MWRP Biosolids Facility - October 2016

IRVINE RANCH WATER DISTRICT

Comprehensive Annual Financial Report

For Fiscal Year Ended June 30, 2016

Irvine, California

Water makes it possible.

Comprehensive Annual Financial Report

For fiscal year ended June 30, 2016

Irvine Ranch Water District
Irvine, California

Board of Directors

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Paul A. Cook

Prepared by:

Irvine Ranch Water District
Finance Department

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INTRODUCTORY SECTION

Irvine Ranch
WATER DISTRICT

December 12, 2016

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, 2016. 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. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the basic financial statements are free of any material misstatements. 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 Davis Farr LLP, 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, 2016 were free of material misstatements. 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, 2016 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 22 years. The District is a leader in developing and implementing resource management initiatives such as water recycling, urban runoff and water conservation. The District is a pioneer 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 390,000 through approximately 109,000 water and over 103,000 sewer service and recycled water connections. The number of service connections has increased by approximately 17% 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.

People

The District employs approximately 370 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 District employees is approximately 11 years.

Sand Canyon Headquarters Building

Services

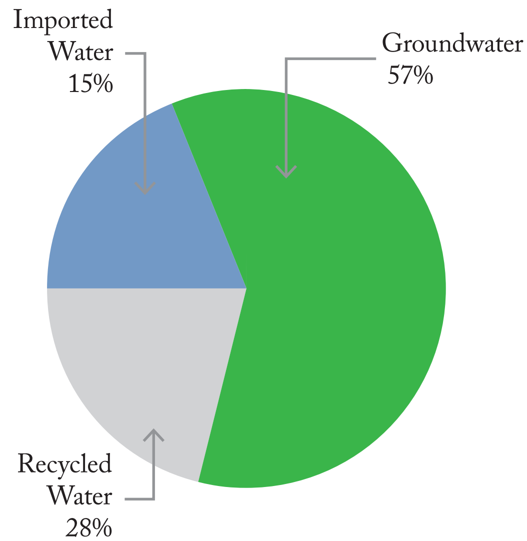
The District is functionally organized into four core service areas:

Drinking or "Potable" Water System

For many years, the District received the majority of its drinking water from imported sources. To minimize its dependence on imported water, in the early 1980's, the District developed a series of local wells known as the Dyer Road Wellfield to access 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) 2015-16, local groundwater accounted for 57% of its total water supply.

Water Sources
Fiscal Year 2015-16



Groundwater currently is less expensive, more reliable, and less energy intensive than imported water that is transported over hundreds of miles into Southern California and subsequently treated.

The District purchased 15% of its water supply in FY 2015-16 from the Metropolitan Water District, the region's wholesale water supplier. This water is imported from both 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, commercial, industrial and agricultural 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 35.5 million gallons of recycled water per day of which the District currently utilizes approximately 23 million gallons per day.

Once treated, the recycled water is used throughout the service area, which in FY 2015-16 accounted for approximately 28% of the District's total water supply. Approximately 85% 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 goal is to recycle its sewage flows whereby recycled water will represent 25% to 30% of its total water supply after the District is fully developed.

The District operates a non-potable system which includes 5 wells, 5 open reservoirs and 12 tanks that store water for non-potable uses, including a majority ownership in the Irvine Lake, a 25,000 acre-feet reservoir. In total, the District has approximately 5,400 acre feet of recycled water storage capacity.

When viewing District-wide water consumption from all systems for FY 2015-16, groundwater provided 57% of the District's consolidated water demand with recycled water and imported water providing 28% and 15%, respectively.

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 or to capacity owned at the Orange County Sanitation District. In FY 2015-16, the District treated approximately 80% of its sewage while the remainder of the sewage collected by the District was diverted to the Orange County Sanitation District treatment facilities. The District plans to expand its treatment capacity to serve its growing population as needed. This expansion is discussed in more detail in the *Major Initiatives* section of this document.

Urban Runoff Source Control and Treatment System

Aerial view of San Joaquin Marsh

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. 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, 2016, the Natural Treatment System consists of 27 wetland treatment sites located throughout the District's service area with several more currently under construction.

Drought and Water Use Efficiency

2016 Drought-Friendly Garden Tour

The District continues to be a leader in the innovation and implementation of water use measures that promote the most efficient use of water, both on a per capita and per acre basis. As a result, the District has been well positioned to handle the effects of the current drought.

On April 1, 2015, Governor Brown issued an Executive Order requiring the State Water Resources Control Board (SWRCB) to adopt a regulation mandating a 25% reduction in statewide urban potable water use from 2013 levels.

Water agencies were assigned specific reduction targets based on 2013 usage. While some agencies were assigned targets of up to 36%, IRWD was required to achieve a 16% reduction. The District utilized the effectiveness of its rate structure, combined with increased outreach and expanded conservation programs to meet its mandated reduction in a financially sustainable way. The District's budget-based tiered 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 the District updated in 2015, is recognized as a model for other agencies to emulate. The District's customers have one of the lowest residential gallons per capita per day (gpcd) rates in California. In 2015-16 the District's residential water use averaged 64 gpcd which was 44% lower than the statewide average of 114 gpcd.

On May 18, 2016, the State Board adopted a revised regulation extending the term of the regulation until January 2017. This extension was adopted based on continued uncertainty over long-term water supplies in California. The revised regulation incorporates a new methodology for calculating water reduction targets. Under the new methodology, agencies can self-certify the availability of supplies to meet projected demands, assuming another three dry years. The percentage gap between an agency's supplies and demands in the third year becomes the water agency's revised conservation target. Agencies were required to submit their respective self-certifications, with documentation, by June 22, 2016. IRWD submitted its self-certification which demonstrated the sufficiency of available supplies to meet projected demands. Therefore, IRWD's mandatory conservation target was reduced to zero percent, retroactive to June 1, 2016.

