,612</u>	<u>100,171</u>	<u>106,792</u>	<u>115,650</u>	<u>124,430</u>
Operating Expenses					
Water					
Water services	43,591	45,961	44,883	51,163	57,624
General and administrative	13,349	12,327	12,305	14,619	13,660
Sewer					
Sewer services	30,992	33,382	33,086	38,189	37,715
General and administrative	6,651	6,569	7,792	8,048	8,612
Depreciation	39,444	43,592	41,378	47,539	46,809
Total operating expenses	<u>134,027</u>	<u>141,831</u>	<u>139,444</u>	<u>159,558</u>	<u>164,420</u>
Operating income (loss)	<u>(37,415)</u>	<u>(41,660)</u>	<u>(32,652)</u>	<u>(43,908)</u>	<u>(39,990)</u>
Nonoperating Revenues (Expenses)					
Property taxes	38,392	38,679	38,062	41,068	42,751
Investment income	2,191	2,599	3,132	224	1,079
Increase (decrease) in fair value of investments	(7,782)	(20,172)	(23,586)	(29,180)	(16,177)
JPA investment income	55,726	53,708	51,530	49,178	29,522
Real estate income	9,701	9,719	11,039	10,789	11,899
Other income	10,706	7,987	6,141	8,323	10,974
Interest expense	(9,962)	(14,174)	(16,924)	(16,770)	(15,836)
JPA interest expense	(51,530)	(41,264)	(39,603)	(28,884)	(17,166)
Real estate expense	(6,186)	(6,004)	(6,016)	(6,047)	(6,139)
Other expenses	(1,286)	(989)	(10,713)	(6,110)	(7,163)
Total nonoperating revenue (expenses)	<u>39,970</u>	<u>30,089</u>	<u>13,062</u>	<u>22,591</u>	<u>33,744</u>
Income (loss) before capital contributions	2,555	(11,571)	(19,590)	(21,317)	(6,246)
Contributed capital assets	17,963	18,506	25,948	34,535	34,684
Increase (decrease) in net position	<u>20,518</u>	<u>6,935</u>	<u>6,358</u>	<u>13,218</u>	<u>28,438</u>
Net position at beginning of year	1,357,046	1,334,666	1,341,601	1,347,959	1,361,177
SCWD Retained Earnings at 6/30/06	-	-	-	-	-
OPA Net Assets at 6/1/08	-	-	-	-	-
Prior period adjustments	18,797	(42,898)	-	-	-
Net position at end of year	<u>\$1,334,666</u>	<u>\$1,341,601</u>	<u>\$1,347,959</u>	<u>\$1,361,177</u>	<u>\$1,389,615</u>

Source: Irvine Ranch Water District Basic Financial Statements

Irvine Ranch Water District
 Water Sold By Type of Customer (in Acre Feet)
 For the Past Ten Fiscal Years

	Fiscal Year									
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Residential	30,681	31,514	34,097	33,771	34,189	31,721	31,127	32,262	33,166	34,068
Commercial	7,602	8,037	8,710	8,710	8,382	7,586	7,632	8,021	8,353	8,803
Industrial	6,047	5,714	5,438	5,353	5,009	4,711	4,733	4,713	4,783	4,891
Public Authority	2,842	2,795	2,474	2,588	2,571	2,293	2,305	2,373	2,458	2,458
Construction & Temporary	489	790	696	513	133	127	174	275	378	739
Treated - Landscape Irrigation	4,953	5,322	6,249	6,039	5,789	4,712	4,252	4,741	5,316	5,671
Treated - Agricultural	1,177	1,018	1,009	820	563	210	183	229	206	202
Untreated - Agricultural	5,973	7,621	7,583	6,211	6,452	5,024	3,025	2,204	2,543	3,075
Recycled - Landscape/Agricultural	18,620	19,504	24,624	24,564	24,415	20,951	20,147	25,011	28,259	30,021
Total	78,384	82,315	90,880	88,569	87,503	77,335	73,578	79,829	85,462	89,928

Source: Irvine Ranch Water District

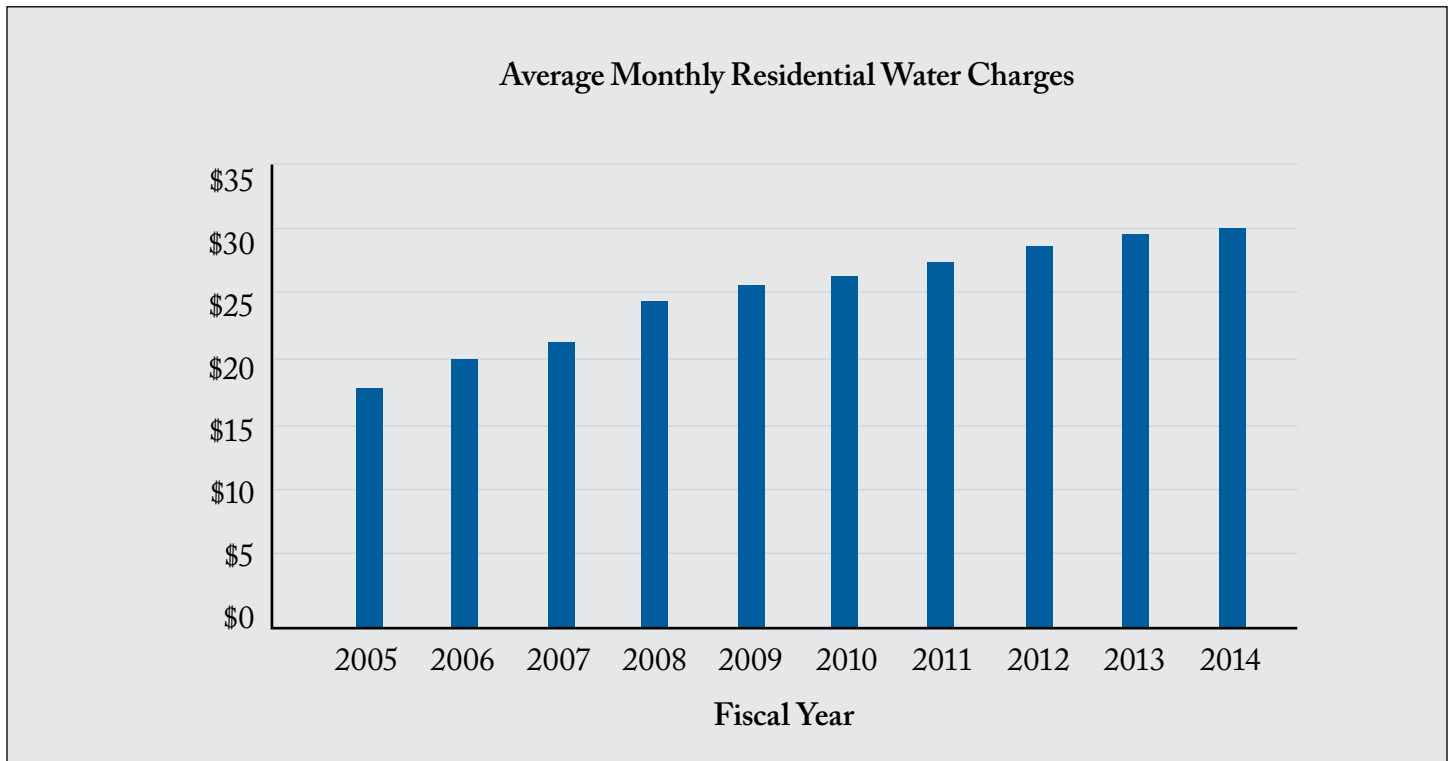
Irvine Ranch Water District

Water Rates*

For the Past Ten Fiscal Years

Year	Fixed Service Charge	Commodity Rate (per ccf)	Average monthly residential charge
2005	\$3.90	\$0.83	\$17.56
2006	5.45	0.88	20.01
2007	6.75	0.91	21.85
2008	7.50	0.98	23.86
2009	7.50	1.07	25.48
2010	7.75	1.15	26.53
2011	8.00	1.21	27.38
2012	8.75	1.22	28.23
2013	9.30	1.24	28.98
2014	9.85	1.27	29.83

* Water rates are for the Irvine Ranch rate area which comprises approximately 85 percent of the total District. The water charge to the average residential customer is based upon an average of 18 ccf per month. The first 8 ccf are at the District's low volume rate, which is \$0.36 less than the commodity base rate. The fixed monthly service charge includes components to add enhancement and replacement funds to assist with the District's aging infrastructure.



Source: Irvine Ranch Water District

Irvine Ranch Water District

Largest Water Customers⁽¹⁾
Fiscal Year Ended June 30, 2014

<u>Customer Name</u>	<u>Total Paid</u>	<u>Percentage of Water Sales Revenues</u>
1. The Irvine Company	\$ 2,695,226	4.06%
2. University of CA Irvine	1,243,724	1.88%
3. Jazz Semiconductor	765,756	1.15%
4. B Braun Medical Inc	603,321	0.91%
5. Woodbridge Village Assn	422,656	0.64%
6. City of Irvine	360,461	0.54%
7. Heritage Fields, LLC	296,884	0.45%
8. Allergan Sales, LLC	275,341	0.42%
9. ERP Operating LP	238,963	0.36%
10. City of Lake Forest	236,595	0.36%
Total	\$ 7,138,927	10.77%

Source: Irvine Ranch Water District

Note:

⁽¹⁾ Data for the largest water customers for the period nine years prior to the current period is not available.