Although IRWD's mandatory target has been reduced to zero percent, the state is still in a declared drought emergency and is calling for additional voluntary conservation. In response, IRWD is continuing to maintain and further implement enhanced conservation and outreach programs, supported by the effectiveness of its rate-structure.

The District has also led the use of recycled water beginning in the late 1960s and presently serves over 5,400 sites, with more than 26,000 acre feet of recycled water in FY 2015-16 representing 28% of the District's total water supply. The use of recycled water has helped the District achieve its conservation targets and has reduced its need to import more expensive potable supplies.

The District's Water Use Efficiency Plan provides a comprehensive strategy that includes environmental considerations and also addresses the considerable financial benefits of water use efficiency for the District and its customers. Specifically, the Plan addresses:

- Increasing water demands and the impact to the District's unit cost of water, which would increase if the District needed to purchase more expensive imported water.
- Reducing urban runoff (typically the result of "over-watering") which minimizes water quality degradation from fertilizers, pesticides and animal waste in creeks, rivers and the ocean.
- Reducing water demands which reduces energy demand and related costs needed to convey water.
- Reducing water use indoors which results in reduced sewage generation and attendant treatment costs and capital costs for additional infrastructure.

IRWD Drought Expo

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, technology advances, and the development of financial incentives. The Board is regularly updated 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 landscape 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.

Legislative and Regulatory Affairs

The District actively monitors and works to influence local, 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. The District continues to engage proactively in policy discussions surrounding conservation and drought response, recycled water, and groundwater management in California. 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 system assets from 2007 to 2016.

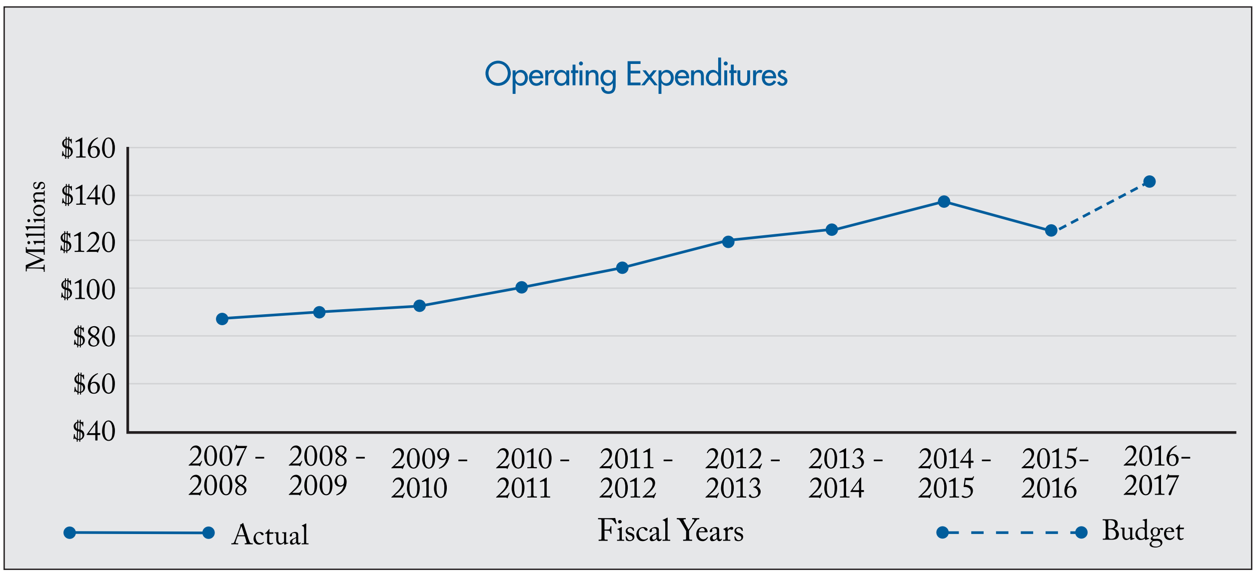
Infrastucture Assets

	2007	2016
Potable System		
Miles of Water Line	1,090	1,760
Number of Storage Tanks	37	36
Maximum Storage Capacity (acre feet)	456	456
Number of Pumping Stations	40	42
Number of Wells	24	27
Well Production Capacity (cfs)	109	128
Water Banking Storage Capacity (acre feet)	-	126,000
Non-Potable and Recycled Systems		
Miles of Recycled Line	367	525
Number of Storage Tanks	11	12
Number of Open Reservoirs	4	5
Maximum Storage Capacity (acre feet)	23,703	24,155
Number of Pumping Plants	18	20
Number of Wells	5	5
Well Production Capacity (cfs)	9.8	9.8
Sewer System		
Miles of Sewer Line	809	1,070
Number of Lift Stations	16	14
Treatment Plants	2	2
Treatment Capacity (mgd)	25.5	35.5
Sewage Flows to Michelson Plant	62%	68%
Sewage Flows to Los Alisos Plant	24%	12%
Sewage Flows to Orange County Sanitation District	14%	20%

1 acre foot = 325,900 gallons
cfs = cubic feet per second
mgd = millions gallons per day

Financial Plan

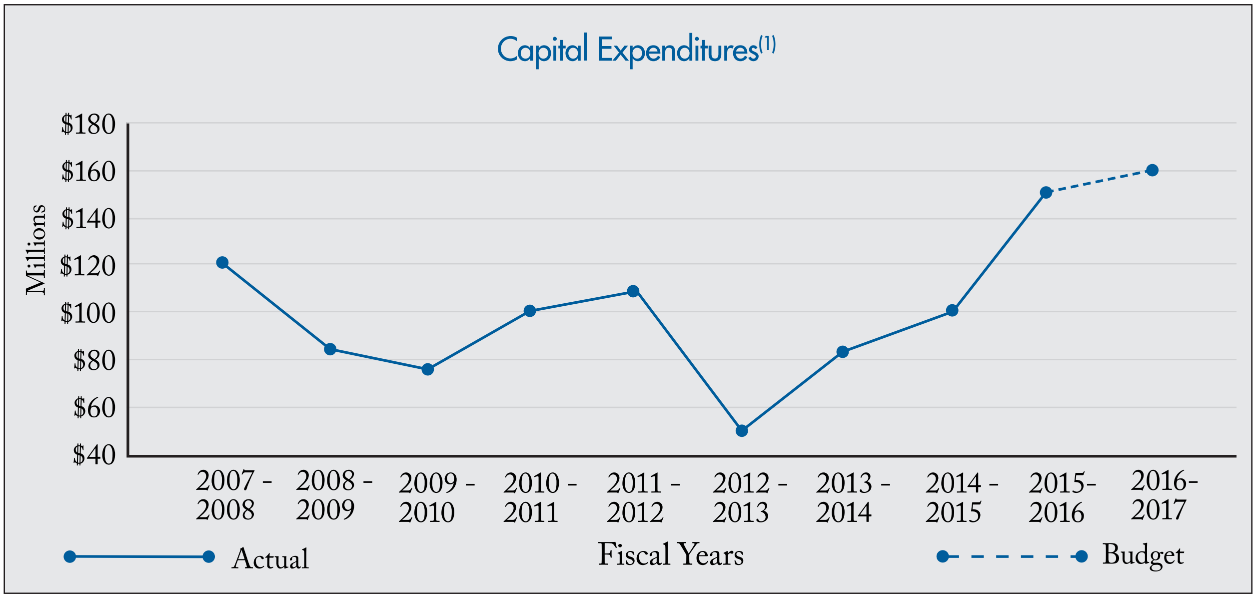
Each year, the Board approves an annual operating budget. The goal of the District's operating budget process is to appropriately fund the resources required to provide excellent service to IRWD customers as cost-efficiently as possible. The graph below shows the actual operating expenditures thru FY 2015-16 as well as the Board approved operating budget for FY 2016-17. 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 2016-17 budget increased to $146.9 million from $140.4 million in FY 2015-16, or 4.7%. The primary reasons for the increases were labor and associated benefits from additional positions necessary to support new or planned operating facilities, labor rate growth, increases in the cost of water due to anticipated rate increases from outside agencies, higher operating and maintenance costs associated with additional facilities coming on line and increased expenditures for conservation programs and rebates to strengthen conservation efforts within the District.



The Board also approves an annual capital budget based on new, enhancement and replacement infrastructure needs. Below are the actual capital expenditures thru FY 2015-16. The reduced spending in 2012-13 from prior years represents the District's completion of several projects and the subsequent design and construction for two new key projects, the MWRP Biosolids and Energy Recovery Facilities and the Baker Water Treatment plant, both of which began construction in FY 2013-14. For FY 2016-17, the Board approved capital budget was $160.2 million. Many capital budget projects extend beyond one fiscal year.

Biosolids and Energy Recovery Facilities Project

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.



(1) Actual capital expenditures excluding overhead, intangibles and capitalized interest.

User Rates & Charges

User rates and charges are primarily 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. The District sets replacement monies aside in advance to help stabilize rates and avoid significant potential future rate swings. In 2015, the District completed a detailed cost of service study which confirmed that user rates billed to customers are based on actual costs to provide the services.

The District allocates capital costs within 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 new 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 new infrastructure evenly between the developers/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 fixed service charge component. The commodity charge reflects the cost of the District's water supplies while the fixed service charge funds the fixed operational and maintenance expenses of the District. For FY 2015-16, the District's water fixed service charge was $10.30 per month. The District has a long history of planning for the inevitable replacement of capital infrastructure, and sets monies aside into enhancement and replacement funds for this purpose. In FY 2015-16, the monthly fixed service charge includes a user enhancement and replacement component of $0.70 and $1.45, respectively, per month, intended to fund current and future replacement and refurbishment costs that provide reliability and redundancy to the District's infrastructure.

The District has a four-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 based on factors such as the number of occupants, type or classification of use, size of the irrigated area, evapotranspiration rate for the billing period and other consistently applied criteria. The chart to the right illustrates the four-tier structure that reflects the increased cost associated with usage in the higher tiers.

As of June 2016, approximately 80% of the District's customers were within the first two tiers and approximately 90% of customers fell within the District's first 3 tiers. IRWD residential bills are consistently among the lowest in Orange County.