Irvine Ranch Water District

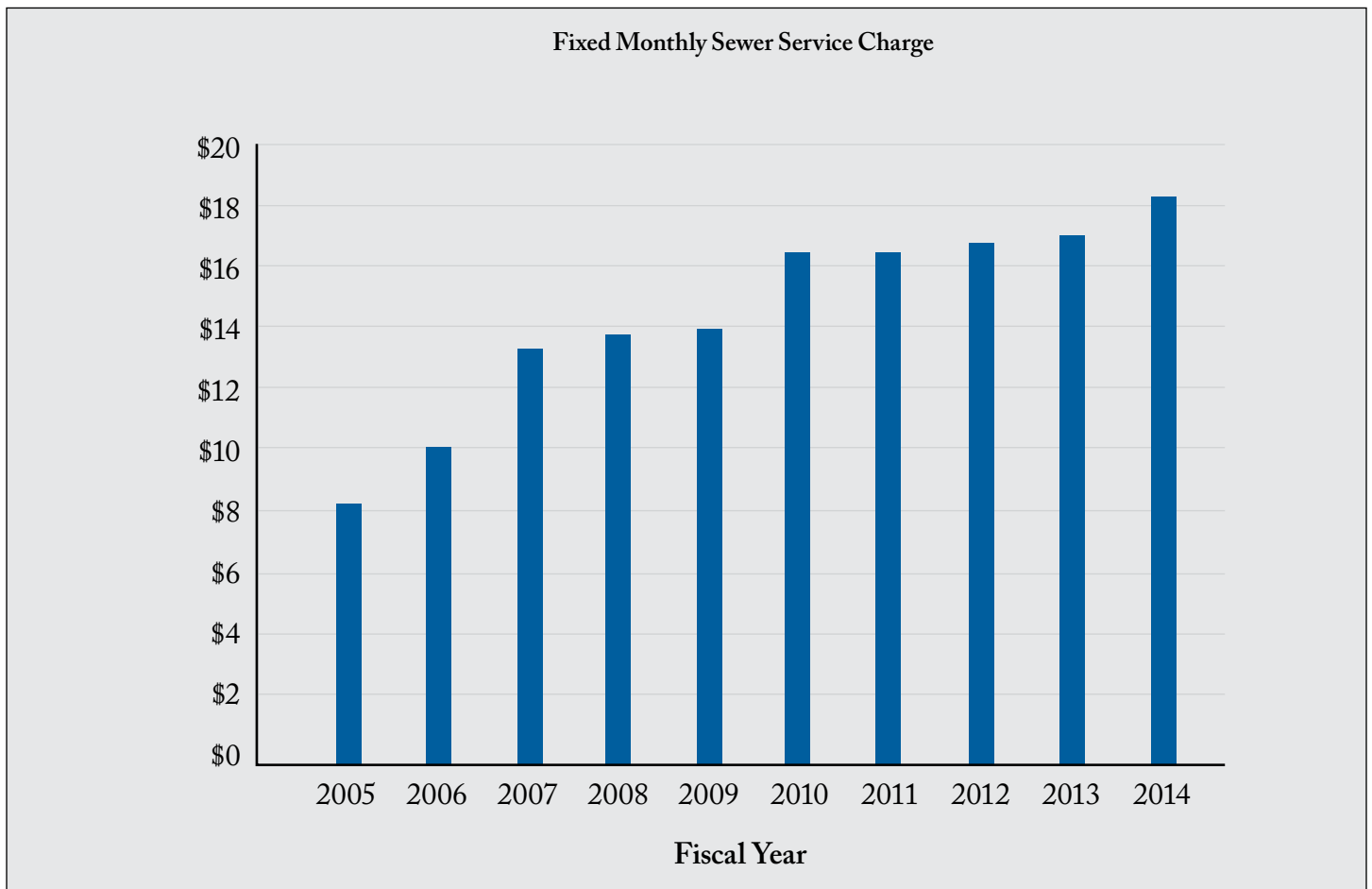
Sewer Rates

For the Past Ten Fiscal Years

<u>Fiscal Year</u>	<u>Fixed Monthly Service Charge</u>
2005	\$ 8.35
2006	10.00
2007	13.05
2008	13.65
2009	13.80
2010	16.60
2011	16.65
2012	16.90
2013	17.20
2014	18.40

Fixed monthly service charge for 2004-2006 are for the Irvine Ranch rate area only (excluding Los Alisos). For years 2007 and later, rates are uniform for all areas.

The fixed monthly service charge includes components to add enhancement and replacement funds to assist with the District's aging infrastructure.



Source: Irvine Ranch Water District

Irvine Ranch Water District

Largest Sewer Customers⁽¹⁾
Fiscal Year Ended June 30, 2014

Customer Name	Total Paid	Percentage of Water Sales Revenues
1. The Irvine Company	\$ 3,096,888	5.33%
2. City of Irvine	2,135,707	3.68%
3. University of CA Irvine	1,684,231	2.90%
4. Caltrans District 12	918,254	1.58%
5. B Braun	543,502	0.94%
6. Irvine Unified School District	535,744	0.92%
7. Heritage Fields, LLC	373,192	0.64%
8. Los Olivos Apartments	278,100	0.48%
9. Royalty Carpet Mills	316,847	0.55%
10. Allergan Sales, LLC	312,114	0.54%
Total	\$ 10,194,579	17.54%

Source: Irvine Ranch Water District

Note:

⁽¹⁾ Data for the largest sewer customers for the period nine years prior to the current period is not available.

Irvine Ranch Water District
Ad Valorem Property Tax Rates⁽³⁾
For the Past Ten Fiscal Years

Improvement District	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
112	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$0.07920	\$0.07920	\$0.03168	\$0.03168	\$0.03168
113 ⁽¹⁾	N/A	N/A	0.01920	0.01920	0.01920	0.01980	0.01980	0.05940	0.05940	0.05940
120	0.00001	0.01168	0.01168	0.01298	0.01298	0.01311	0.00001	0.00000	0.00000	0.00000
121	0.00001	0.00001	0.00001	0.00001	0.00001	0.00001	0.01311	0.01311	0.01311	0.01311
130	0.00001	0.00001	0.00001	0.00500	0.00500	0.00680	0.00680	0.00680	0.00680	0.00680
135 ⁽²⁾	0.00001	0.00001	0.00842	0.00842	0.00842	0.00842	0.00842	0.00421	0.00421	0.00421
140	0.00001	0.00001	0.00001	0.00001	0.00001	0.00001	0.00001	0.01000	0.01000	0.01000
150	0.00001	0.00001	0.00001	0.00780	0.00780	0.00990	0.00990	0.01980	0.01980	0.01980
160	0.00001	0.01168	0.01168	0.01648	0.01648	0.01758	0.00001	0.00000	0.00000	0.00000
161	0.00001	0.00001	0.00001	0.00001	0.00001	0.00001	0.01758	0.01758	0.01758	0.01758
182	0.00001	0.00808	0.00808	0.01300	0.01300	0.01350	0.01350	0.02700	0.02700	0.02700
184	N/A	N/A	0.00001	0.00001	0.00001	0.00001	0.00001	0.01350	0.01350	0.01350
186	0.00001	0.02051	0.02051	0.02700	0.02700	0.03191	0.03191	0.04787	0.04787	0.04787
188	0.00001	0.02051	0.02051	0.02700	0.02700	0.03590	0.03590	0.21540	0.21540	0.21540
190	0.00001	0.00001	0.00001	0.00500	0.00500	N/A	N/A	N/A	N/A	N/A
210	0.00001	0.00001	0.00001	0.00001	0.00001	0.00001	0.00001	0.00000	0.00000	0.00000
212	N/A	N/A	N/A	N/A	N/A	0.12420	0.12420	0.07452	0.07452	0.07452
213 ⁽¹⁾	N/A	N/A	0.14093	0.14093	0.14093	0.14533	0.14533	0.08720	0.08720	0.08720
220	0.00001	0.01000	0.01000	0.01400	0.01400	0.01800	0.00001	0.00000	0.00000	0.00000
221	0.00001	0.00001	0.00001	0.00001	0.00001	0.00001	0.01800	0.01700	0.01700	0.01700
230	0.00001	0.01995	0.01995	0.02000	0.02000	0.02200	0.02200	0.02200	0.02200	0.02200
235 ⁽²⁾	0.00001	0.00001	0.00532	0.00532	0.00532	0.00532	0.00532	0.00266	0.00266	0.00266
240	0.00001	0.02168	0.02168	0.02699	0.02699	0.03140	0.03140	0.02140	0.02140	0.02140
250	0.00001	0.02602	0.03199	0.03200	0.03200	0.03600	0.03600	0.03600	0.03600	0.03600
252	N/A	N/A	N/A	0.00001	0.00001	0.00001	0.00001	0.00001	0.00001	0.00001
260	N/A	N/A	0.02030	0.02330	0.02330	0.02830	0.00001	0.00000	0.00000	0.00000
261	0.00001	0.00001	0.00001	0.00001	0.00001	0.00001	0.02830	0.02830	0.02830	0.02830
282	0.00001	0.01280	0.01280	0.01400	0.01400	0.01890	0.01890	0.01890	0.01890	0.01890
284	N/A	N/A	0.00001	0.02699	0.02699	0.03239	0.03239	0.03239	0.03239	0.03239
286	N/A	N/A	N/A	N/A	N/A	N/A	0.00001	0.00201	0.00201	0.00201
288	N/A	N/A	N/A	N/A	N/A	N/A	0.00001	0.01000	0.01000	0.01000
290	0.00001	0.01995	0.01995	0.02000	0.02000	N/A	N/A	N/A	N/A	N/A

Source: Irvine Ranch Water District

Note:

⁽¹⁾ Improvement Districts 113 and 213 encompass the former Tustin Marine Base.

⁽²⁾ The Los Alisos Water District and the District consolidated on December 31, 2000 adding Improvement Districts 135 and 235.

⁽³⁾ The ad valorem property tax rates for the consolidated improvement district are effective July 1, 2014.

Irvine Ranch Water District

Assessed Valuation and Estimated Actual Value of Taxable Property and 1% Property Tax Revenue
For the Past Ten Fiscal Years
(in thousands)

Fiscal Year Ending	Assessed Valuation (land only) ⁽²⁾	1 % Property Tax Revenue
2005 ⁽¹⁾	\$ 22,101,916	\$ 7,335
2006	25,869,944	10,177
2007	31,378,053	22,444
2008	35,540,296	24,730
2009	35,298,830	26,283
2010	34,818,153	27,150 ⁽³⁾
2011	35,008,276	26,989
2012	35,661,242	26,478
2013	37,809,660	29,265
2014	42,205,844	29,445

Source: Orange County Auditor-Controller and Orange County Tax Collector.

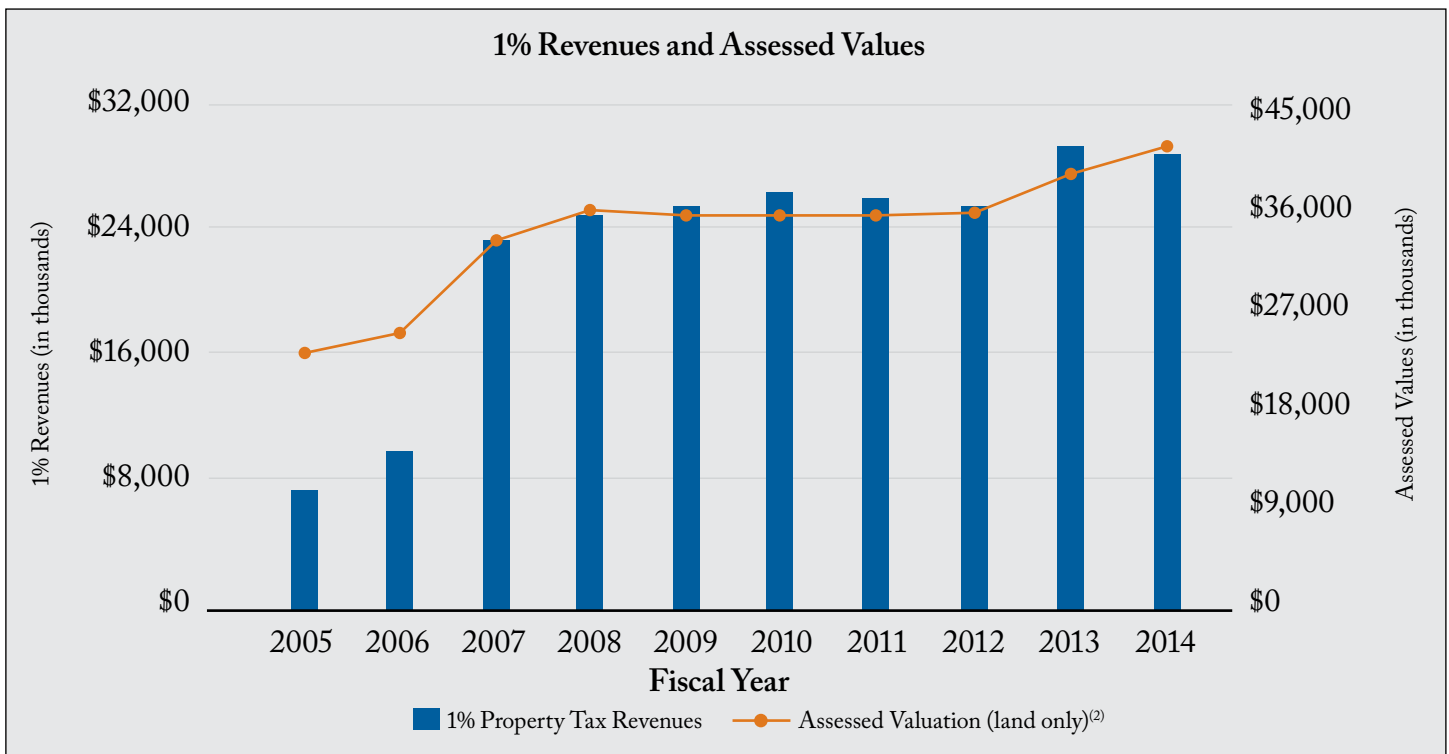
Note:

⁽¹⁾ The IRWD state mandated contribution to ERAF for FY 2004-05 and FY 2005-06 was \$9.7 million per year.

⁽²⁾ Estimated market values for the land-only Assessed Values are not available.

⁽³⁾ Of this amount, the State of California borrowed \$2.0 million, which was repaid in June 2013.

In 1978, the voters of the State of California passed Proposition 13 which limited property taxes to a total maximum rate of 1% based upon the assessed value of the property being taxed. Each year, the assessed value of property may be increased by an "inflation factor" (limited to a maximum increase of 2%). With few exceptions, property is only reassessed at the time that it is sold to a new owner. At that point, the new assessed value is reassessed at the purchase price of the property sold.



Irvine Ranch Water District
 Direct and Overlapping Property Tax Rates⁽¹⁾
 Fiscal Year Ended June 30, 2014

Direct Rate:

Irvine Ranch Water District I.D. No. 1	-
Irvine Ranch Water District I.D. No. 2	-
Irvine Ranch Water District I.D. No. 3	-
Irvine Ranch Water District I.D. No. 102	-
Irvine Ranch Water District I.D. No. 103	-
Irvine Ranch Water District I.D. No. 105	0.01980
Irvine Ranch Water District I.D. No. 106	-
Irvine Ranch Water District I.D. No. 109	-
Irvine Ranch Water District I.D. No. 112	0.03168
Irvine Ranch Water District I.D. No. 113	0.05940
Irvine Ranch Water District I.D. No. 121	0.01311
Irvine Ranch Water District I.D. No. 130	0.00680
Irvine Ranch Water District I.D. No. 140	0.01000
Irvine Ranch Water District I.D. No. 161	0.01758
Irvine Ranch Water District I.D. No. 182	0.02700
Irvine Ranch Water District I.D. No. 184	0.01350
Irvine Ranch Water District I.D. No. 186	0.04787
Irvine Ranch Water District I.D. No. 188	0.21540
Irvine Ranch Water District I.D. No. 206	-
Irvine Ranch Water District I.D. No. 212	0.07452
Irvine Ranch Water District I.D. No. 213	0.08720
Irvine Ranch Water District I.D. No. 221	0.01700
Irvine Ranch Water District I.D. No. 230	0.02200
Irvine Ranch Water District I.D. No. 240	0.02140
Irvine Ranch Water District I.D. No. 250	0.03600
Irvine Ranch Water District I.D. No. 252	0.00001
Irvine Ranch Water District I.D. No. 261	0.02830
Irvine Ranch Water District I.D. No. 282	0.01890
Irvine Ranch Water District I.D. No. 284	0.03239
Irvine Ranch Water District I.D. No. 286	0.00201
Irvine Ranch Water District I.D. No. 288	0.01000
Irvine Ranch Water District I.D. No. 290	-
135 (Formerly Los Alisos Water District)	0.00421
235 (Formerly Los Alisos Water District)	0.00266

Overlapping Rates:

School Districts:

Coast Community College District	0.02899
Rancho Santiago Community College District	0.03334
Laguna Beach Unified School District	0.01567
Newport Mesa Unified School District	0.01860
Saddleback Valley Unified School District	0.03207
Santa Ana Unified School District	0.07359
Tustin Unified School District SFID 2002-1	0.04353
Tustin Unified School District SFID 2008-1	0.02953
Tustin Unified School District SFID 2012-1	0.01606

Cities

Laguna Beach	0.00000
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Source: California Municipal Statistics, Inc.

Note:

⁽¹⁾ The new tax rates for the consolidated improvement district are effective July 1, 2014.

Irvine Ranch Water District

Principal Property Taxpayers
Fiscal Year Ended June 30, 2014

Property Owner's Name	Type of Business	Assessed Valuation of Property, including Land & Improvements	Percentage of Total City Taxable Assessed Value
The Irvine Company	Developer/Real Estate	\$ 5,993,824,698	12.32%
Irvine Apartment Communities	Real Estate	866,292,939	1.78%
Heritage Fields El Toro	Real Estate Developer	607,439,224	1.25%
B Braun Medical Inc.	Bio-Medical Manufacturing	361,167,927	0.74%
LBA IV-PPI LLC	Real Estate Investment and Management	352,117,356	0.72%
Allergan	Pharmaceutical (R&D/Marketing)	300,899,487	0.62%
John Hancock Life	Insurance	280,438,817	0.58%
Lennar Corporation	Developer/Real Estate	261,479,544	0.54%
Lakeshore Properties LLC	Real Estate	188,071,289	0.39%
Park Spectrum	Real Estate	180,377,381	0.37%
		\$ 9,392,108,662	19.31%

Source: City of Irvine Comprehensive Annual Financial Report (Fiscal Year Ended June 30, 2013)

Data was not yet available for FY2013/14 from the City of Irvine.