FY 2015-16 Residential Rate Structure – Potable Water (Commodity Charge)*

Tier	Percent of Estimated Customer Need	Cost per ccf
Low Volume	0 – 40%	$1.11
Base Rate	41 – 100%	$1.62
Inefficient	101 – 130%	$3.92
Wasteful	131% +	$14.53

One ccf (100 cubic feet) = 748 gallons

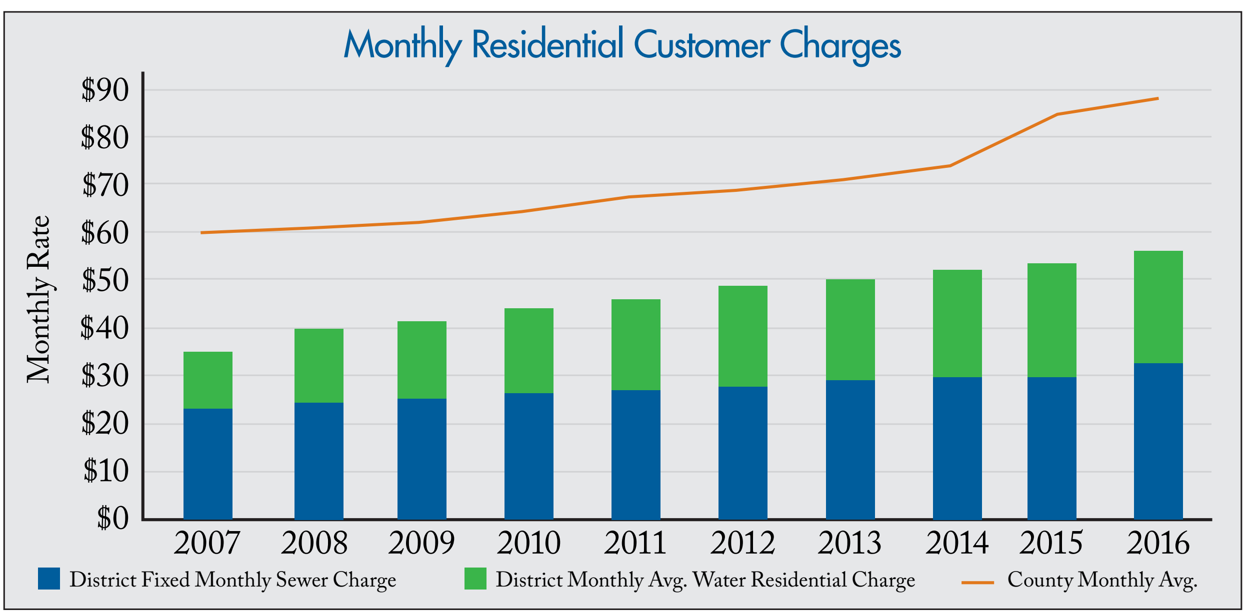
* This rate structure is for residential detached dwelling units in the Irvine Ranch Rate Area. Customers of the former Los Alisos Water District are on a separate rate structure to reflect the cost of water.

Sewer Rates

The District's sewer rates are also among the lowest in Orange County, with a fixed monthly service charge of $24.05 in FY 2015-16 for a typical residential customer that covers the collection and treatment of sewage. This monthly service charge includes a user enhancement and replacement component of $0.70 and $7.35, 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 $7.35 includes $2.30 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 2015-16. The District has raised rates in each of the last several years due largely to increased costs from outside agencies or wholesale supplies and increased fixed service costs for both water and sewer, including funding for future infrastructure replacement.



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, as 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 2015-16, the District continued to expand its operating facilities to accommodate approximately 4,000 new water and sewer service connections constructed within District boundaries. There remains about 20% of future development, including the Northern Sphere area 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 within the District's service area has grown significantly in the last decade from $31.4 billion in 2007 to more than $51.3 billion in 2016, 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 which was repaid in June 2013. Under Proposition 1A, the State can only exercise its borrowing right one more time prior to 2019.

Drought

As discussed in more detail in Drought and Water Use Efficiency, in 2016, the State Water Resources Control Board mandated that the District achieve a 16% reduction from its 2013 base usage. As customers decreased their consumption, there was a corresponding decrease in District revenues. The District is well positioned to sustain the reduction in revenues and meet conservation targets with minimal impact on net revenues due to its rate structure which effectively splits costs into variable and fixed rate components. The decreased consumption in FY 2015-16 was offset by a decrease in related variable costs while the fixed rate component covered the fixed operating and maintenance costs. As a result, the District did not experience a net revenue shortfall to cover expenses as a result of the decreased consumption.

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.

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 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, creating redundancy, as well as replacing and refurbishing various components of the water and sewer systems. The objective of the funds is to help moderate the financial impact on future user rates attributable to expenditures associated with enhancing and replacing capital facilities. For FY 2014-15, the combined water and sewer user enhancement/replacement fees were $8.90 per month. For FY 2015-16, the combined water and sewer user enhancement/replacement fees are $10.20 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 a fully developed area. 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 $32.1 million to new capital in FY 2015-16 will decline as the District nears build-out. The District utilizes a sophisticated financial model to factor in such variables as future development, construction costs, growth rates, inflation, redevelopment and other criteria in order to project rate setting for funding future capital needs.

In 2011, the District initiated a strategic process to review its existing current capital funding plan which resulted in a master consolidation plan that combined certain improvement districts in order to maintain the future financial viability of each area. The master plan allocates funding responsibility for capital improvements to the areas which will benefit from those respective facilities and separates areas on the basis of projected timing of development. Diversification of the District's water supply and sewage treatment options are also major objectives of the District's master plan. Those objectives are discussed in further 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 and in 2013, established a Pension Benefits Trust to substantially fund its PERS unfunded liability. The Pension Benefits Trust provides 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 from the Pension Benefits Trust to PERS at the District's discretion.

Investment policy and asset allocation decisions relating to the Pension Benefits Trust are made by a Retirement Board consisting of 2 members from the IRWD Board of Directors and the District's General Manager. In FY 2013, the District made an initial $35.0 million contribution to the Pension Benefits Trust, and in FY 2014, 2015, and 2016 the District made additional contributions of $2.2 million, $2.1 million, and $1.9 million, respectively. As of June 30, 2016, the fair market value of the assets in the Pension Benefits Trust was approximately $47.1 million. As of June 30, 2016, the assets were invested in the Vanguard Institutional Index Fund, Vanguard Extended Market Index Fund, Vanguard Developed Market Index Fund, Metropolitan West Total Return Bond Fund, Baird Core Plus Bond Fund, Vanguard High-Yield Corporate Fund and Federated Government Obligations Money Market Fund.