The City of Irvine is only a part of the IRWD service area.

Irvine Ranch Water District
Property Tax Collections/Delinquency
For the Past Ten Fiscal Years

Fiscal Year Ended	Levied During Fiscal Year		Collected During Fiscal Year	
	1 Percent ⁽¹⁾	General ⁽²⁾	1 Percent	General ⁽³⁾
2005	\$ 7,750,200	\$ 3,151	\$ 7,404,859	\$ 448,835
2006	7,965,300	3,081,122	8,755,621	5,038,833
2007	19,419,300	5,050,938	21,368,075	7,869,904
2008	23,963,000	7,626,979	22,859,667	10,242,088
2009	25,486,200	11,694,868	25,910,366	9,873,983
2010	24,166,600	10,503,249	23,636,793	10,802,992
2011	26,493,900	10,323,198	25,892,653	11,180,391
2012	26,749,900	10,558,510	25,953,788	11,716,056
2013	26,749,900	10,733,998	29,265,283	11,802,915
2014	26,749,900	11,374,556	27,606,048	12,463,175
Total	\$ 215,494,200	\$ 80,950,569	\$ 218,653,153	\$ 91,439,171

Source: County of Orange Tax Ledger

Note:

⁽¹⁾ The estimated levy for one percent revenue is generated internally and it is based on prior year receipts and developer growth projections.

⁽²⁾ The estimated levy for G.O. tax receipts is based on the county's assessed value projection multiplied by the tax rate assessed within each improvement district.

⁽³⁾ The General column for Collected tax receipts includes an unbudgeted utility tax revenue from improvement districts 190/290 that adds approximately \$400K per year.

Irvine Ranch Water District
Property Tax Collections/Delinquency
For the Past Ten Fiscal Years
(Continued)

Fiscal Year Ended	Percentage Collected		Amount of Levy Collected in Subsequent Periods	
	1 Percent	General	1 Percent	General
2005	95.54%	14244.20%	\$ 1,129,009	\$ 27,285
2006	109.92%	163.54%	1,441,127	149,874
2007	110.04%	155.81%	1,093,740	541,024
2008	95.40%	134.29%	887,709	496,260
2009	101.66%	84.43%	477,134	281,774
2010	97.81%	102.85%	1,493,752	634,095
2011	97.73%	108.30%	1,153,265	753,309
2012	97.02%	110.96%	733,450	118,691
2013	109.40%	109.96%	989,396	438,947
2014	103.20%	109.57%	1,148,873	988,796
Total			<u>\$ 10,547,455</u>	<u>\$ 4,430,056</u>

Source: County of Orange Tax Ledger

Note:

⁽¹⁾ The estimated levy for one percent revenue is generated internally and it is based on prior year receipts and developer growth projections.

⁽²⁾ The estimated levy for G.O. tax receipts is based on the county's assessed value projection multiplied by the tax rate assessed within each improvement district.

⁽³⁾ The General column for Collected tax receipts includes an unbudgeted utility tax revenue from improvement districts 190/290 that adds approximately \$400K per year.

Irvine Ranch Water District

Outstanding Debt by Type⁽¹⁾

For the Past Ten Fiscal Years

Fiscal Year	Total Service Connections⁽²⁾	General Obligation Bonds⁽³⁾	GO Debt per Connection	Certificates of Participation	COPS Debt per Connection
2005	172,548	\$187,396,610	\$1,086	\$116,600,000	\$676
2006	177,325	224,585,230	1,267	114,200,000	644
2007	182,140	201,585,230	1,107	111,600,000	613
2008	185,359	280,947,000	1,516	106,934,000	577
2009	186,856	415,699,000	2,225	103,100,000	552
2010	188,049	399,152,800	2,123	92,005,200	489
2011	191,474	562,051,000	2,935	88,043,000	460
2012	193,381	548,549,000	2,837	83,616,000	432
2013	196,596	534,343,000	2,718	78,698,000	400
2014	200,559	515,900,000	2,572	73,565,000	367

Source: Irvine Ranch Water District

Note:

⁽¹⁾ More detail about the District's long-term liabilities can be found at Note 9 to the Basic Financial Statements.

⁽²⁾ Per Capita income information for the Irvine Ranch Water District is not readily available. Accordingly, the District presents this schedule by total service connections.

⁽³⁾ Includes unamortized discount / deferred loss on refunding for the fiscal year 2005 through the fiscal year 2013.

Irvine Ranch Water District

Outstanding Debt by Type⁽¹⁾

For the Past Ten Fiscal Years

(Continued)

Fiscal Year	JPA Revenue Bonds	JPA Debt per Connection	Notes Payable	Notes Payable per Connection	Total Debt	Total Debt per Connection
2005	\$793,611,146	\$4,599	\$4,158,000	\$24	\$1,101,765,756	\$6,385
2006	772,359,906	4,356	6,650,000	38	1,117,795,136	6,304
2007	749,513,668	4,115	5,925,000	33	1,068,623,898	5,867
2008	724,962,000	3,911	5,549,000	30	1,118,392,000	6,034
2009	698,566,000	3,739	5,007,000	27	1,222,372,000	6,542
2010	690,263,700	3,671	4,553,000	24	1,185,974,700	6,307
2011	676,415,000	3,533	2,747,000	14	1,329,256,000	6,942
2012	638,521,000	3,302	2,494,000	13	1,273,180,000	6,584
2013	610,568,000	3,106	2,240,000	11	1,225,849,000	6,235
2014	-	-	1,984,000	10	591,449,000	2,949

Source: Irvine Ranch Water District

Note:

⁽¹⁾ More detail about the District's long-term liabilities can be found at Note 9 to the Basic Financial Statements.

⁽²⁾ Per Capita income information for the Irvine Ranch Water District is not readily available. Accordingly, the District presents this schedule by total service connections.

⁽³⁾ Includes unamortized discount / deferred loss on refunding for the fiscal year 2005 through the fiscal year 2013.

Irvine Ranch Water District
 Outstanding General Obligation Bonds by Improvement District
 As of June 30, 2014

Improvement District	General Obligation Bonds Authorized	General Obligation Bonds Issued	Remaining Unissued General Obligation Bonds Authorized	Amount Outstanding as of June 30, 2014
112	\$ 28,512,300	\$ 5,740,000	\$ 22,772,300	\$ 5,562,000
113	25,769,500	14,800,000	10,969,500	14,150,000
125	735,246,000	413,156,400	322,089,600	192,075,000
153	237,300,000	-	237,300,000	-
154	4,839,000	-	4,839,000	-
188	8,174,000	4,437,000	3,737,000	1,468,000
Total	\$1,039,840,800	\$438,133,400	\$ 601,707,400	\$213,255,000
210	\$ 2,000,000	\$ 2,000,000	\$ -	\$ -
212	108,712,000	15,700,000	93,012,000	15,218,000
213	87,648,000	23,800,000	63,848,000	22,074,000
225	856,643,000	449,748,000	406,895,000	240,995,000
240	117,273,000	48,476,500	68,796,500	24,078,000
253	122,283,000	-	122,283,000	-
288	8,977,000	300,000	8,677,000	280,000
Total	\$1,303,536,000	\$540,024,500	\$ 763,511,500	\$302,645,000
	\$2,343,376,800	\$ 978,157,900	\$1,365,218,900	\$515,900,000

Source: Irvine Ranch Water District

Irvine Ranch Water District
Ratio of General Obligation Debt to Assessed Values(1)
For the Past Ten Fiscal Years

Fiscal Year Ending	Assessed Valuation	General Obligation Debt Outstanding	General Obligation Debt to Assessed Valuation	Fiscal Year Ending	Assessed Valuation	General Obligation Debt Outstanding	General Obligation Debt to Assessed Valuation
Improvement District 112				Improvement District 212			
2005	\$ -	\$ -	n/a	2005	\$ -	\$ -	n/a
2006	-	-	n/a	2006	-	-	n/a
2007	-	-	n/a	2007	-	-	n/a
2008	-	-	n/a	2008	-	-	n/a
2009	500,354,220	2,745,000	0.00548611	2009	500,354,220	7,305,000	0.01459966
2010	521,318,307	2,745,000	0.00526550	2010	521,318,307	7,305,000	0.01401255
2011	539,618,060	5,745,000	0.01064642	2011	539,618,060	15,705,000	0.02910392
2012	504,820,526	5,745,000	0.01138028	2012	504,820,526	15,705,000	0.03111007
2013	511,871,892	5,653,500	0.01104476	2013	511,871,892	15,461,500	0.03020580
2014	780,606,904	5,562,000	0.00712523	2014	780,606,904	15,218,000	0.01949509
Improvement District 113				Improvement District 213			
2005	\$ -	\$ -	n/a	2005	\$ -	\$ -	n/a
2006	-	-	n/a	2006	-	-	n/a
2007	-	-	n/a	2007	-	-	n/a
2008	691,298,772	1,505,375	0.00217760	2008	691,298,772	11,139,775	0.01611427
2009	609,156,504	4,505,375	0.00739609	2009	609,156,504	17,544,775	0.02880175
2010	651,917,180	4,505,375	0.00691096	2010	651,917,180	17,544,775	0.02691258
2011	553,458,157	9,770,000	0.01765264	2011	553,458,157	17,283,000	0.03122729
2012	536,369,090	15,794,500	0.02944707	2012	536,369,090	23,418,645	0.04366144
2013	562,239,093	15,541,750	0.02764260	2013	562,239,093	22,828,480	0.04060280
2014	674,596,339	14,150,000	0.02097551	2014	674,596,339	22,074,000	0.03272179
Improvement District 125				Improvement District 225			
2005	\$ -	n/a	n/a	2005	\$ -	n/a	n/a
2006	-	n/a	n/a	2006	-	n/a	n/a
2007	-	n/a	n/a	2007	-	n/a	n/a
2008	-	n/a	n/a	2008	-	n/a	n/a
2009	-	n/a	n/a	2009	-	n/a	n/a
2010	-	n/a	n/a	2010	-	n/a	n/a
2011	-	n/a	n/a	2011	-	n/a	n/a
2012	-	n/a	n/a	2012	-	n/a	n/a
2013	-	n/a	n/a	2013	-	n/a	n/a
2014	59,157,277,230	192,075,000	0.00324685	2014	49,514,977,898	240,995,000	0.00486711