Under GASB 68, implemented for FY 2015, the District's pension plan was fully funded as of June 30, 2015. As of June 30, 2016, the District had a minimal net pension liability of $1.9 million, or a funded ratio of 99.2%. Additional information on the District's net pension asset/liability can be found in Note 13 of the Notes to the Basic Financial Statements.

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 in conformance with all applicable State laws, the District's investment policy, and prudent cash management principles.

For FY 2015-16, the District's fixed-income investment portfolio consisted primarily of short-term securities with a portfolio average maturity of approximately 9 months. These securities included U.S. government agency notes, U.S. government agency discount notes, the State-managed Local Agency Investment Fund and local government investments. The annual return on all of the District's cash investments in FY 2015-16 was approximately 0.63%. Including real estate investments, the weighted average rate of return was 3.51% for the same period.

At June 30, 2016, the District's cash, investments and installment sale agreement assets totaled approximately $235.5 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. No unspent bond proceeds were available at year end.

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, 2016, the District owns or has an interest in five properties with an approximate market value of $199.0 million. The real estate investments have a weighted average return (on original cost) for FY 2015-16 of 13.9%. Net revenues of $8.7 million generated in FY 2015-16 from the District's real estate investments are retained within the Replacement Fund.

Debt Management Policies and Practices

The District strives 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 minimizes its exposure to interest rate risk by utilizing both fixed and variable rate debt and has leveraged opportunities provided by the low interest rate environment in recent years. The District maintains a healthy balance between fixed and variable rate debt. As of June 30, 2016, the District's debt portfolio included fixed rate debt at 42.1%, synthetically fixed (hedged) variable rate debt at 35.5% and unhedged variable rate debt at 22.4%, resulting in an average all-in cost of debt of approximately 3.42% for the year.

The District has primarily used General Obligation (GO) bonds and Certificates of Participation (COPs) to fund its capital facilities. As of June 30, 2016, there were eight outstanding GO bond issues consisting of $316.2 million in variable rate mode and $175.0 million in fixed rate mode (excluding any unamortized premium or discount). As of June 30, 2016, the District also had one outstanding COPs issue with a balance of $54.7 million in fixed rate mode. The District has secured direct pay letters of credit to enhance certain issues of its variable rate debt.

The GO bond issues are secured by the District's ability to levy ad valorem property taxes 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 GO bond debt service through such ad valorem taxes. In addition to the ad valorem tax pledge, certain GO bond issues are also secured by the net revenues, including user rates of the District.

The COPs issue is secured by the net revenues of the overall District. The District is required under some of its debt covenants to collect revenues sufficient to provide 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. The Board adopted a policy to maintain a target amount of investment assets equal to at least 75% of the District's outstanding unhedged 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 interest rate risk exposure on approximately $194 million (or 61.4%) of its variable rate debt to approximately 4.01% (assuming 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 2015-16, the Federal subsidy payments were cut by 6.8% 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 4.46%.

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, general risk assessments, and the development of emergency plans, including a business continuation plan.

Major Initiatives

The District's major initiatives during FY 2015-16 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 IRWD's portion of the Orange County Ground Water Basin, additional local groundwater production, and to have enough capacity to meet demands during outage conditions. Currently, the District has the ability to produce approximately 45,000 – 50,000 acre feet per year (AFY) of potable groundwater and 4,000 – 5,000 AFY of non-potable groundwater.

Water Banking

In addition to developing its local groundwater and recycled water systems, the District is further diversifying its water supply reliability by developing and operating water banking facilities in Kern County, California. These projects are known as the Strand Ranch Integrated Banking Project and the Stockdale Integrated Banking Project (collectively, the Water Bank). The District's Water Bank is situated on groundwater recharge lands that overlie the regional Kern County groundwater basin. The purpose of the Water Bank is to improve the District's water supply reliability by capturing and storing low cost water available during wet hydrologic periods for use during dry periods. The Water Bank enhances the District's ability to respond to drought conditions and potential water supply interruptions and enables it to reduce the cost of water delivered under such conditions.

The District has entered into agreements for a 30-year water banking partnership with the Rosedale-Rio Bravo Water Storage District (Rosedale) in Kern County. These agreements provide for Rosedale to operate the Water Bank on behalf of the District and permits the District: (i) to store up to 76,000 acre feet of water in the aquifer; (ii) to recharge a minimum of 44,600 acre feet of water per year in the aquifer; and (iii) to recover a minimum of 28,750 acre feet of water per year from the aquifer. An additional 50,000 acre feet of storage will be available in the future as part of the Stockdale Integrated Banking Project.

The District has constructed groundwater recharge ponds and related facilities at its Water Bank that are necessary to divert water from an adjacent canal into the ponds. Groundwater wells have been constructed on the Strand Ranch property and additional recovery wells are currently being constructed on the Stockdale West property. The District, in partnership with Rosedale and others, are also constructing additional wells that will increase the ability to recover water from the Water Bank during peak summer demand periods. The District has secured water from a number of sources for recharge at the Water Bank.

The District has entered into agreements with Metropolitan Water District of Southern California (MWD) which allows it to transfer water from the Water Bank into the District's service area. The District recovered and delivered approximately 1,000 acre feet from the Water Bank in FY 2015-16.

Since 2010, the District has delivered a total of approximately 36,900 acre feet of water to the Water Bank through its water supply partnerships. The District has returned its partner's share of the water and holds approximately 22,000 acre feet of water in storage for future use. The District is currently pursuing additional potential water supply opportunities for diversion into the Water Bank.

Water Rights

The District also owns property with rights to State Water Project water which can be stored in the Water Bank. The water is available as a result of the District's acquisition of property located within the Dudley Ridge Water District, including the rights to use approximately 1,750 acre feet of Table A State Water Project water allocated to Dudley Ridge. The District can store its Table A water in the Water Bank with half of the water being available for future use in the District's service area. The acquisition also includes certain participation rights in the Kern Water Bank allowing the District to store up to approximately 9,500 acre feet of water.

As of June 30, 2016, the District has purchased agricultural land (PVID Properties) in Riverside County, California. The PVID Properties are located within Palo Verde Irrigation District (PVID), which has first priority rights on the Colorado River. Approximately 273 acres of the land are included in a MWD and PVID fallowing program under which MWD makes payments to landowners in exchange for letting land lie fallow. Water that is conserved through fallowing is available for use within MWD's service area (which includes the District's service area). In the near term, the District expects to lease the PVID Properties to tenant farmers for agricultural uses. The District plans to work with MWD and the Municipal Water District of Orange County (MWDOC) in the future to develop mutually beneficial arrangements through which the District could receive increased water supply reliability during periods of drought or supply interruptions in consideration for the water conserved on the District's PVID Properties.

Baker Water Treatment Plant

The Baker Water Treatment Plant (WTP), which is currently under construction, is anticipated to be completed and operational by the end of calendar year 2016. The Baker WTP will produce approximately 28 million gallons per day of drinking water and will treat imported water from MWD and local 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, can provide regional water reliability to other neighboring southern Orange County water agencies. The project cost is estimated at approximately $106 million, with IRWD owning approximately 24% of the total plant.

Baker Treatment Plant

Syphon Recycled Water Seasonal Storage Facility

Syphon Reservoir, located in the northern portion of Irvine, is a sixty-year-old untreated water storage reservoir historically used for agricultural purposes. The District purchased Syphon Reservoir in January 2010, and in 2015 completed 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.

In 2013, the District completed a feasibility study to increase storage capacity in Syphon Reservoir from its current capacity of 450 acre feet to 5,000 acre feet. Additional storage capacity could allow the District to recycle more sewage flows at MWRP. An expansion of Syphon Reservoir to 5,000 acre feet would allow for recycling 100% of the sewage flows tributary to MWRP and could 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.

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.

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.

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

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

In addition to the projects identified above, the District 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. As a result, in FY 2013-14, the District began construction of 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 overall treatment costs.

Biosolids and Energy Recovery Facilities Project

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 2018 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 educating and fostering an appreciation for water and the environment which are both vital resources.

Community water education and an awareness of water use efficiency begins 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 Foundation. These exceptional programs are available to all kindergarten through middle school students in any public, private or home school in the District's service area and meet all California curriculum content standards while bringing water education to life for local students. The partnership with the Discovery Science Foundation 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 educational tours for community organizations in its service area.

In addition to already established water use efficiency community outreach efforts, the District has responded to the statewide drought by offering new and effective outreach programs designed to educate customers about the drought and what they can do to decrease their water use. The outreach campaigns, which effectively increased awareness and participation in conservation programs, were key to IRWD's success in meeting its state-mandated potable water conservation target of 16%. The District's key campaigns targeted reductions in outdoor water use. A "Brown is the New Green" campaign encouraged single family homeowners to cut outdoor water use in half and to let lawns go brown. After customers had significantly reduced outdoor watering, the drought outreach program progressed to a new campaign called "Color Your World" to encourage drought tolerant landscaping and to promote the District's turf removal rebate program. To support this effort, the District held a series of 21 workshops to teach customers about drought tolerant landscaping and efficient irrigation techniques, launched an enhanced water use efficiency resources website, and held two highly attended community-wide events. IRWD now has two Drought Tolerant Demonstration Gardens that display over 80 different types of drought tolerant plants and provide practical information for customers to use when redesigning their home landscapes with water efficient plants. The IRWD Recycled Water Fill Station allows customers that do not yet have access to recycled water the ability to use this water source for outdoor irrigation purposes.

Community Outreach Messaging

In 2016, the District implemented a new logo. The logo has long been used for District communications, outreach and education materials. The updated logo design acknowledges the District's history and reflects it current services and programs.

Irvine Ranch
WATER DISTRICT

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, 2015. 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 will be submitting it to the GFOA to determine its eligibility for another certificate.

Staff would like to acknowledge the IRWD Board of Directors for their 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	Cheryl L. Clary
General Manager	Executive Director of Finance & Administration