Irvine Ranch Water District
Ratio of General Obligation Debt to Assessed Values⁽¹⁾
For the Past Ten Fiscal Years
(continued)

Fiscal Year Ending	Assessed Valuation	General Obligation Debt Outstanding	General Obligation Debt to Assessed Valuation
Improvement District 240			
2005	\$2,719,982,105	\$32,792,726	0.01205623
2006	3,446,887,473	31,643,024	0.00918017
2007	4,140,693,955	30,462,056	0.00735675
2008	4,642,366,023	29,182,814	0.00628619
2009	4,936,249,533	32,326,608	0.00654882
2010	4,871,225,527	30,885,287	0.00634035
2011	4,903,741,743	29,527,697	0.00602146
2012	4,973,007,663	28,081,173	0.00564672
2013	5,343,804,951	26,441,526	0.00494807
2014	5,609,174,229	24,078,000	0.00429261

Improvement District 153			
2005	\$ -	n/a	n/a
2006	-	n/a	n/a
2007	-	n/a	n/a
2008	36,114,444	n/a	n/a
2009	36,903,662	n/a	n/a
2010	36,997,523	n/a	n/a
2011	7,971,152	n/a	n/a
2012	8,114,060	n/a	n/a
2013	8,475,848	n/a	n/a
2014	8,687,744	n/a	n/a

Improvement District 253			
2005	\$ -	n/a	n/a
2006	-	n/a	n/a
2007	-	n/a	n/a
2008	36,114,444	n/a	n/a
2009	36,903,662	n/a	n/a
2010	36,997,523	n/a	n/a
2011	7,971,152	n/a	n/a
2012	8,114,060	n/a	n/a
2013	8,475,848	n/a	n/a
2014	8,687,744	n/a	n/a

Improvement District 154			
2005	\$ -	n/a	n/a
2006	-	n/a	n/a
2007	-	n/a	n/a
2008	7,531,850	n/a	n/a
2009	10,209,169	n/a	n/a
2010	8,831,144	n/a	n/a
2011	8,904,175	n/a	n/a
2012	9,127,678	n/a	n/a
2013	9,334,512	n/a	n/a
2014	9,111,103	n/a	n/a

Irvine Ranch Water District
Ratio of General Obligation Debt to Assessed Values⁽¹⁾
For the Past Ten Fiscal Years
(continued)

Fiscal Year Ending	Assessed Valuation	General Obligation Debt Outstanding	General Obligation Debt to Assessed Valuation	Fiscal Year Ending	Assessed Valuation	General Obligation Debt Outstanding	General Obligation Debt to Assessed Valuation
Improvement District 188				Improvement District 288			
2005	\$11,694,828	\$1,693,882	0.14484028	2005	\$11,694,828	\$1,693,882	0.14484028
2006	11,928,713	1,545,783	0.12958508	2006	11,928,713	1,545,783	0.12958508
2007	12,167,278	1,397,684	0.11487238	2007	12,167,278	1,397,684	0.11487238
2008	12,410,613	1,231,073	0.09919517	2008	12,410,613	1,231,073	0.09919517
2009	12,806,315	1,235,205	0.09645283	2009	12,806,315	1,235,205	0.09645283
2010	14,613,156	1,050,082	0.07185864	2010	14,613,156	1,050,082	0.07185864
2011	13,887,854	2,155,702	0.15522208	2011	13,887,854	2,155,702	0.15522208
2012	14,165,606	1,942,809	0.13714975	2012	14,165,606	1,942,809	0.13714975
2013	14,448,912	1,714,661	0.11867059	2013	14,448,912	1,714,661	0.11867059
2014	14,446,476	1,468,000	0.10161648	2014	14,446,476	1,468,000	0.10161648

Source: Irvine Ranch Water District

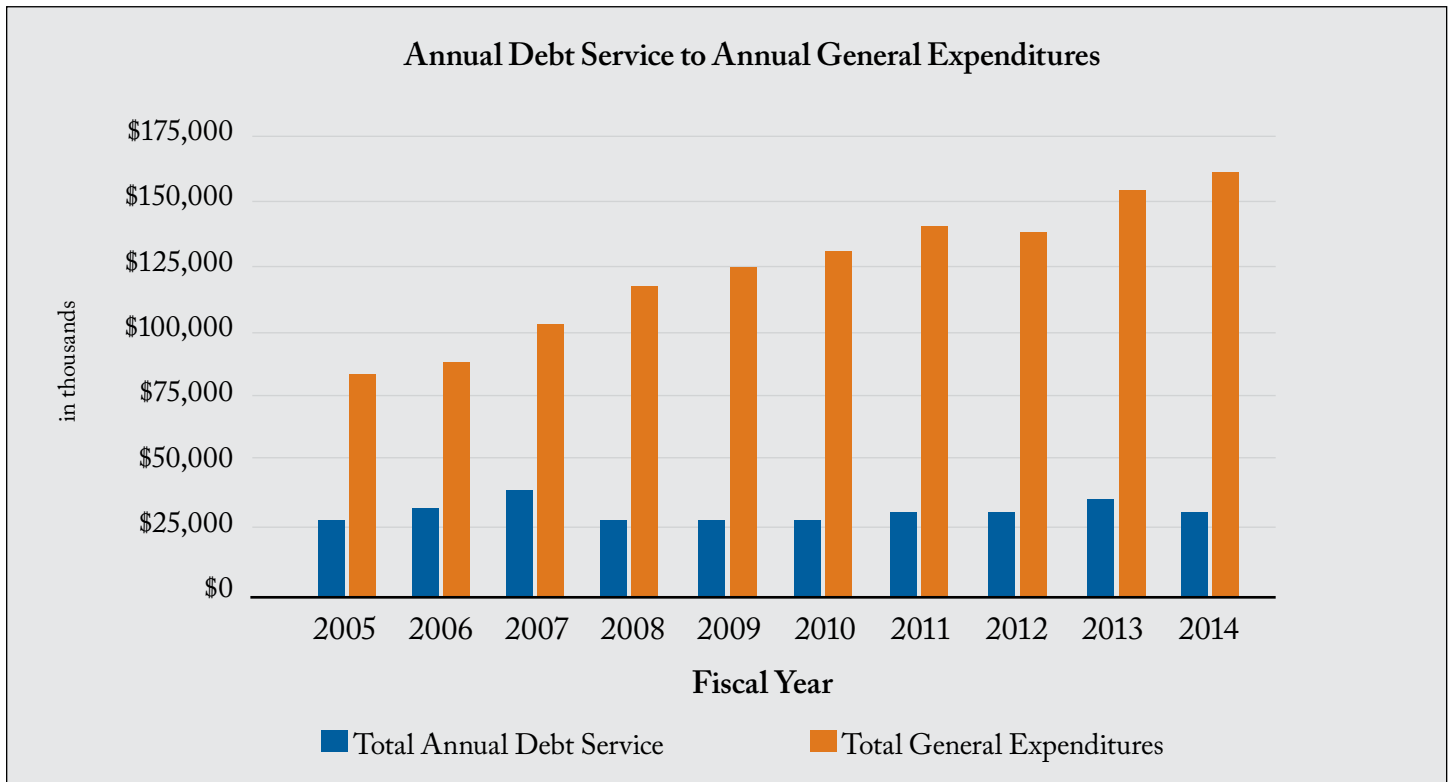
Note:

⁽¹⁾ In December 2013, the District consolidated water ID's 120, 121, 130, 140, 150, 160, 161, 182, 184, and 186 into ID 125 and sewer ID's 220, 221, 230, 250, 260, 261, 282, 284, and 286 into ID 225.

Irvine Ranch Water District

Ratio of Annual Debt Service Expenditures to Total General Expenditures - Cash Basis
For the Past Ten Fiscal Years
(in thousands)

Fiscal Year Ended	Total Annual Debt Service	Total General Expenditures	Ratio of Total Annual Debt Service to Total General Expenditures
2005	\$28,090	\$85,937	32.7%
2006	34,871	92,229	37.8%
2007	36,562	104,592	35.0%
2008	28,374	116,351	24.4%
2009	27,326	125,916	21.7%
2010	29,044	134,021	21.7%
2011	34,842	141,831	24.6%
2012	33,437	139,444	24.0%
2013	37,734	159,558	23.6%
2014	34,009	164,420	20.7%



Source: Irvine Ranch Water District

Irvine Ranch Water District

Debt Service Coverage For the Past Ten Fiscal Years (in thousands)

	2005	2006	2007	2008	2009
Revenues					
Water sales and service charges	\$ 33,105	\$ 39,256	\$ 45,138	\$ 48,516	\$ 50,940
Sewer sales and service charges	24,622	29,248	37,649	39,811	41,157
Developer Connection fees	6,188	17,903	22,122	6,411	4,535
Net real estate income	6,105	5,793	6,081	7,171	7,010
Interest income	7,695	7,749	8,969	9,859	4,365
Net earnings on JPA	3,277	3,367	3,388	3,238	2,990
Available 1% property tax revenue	0	0	216	4,869	17,007
Other	9,753	8,494	10,457	11,130	9,918
Total Revenues	90,745	111,810	134,020	131,005	137,922
Expenses					
Water supply services	26,644	31,385	34,979	39,029	42,273
Sewer services	20,019	19,528	24,570	27,211	28,696
Administrative and general	12,879	14,181	16,595	18,516	20,248
Other	430	666	884	2,288	1,535
Total Expenses	59,972	65,760	77,028	87,044	92,752
Net Revenues	30,773	46,050	56,992	43,961	45,170
Parity Obligations					
Certificates of Participation	1,094	1,873	2,319	3,564	2,798
1997 State Loan #3	226	227	227	227	227
Series 2010B Bonds	-	-	-	-	-
Series 2011-A Index Tender Notes	-	-	-	-	-
Prior Reimbursement Agreements	-	-	-	-	-
Total Parity Obligations Debt Service	\$ 1,320	\$ 2,100	\$ 2,546	\$ 3,791	\$ 3,025
Remaining Revenues	\$ 29,453	\$ 43,950	\$ 54,446	\$ 40,170	\$ 42,145
Parity Obligation Coverage	23.3 x	21.9 x	22.4 x	11.6 x	14.9 x
Subordinate Obligations					
Fixed Payer Swap Payments	(1,811)	42	612	2,115	5,694
State Loans and SCWD Debt	292	317	300	559	481
Total Subordinate Obligations	(1,519)	359	912	2,674	6,175
Remaining Revenues	30,972	43,591	53,534	37,496	35,970
Non-Double-Barrel GO Bonds					
Revenues Pledged to Non-Double-Barrel GO Bonds					
1% Property tax revenues (Pledged to Secured Bonds)	7,335	10,177	22,040	19,861	9,276
Pro-rata Share <i>Ad valorem</i> Assessments for Non-Double-Barrel GO Bonds	390	5,060	8,411	9,515	9,959
Sub-total Pledged Revenues	38,697	58,828	83,985	66,872	55,205
Additional Funds Available for Non-Double-Barrel GO Bonds					
Remaining 1% Property Tax Revenues	0	0	216	2,395	15,454
Additional Net Revenues	30,972	43,591	53,318	35,101	20,516
Total with Additional Pledged Revenues	38,697	58,828	83,985	66,872	55,205
Debt Service					
Non-Double-Barrel GO Bond Debt Service	27,432	28,935	30,451	29,376	19,235
GO Bond Coverage	1.4 x	2.0 x	2.8 x	2.3 x	2.9 x
Remaining Revenues	11,265	29,893	53,534	37,496	35,970
Total Debt Coverage	1.4 x	2.0 x	2.6 x	2.0 x	2.3 x

Source: Irvine Ranch Water District

Irvine Ranch Water District
Debt Service Coverage
For the Past Ten Fiscal Years (continued)
(in thousands)

	2010	2011	2012	2013	2014
Revenues					
Water sales and service charges	\$ 51,268	\$ 54,796	\$ 57,558	\$ 62,565	\$ 66,321
Sewer sales and service charges	45,344	45,375	49,234	53,085	58,109
Developer Connection fees	5,818	10,572	9,030	17,314	22,429
Net real estate income	5,624	3,715	5,023	6,566	7,760
Interest income	2,191	2,599	3,132	1,549	1,671
Net earnings on JPA	4,196	12,444	11,927	20,294	12,356
Available 1% property tax revenue	19,346	22,396	25,858	25,719	26,431
Other	10,706	7,987	6,141	8,323	10,974
Total Revenues	144,493	159,884	167,903	195,415	206,051
Expenses					
Water supply services	43,591	45,961	44,883	51,163	57,624
Sewer services	30,992	33,382	33,086	38,189	37,715
Administrative and general	20,000	18,896	20,097	22,667	22,272
Other	1,286	989	10,713	6,110	7,163
Total Expenses	95,869	99,228	108,779	118,129	124,774
Net Revenues	48,624	60,656	59,124	77,286	81,277
Parity Obligations					
Certificates of Participation	3,119	7,680	7,977	8,300	8,665
1997 State Loan #3	-	226	226	226	227
Series 2010B Bonds	-	4,080	7,533	7,519	7,825
Series 2011-A Index Tender Notes	-	35	2,284	2,306	2,360
Prior Reimbursement Agreements	-	-	-	-	-
Total Parity Obligations Debt Service	\$ 3,119	\$ 12,021	\$ 18,020	\$ 18,351	\$ 19,077
Remaining Revenues	\$ 45,505	\$ 48,635	\$ 41,104	\$ 58,935	\$ 62,200
Parity Obligation Coverage	15.6 x	5.0 x	3.3 x	4.2 x	4.3 x
Subordinate Obligations					
Fixed Payer Swap Payments	7,391	7,734	7,441	7,452	7,555
State Loans and SCWD Debt	381	253	254	254	308
Total Subordinate Obligations	7,772	7,987	7,695	7,706	7,863
Remaining Revenues	37,733	40,648	33,409	51,229	54,337
Non-Double-Barrel GO Bonds					
Revenues Pledged to Non-Double-Barrel GO Bonds					
1% Property tax revenues (Pledged to Secured Bonds)	7,804	4,593	3,292	3,546	3,013
Pro-rata Share <i>Ad valorem</i> Assessments for Non-Double-Barrel GO Bonds	11,244	11,690	11,585	11,817	4,797
Sub-total Pledged Revenues	56,781	56,931	48,286	66,591	62,147
Additional Funds Available for Non-Double-Barrel GO Bonds					
Remaining 1% Property Tax Revenues	19,346	22,396	25,858	25,719	25,987
Additional Net Revenues	18,387	18,252	7,551	25,510	28,350
Total with Additional Pledged Revenues	56,781	56,931	48,286	66,591	62,147
Debt Service					
Non-Double-Barrel GO Bond Debt Service	21,179	16,899	16,899	17,129	10,501
GO Bond Coverage	2.7 x	3.4 x	2.9 x	3.9 x	5.9 x
Remaining Revenues	35,602	40,032	31,387	49,462	51,646
Total Debt Coverage	2.1 x	2.1 x	1.7 x	2.1 x	2.4 x

Source: Irvine Ranch Water District

Irvine Ranch Water District

Principal Employers

Fiscal Year Ended June 30, 2014

Name of Company	Number of Employees	Products	Percentage of Employment
University of California, Irvine	21,800	Educational	10.80%
Irvine Unified School District	2,839	Educational	1.41%
Blizzard Entertainment Inc.	2,804	Educational	1.39%
Broadcom	2,604	Technology	1.29%
Edwards Lifesciences	2,575	Surgical Appliances and Supplies	1.28%
Verizon Wireless	2,335	Wireless Communication	1.16%
Kaiser Permanente Hospital	2,316	Healthcare	1.15%
Parker Hannifin	1,950	Aircraft Parts	0.97%
Allergan	1,922	Pharmaceutical (R&D/Marketing)	0.95%
Western Digital Technologies	1,758	Technology	0.87%
			<u>21.27%</u>

Source: City of Irvine Comprehensive Annual Financial Report (Fiscal Year Ended June 30, 2013)

Data was not yet available for FY2013/14 from the City of Irvine.

The City of Irvine is only a part of the IRWD service area.

Irvine Ranch Water District

Demographic & Economic Statistics

For the Past Ten Fiscal Years

Fiscal Year Ended	IRWD Population	City of Irvine Population	City of Irvine Median Family Income	Total Personal Income	County of Orange Unemployment Rate
2005	316,000	183,218	\$82,827	\$7,267,978	3.9%
2006	322,000	192,167	84,270	7,352,397	3.6%
2007	330,000	199,400	85,624	7,667,079	4.0%
2008	330,000	207,646	98,923	8,601,736	5.3%
2009	330,000	212,541	91,101	8,723,320	8.3%
2010	331,500	217,686	94,903	8,090,372	9.5%
2011	330,000	219,156	93,258	8,484,794	9.2%
2012	334,000	223,729	90,939	8,886,628	7.9%
2013	340,000	231,117	92,599	8,174,011	6.1%
2014	370,000	231,117	N/A ⁽¹⁾	N/A ⁽¹⁾	5.0%

Source: City of Irvine Comprehensive Annual Financial Report (Fiscal Year Ended June 30, 2013) and County of Orange website.

Data for the entire Irvine Ranch Water District service area is not readily available.

The City of Irvine is only a part of the IRWD service area.