Irvine Ranch Water District
List of Principal Officials

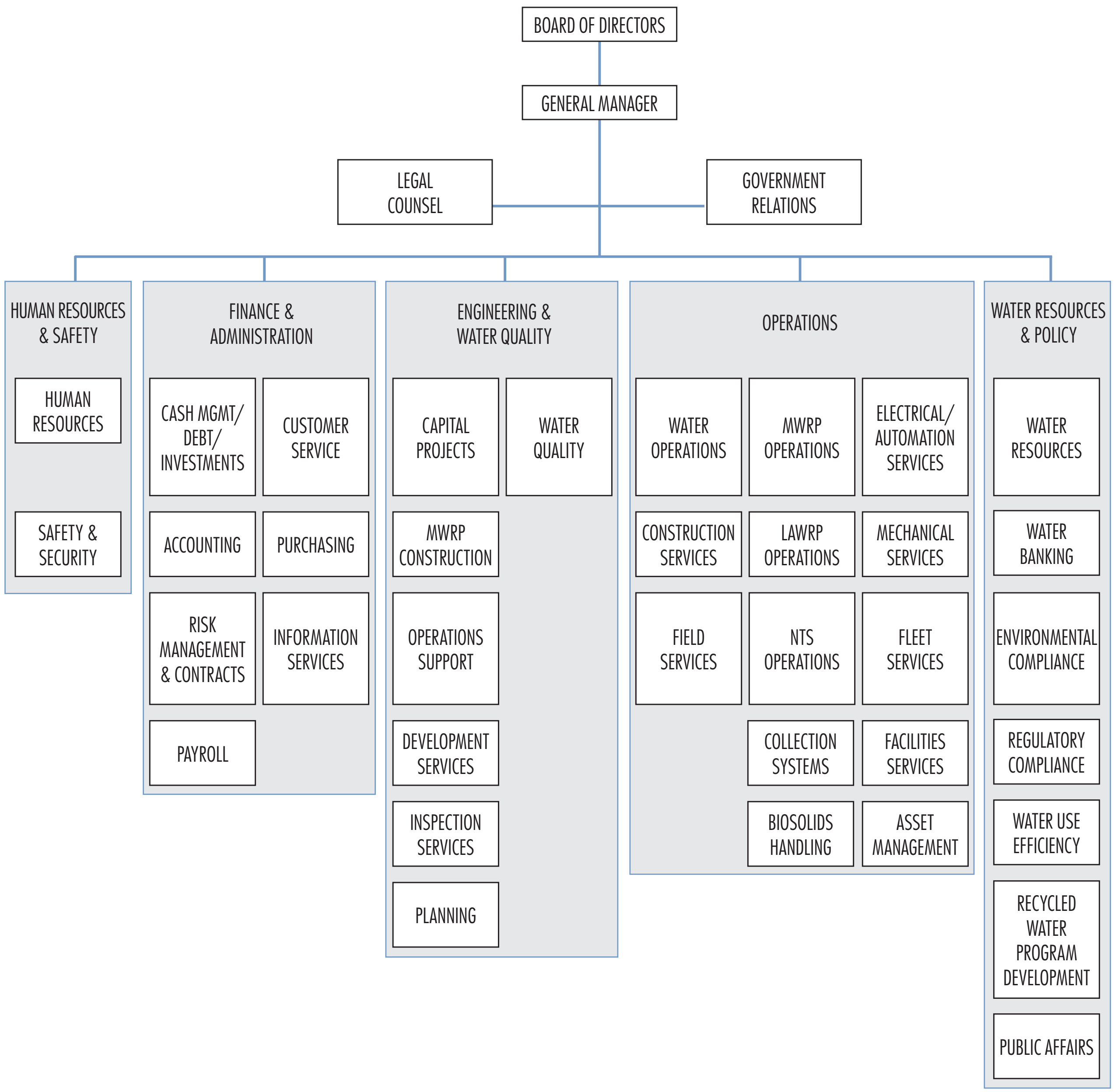
Board of Directors

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

Executive Management

General Manager	Paul A. Cook
Executive Director of Finance & Administration	Cheryl L. Clary
Executive Director of Operations	Patrick O. Sheilds
Executive Director of Engineering & Water Quality	Kevin L. Burton
Executive Director of Water Resources & Policy	Paul A. Weghorst
Director of Human Resources	Jenny L. Roney
Director of Water Resources	Fiona M. Sanchez
Director of Public Affairs	Beth M. Beeman
Director of Administrative Services	Tony J. Mossbarger
Director of Treasury and Risk Management	Robert C. Jacobson

Irvine Ranch Water District
Organizational Chart
(By Function)
Fiscal Year 2015-16



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, 2015

Jeffrey R. Emer

Executive Director/CEO

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FINANCIAL SECTION

Financial Section

Irvine Ranch Water District
Fiscal Year Ended June 30, 2016

DavisFarr
CERTIFIED PUBLIC ACCOUNTANTS

Davis Farr LLP
2301 Dupont Drive | Suite 200 | Irvine, CA 92612
Main: 949.474.2020 | Fax: 949.263.5520

Board of Directors
Irvine Ranch Water District
Irvine, California

Independent Auditor's 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, 2016, 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.

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, 2016, 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 18 to the financial statements, during the year ended June 30, 2016, the District implemented GASB Statement No. 72. Our opinion is not modified with respect to this matter.

The financial statements of the year ended June 30, 2016 reflect certain prior period adjustments as described further in Note 18 to the financial statements. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited Irvine Ranch Water District's financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated December 1, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 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* and *pension schedules* 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2016, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Davis Farr LLP

Irvine, California
December 5, 2016

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, 2016. 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 outflows of resources exceed total liabilities and deferred inflows of resources by $1,578.3 million (net position), consisting of $1,178.5 million in net investment in capital assets, $221.5 million restricted for water services and $178.3 million restricted for sewer services. This is an increase of $223.6 million or 16.5 percent over the prior fiscal year net position of $1,354.7 million.

- Total assets are $2,188.2 million, an increase of $207.9 million or 10.5 percent over the prior fiscal year. Other noncurrent real estate investments assets increased $155.9 million primarily due to the new accounting standard which requires real estate investments to be reflected at fair market value. Capital assets increased due primarily to 2 major projects which were funded mainly with cash.

- Total deferred outflows of resources are $49.7 million, an increase of $6.4 million or 14.8 percent over the prior fiscal year. This is due primary to a decrease in the accumulated fair market value of swaps.