Note:

⁽¹⁾ Median Family Income and Total Personal Income for FY 2014 has not yet been published by the City of Irvine.

Irvine Ranch Water District

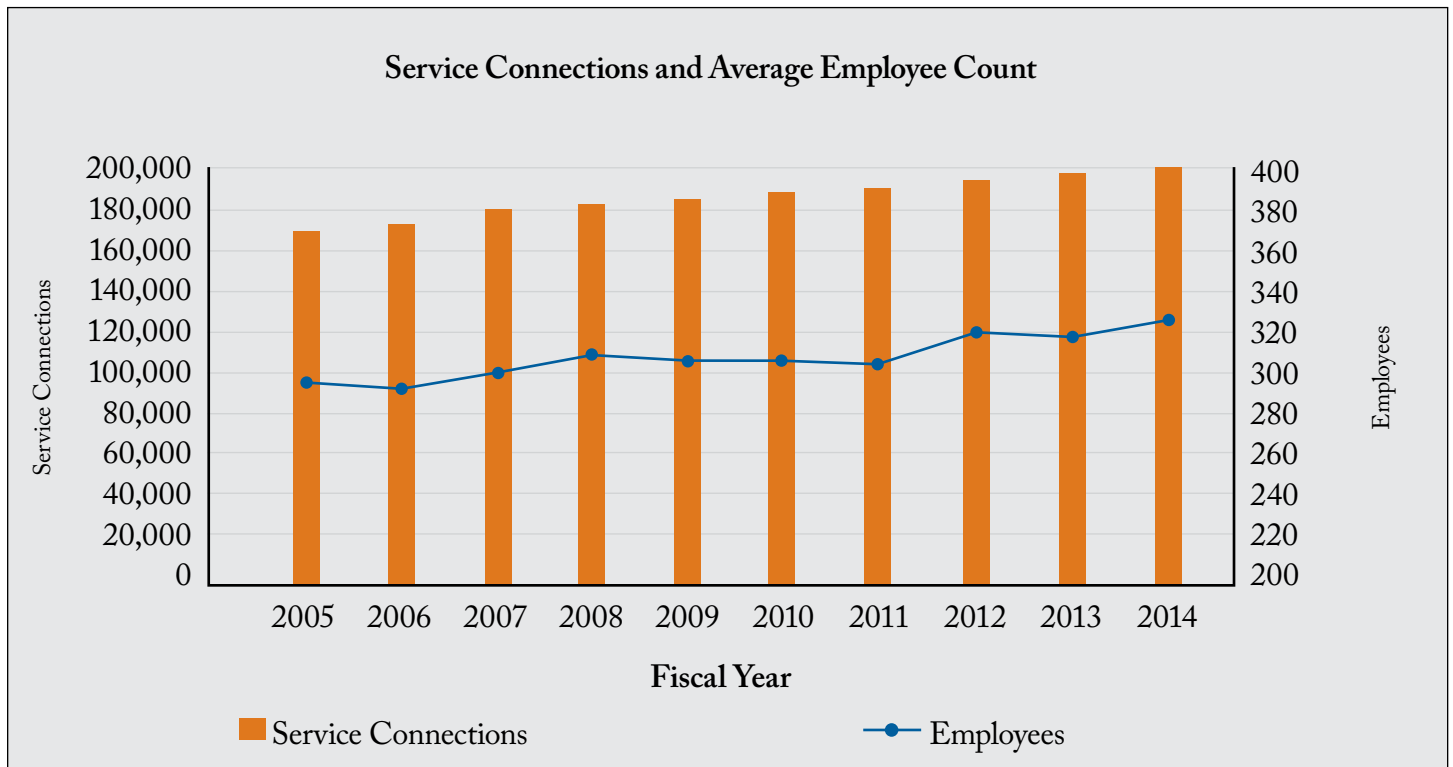
Operating Indicators by Function

Water and Sewer Service Connections

For the Past Ten Fiscal Years

Fiscal Year Ended	Potable Water	Non-Potable Water	Sewer & Recycled Water	Total Service Connections	Average Employee Population	Service Connections per Employee
2005	88,423	143	83,982	172,548	293	589
2006	90,816	219	86,290	177,325	290	611
2007	93,531	293	88,316	182,140	303	601
2008	95,386	198	89,775	185,359	313	592
2009	96,110	201	90,545	186,856	310	603
2010	96,797	226	91,252	188,275	310	607
2011	98,453	184	92,837	191,474	305	628
2012	99,377	88	93,828	193,293	319	606
2013	101,020	88	95,488	196,596	316	622
2014	102,990	87	97,482	200,559	324	619

Source: Irvine Ranch Water District



Irvine Ranch Water District

Operating Indicators by Function

New Service Connections

For the Past Ten Fiscal Years

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Water										
Residential	2,360	2,039	2,211	1,439	552	631	1,469	862	1,520	1,848
Commercial/Industrial/ Public Authority	252	152	312	330	149	19	98	18	27	40
Fire Protection	137	128	162	173	86	43	40	37	55	50
Construction & Temporary	17	59	9	(101)	(60)	(6)	39	3	31	36
Landscape Irrigation	37	91	93	(80)	13	33	(21)	(89)	8	(4)
Agricultural	(6)	0	2	(1)	(13)	(8)	(11)	(3)	2	(1)
Sewer										
Residential	2,355	2,002	1,462	891	527	613	1,462	861	1,521	1,829
Commercial/Industrial/ Public Authority	237	150	290	357	156	21	37	21	29	41
Landscape Irrigation	264	156	276	207	84	63	85	102	112	127
Agricultural	(2)	0	(2)	4	3	10	1	7	(2)	(3)
Total	5,651	4,777	4,815	3,219	1,497	1,419	3,199	1,819	3,303	3,963

Source: Irvine Ranch Water District

Irvine Ranch Water District

Operating Indicators by Function
Average Monthly Usage (in CCF)
For the Past Ten Fiscal Years

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Water										
Residential	10	11	11	11	10	10	9	9	9	9
Commercial	72	73	75	69	63	57	56	61	63	66
Industrial	258	241	228	226	211	200	201	201	204	192
Public Authority	464	454	356	359	347	300	295	296	306	305
Construction & Temporary	95	94	94	122	39	52	79	106	181	241
Treated - Landscape Irrigation	103	110	127	122	116	95	85	94	105	182
Treated - Agricultural	1,990	1,760	1,653	1,294	1,116	663	925	835	733	575
Untreated - Agricultural	5,520	7,659	7,991	6,405	7,495	6,925	4,714	4,768	5,799	6,314
	8,512	10,401	10,534	8,608	9,397	8,302	6,364	6,370	7,400	7,884
Recycled water										
Landscape Irrigation	178	176	211	191	182	152	134	152	169	182
Agricultural	268	895	1,792	1,792	2,418	1,874	2,247	3,768	4,145	4,145
	446	1,071	2,003	1,982	2,600	2,026	2,381	3,920	4,314	4,327

Source: Irvine Ranch Water District

Irvine Ranch Water District
Source of Supply and Demand in Acre Feet
For the Past Ten Fiscal Years

Source of Supply
(in cfs)

Fiscal Year Ending	Local	Imported	Recycled	Total Supply
2005	100.5	241.8	29.1	371.4
2006	100.5	241.8	29.1	371.4
2007	100.5	241.8	29.1	371.4
2008	96.1 ⁽¹⁾	241.8	35.3 ⁽²⁾	373.2
2009	96.1	241.8	35.3	373.2
2010	96.1	241.8	35.3	373.2
2011	98.5 ⁽³⁾	241.8	41.5	381.8
2012	98.5	241.8	41.5	381.8
2013	103.4 ⁽⁴⁾	241.8	41.5	386.6
2014	108.2 ⁽⁴⁾	241.8	41.5	391.5

Source Water Necessary to Meet Demands
(in Acre Feet)

Fiscal Year Ending	Potable and Untreated	Recycled	Total Demand
2005	71,610	15,296	86,906
2006	73,863	15,416	89,279
2007	85,547	15,175	100,722
2008	82,412	16,566 ⁽²⁾	98,978
2009	76,237	22,961	99,198
2010	70,102	20,848	90,950 ⁽⁵⁾
2011	70,112	20,284	90,396
2012	66,342	20,602	86,944
2013	70,753	22,983	93,736 ⁽⁶⁾
2014	77,523	20,935	98,458 ⁽⁶⁾

Source: Irvine Ranch Water District

Notes:

- ⁽¹⁾ The OPA well went down in FY 2008 and was rebuilt, coming online in FY 2011.
- ⁽²⁾ The MWRP capacity was expanded and production increased in FY 2008 with total capacity identified in FY 2012.
- ⁽³⁾ IDP wells went down in FY 2011 and will come back on line in FY 2015.
- ⁽⁴⁾ Wells 21 & 22 came on line during FY 2013 and was at full capacity in FY 2014.
- ⁽⁵⁾ Significant rainfall in December produced a much lower overall demand.
- ⁽⁶⁾ Extremely dry conditions led to a considerable increase in demands.

Irvine Ranch Water District

Capital Asset Statistics For the Past Ten Fiscal Years

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Potable System										
Miles of Water Line ⁽¹⁾	990	1,040	1,090	1,132	1,134	1,169	1,460	1,490	1,516	1,597
Number of Storage Tanks ⁽³⁾	27	29	37	37	37	37	37	37	36	36
Maximum Storage										
Capacity (Acre Feet)	418	440	456	456	456	456	456	456	456	456
Number of Pumping Plants	24	32	40	40	45	45	45	45	40	41
Number of Wells	21	24	24	24	24	24	24	24	26	26
Well Production Capacity (cfs)	100	109	109	117	117	117	117	117	124	124
Water Banking Storage (Acre Feet)	-	-	-	-	-	57,600	59,600	59,600	59,600	59,600
Non-Potable and Recycled Systems										
Miles of Recycled Line ⁽¹⁾	307	337	367	399	400	407	468	478	488	503
Number of Storage Tanks ⁽²⁾	14	10	11	11	11	11	11	11	12	12
Number of Open Reservoirs ⁽²⁾	4	4	4	4	4	4	4	5	5	
Maximum Storage										
Capacity (Acre Feet) ⁽⁴⁾	23,696	23,696	23,703	23,703	23,703	23,703	23,703	23,703	24,155	24,155
Number of Pumping Plants	17	17	18	18	18	18	18	18	19	19
Number of Wells ⁽⁵⁾	3	5	5	5	5	5	5	5	5	5
Well Production Capacity (cfs)	3.8	9.8	9.8	9.8	9.8	9.8	9.8	9.8	9.8	9.8
Sewer System										
Miles of Sewer Line	656	680	809	899	901	940	950	962	971	1,009
Number of Lift Stations ⁽⁶⁾	16	16	16	16	16	15	15	13	11	11
Treatment Plants	2	2	2	2	2	2	2	2	2	2
Treatment Capacity	22.5	22.5	25.5	25.5	25.5	25.5	25.5	25.5	25.5	35.5

Source: Irvine Ranch Water District

Notes:

⁽¹⁾ Miles of Line include laterals

⁽²⁾ IRWD began reporting storage tanks and open reservoirs separately in 2006. Previously for purposes of these statistics, both have been combined under "storage tanks".

⁽³⁾ Total number of tanks excludes IRWD's storage capacity with East Orange County Water District. However, this capacity is accounted for in the maximum storage capacity estimate (456 AF).

⁽⁴⁾ Excludes Serrano Water District's capacity in Irvine Lake, which equals 25% of total capacity.

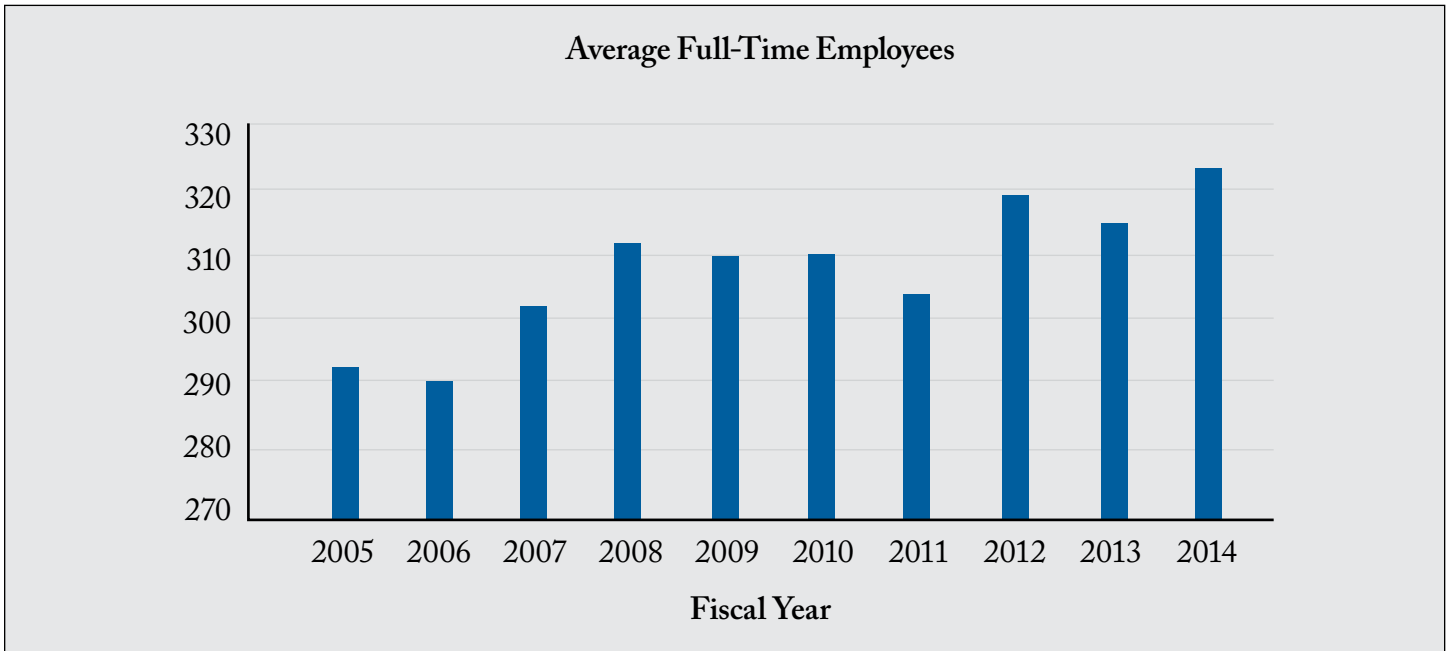
⁽⁵⁾ Accounts for active production wells only (Excludes SGU Injection Well).

⁽⁶⁾ Excludes private lift stations for IRWD facilities.

Irvine Ranch Water District

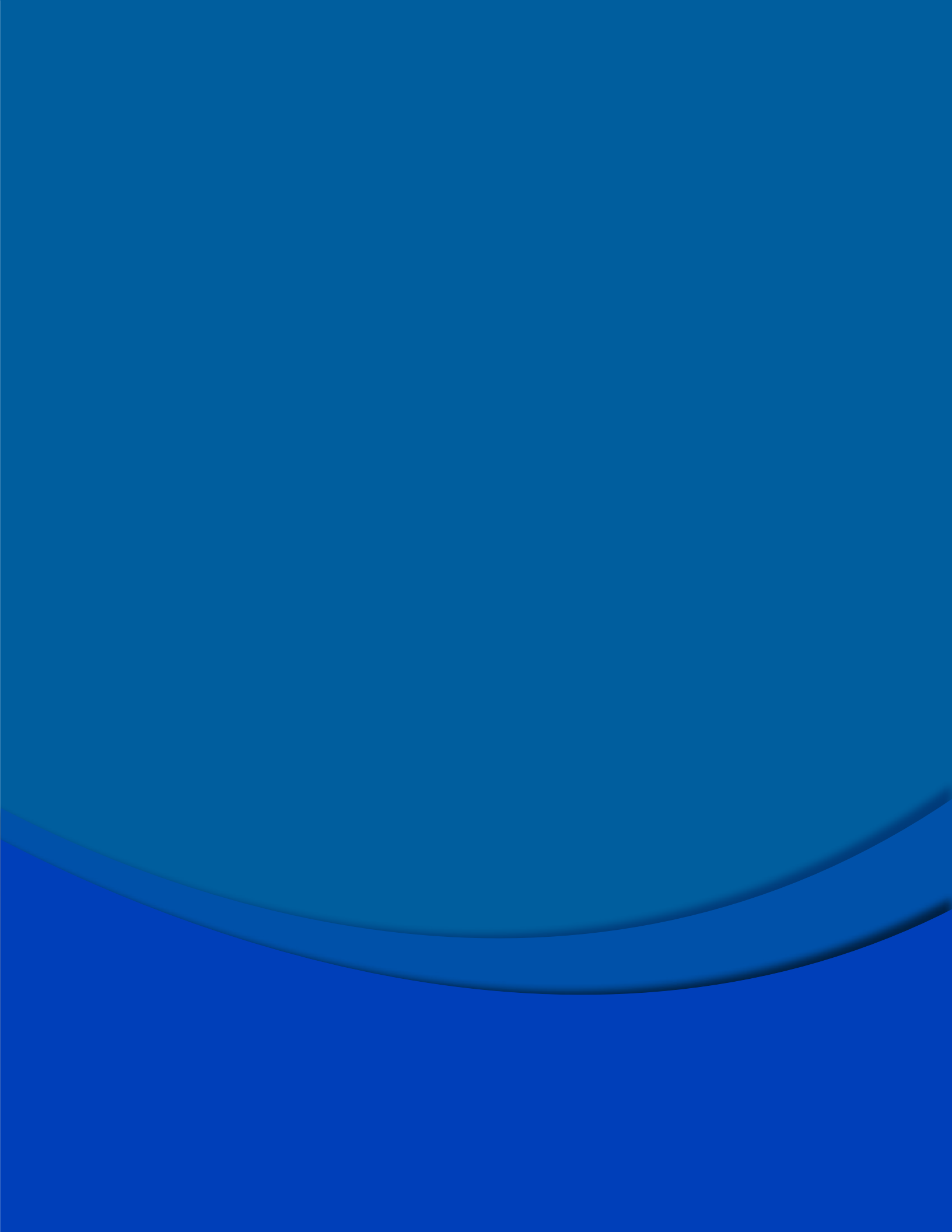
Full-Time Employees For the Past Ten Fiscal Years

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Average Full-Time Employees	293	290	303	313	310	310	305	319	316	324



Source: Irvine Ranch Water District

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**IRVINE RANCH
WATER DISTRICT**