- Total deferred inflows of resources decreased $10.2 million over the prior year, due primarily to the cumulative differences between projected and actual earnings on the pension investments as well as changes in actuarial assumptions.

- During 2016, the District funded $1.9 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 June 2013 to assist in funding the District's CalPERS unfunded liability. The trust provides the District with an alternative that allows for investment by a professional fund management team selected and monitored by the District. Future excess contributions will be transferred to CalPERS at the District's discretion. As of June 30, 2016, the District had a $1.9 million net pension liability which is 99.2% fully funded. For more detail, see Note 13 of the Notes to the Basic Financial Statements.

- Total debt is $553.1 million, a decrease of $19.7 million or 3.4 percent over the prior fiscal year. The decrease in overall debt is due primarily to $19.3 million of principal payments during the current fiscal year.

- Total revenues are $218.4 million, an increase of $21.5 million or 10.9 percent over the prior fiscal year. Operating revenues were higher by $11.5 million due to Board approved rate increases resulting from increased water and sewer production charges from third parties that were passed through to customers as well as customer growth during the year. Non-operating revenues increased $10.0 million due to the implementation of a new accounting standard which requires real estate investments to be reflected at fair market value as well as higher 1 percent property tax revenue associated with higher assessed property valuations in the District's service area.

- Total expenses are $198.3 million, a decrease of $10.3 million or 4.9 percent over the prior fiscal year. This is due primary to a reduction of $11.0 million in the cost of handling, treatment, and disposal of sewage solids residuals sent to the District's third party provider (the Orange County Sanitation District).

- Capital contributions are $53.3 million, an increase of $10.7 million or 25.1 percent over the prior fiscal year due primarily to increased development activity within the District resulting in $8.0 million of donated facilities from developers.

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 additional 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.

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 assist in funding the CalPERS unfunded liability, providing the District with an alternative to CalPERS that allows for investment by a professional fund management team selected and monitored by the District, with future excess contributions transferred to CalPERS 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 analysis.

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 forth below:

Table 1 - Summary of Net Position (in millions)

			Increase/(Decrease)	
Assets	**2016**	**2015**	**Amount**	**Percentage**
Current and other assets	$ 235.8	$ 270.7	$ (34.9)	-12.9%
Capital assets, net	1,731.6	1,647.4	84.2	5.1%
Other noncurrent assets	220.8	62.2	158.6	255.0%
Total assets	2,188.2	1,980.3	207.9	10.5%
Deferred Outflow of Resources				
Deferred refunding charges	1.2	1.4	(0.2)	-14.3%
Accumulated decrease in fair value of swap agreements	41.2	35.3	5.9	16.7%
Pension contributions	6.9	6.6	0.3	4.5%
Pension actuarial	0.4	-	0.4	100.0%
Total deferred outflow of resources	49.7	43.3	6.4	14.8%
Liabilities				
Current and other liabilities	65.4	51.5	13.9	27.0%
Long-term liabilities	589.8	602.8	(13.0)	-2.2%
Total liabilities	655.2	654.3	0.9	0.1%
Deferred Inflows of Resources				
Pension actuarial	4.4	14.6	(10.2)	-69.9%
Net Position				
Net investment in capital assets	1,178.5	1,074.6	103.9	9.7%
Restricted for water services	221.5	148.6	72.9	49.1%
Restricted for sewer services	178.3	131.5	46.8	35.6%
Total net position	**$ 1,578.3**	**$ 1,354.7**	**$ 223.6**	**16.5%**

As shown in Table 1, the District's total assets increased $207.9 million or 10.5 percent. Cash was used to fund capital assets during the year. Other noncurrent assets increased $158.6 million primarily as a result of the implementation of a new accounting standard, which requires real estate investments to be reflected on the financial statements at fair market value. The cumulative real estate investment value increased $155.9 million to reflect the change from cost basis to fair market value. The fair market value at the end of fiscal year 2015 is reflected as a prior period adjustment in 2016 as required under the new accounting standards. The fair market value of real estate assets increased $5.6 million from $193.2 million in the prior fiscal year to $198.8 million in the current fiscal year. Additional information on the District's real estate investments can be found in Note 7 of the Notes to the Basic Financial Statements.

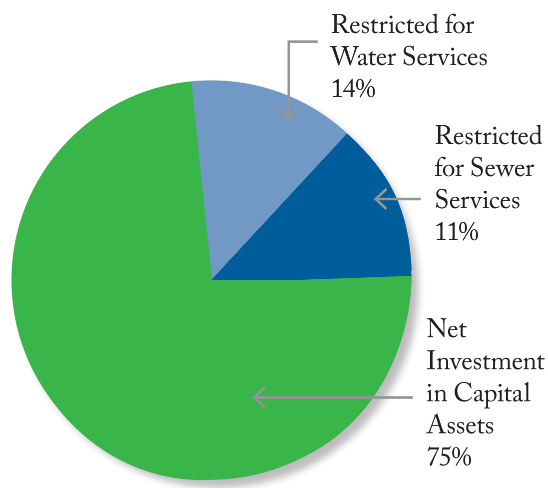
The District's deferred outflows of resources increased $6.4 million or 14.8 percent. This is due primary to a $5.9 million reduction in the accumulated fair value of swaps which increased from a negative $35.3 million to a negative $41.2 million as the assets are reflected at fair market value. The change also includes a $0.4 million increase in the District's pension liability for differences between expected and actual actuarial experiences amortized to pension expense over the next 4 years. In addition, the

District contributed $0.3 million more in pension contributions made to the CalPERS and the Pension Benefits Trust from $6.6 million in the prior fiscal year to $6.9 million in the current fiscal year. These increases were partially offset by a decrease of $0.2 million from the amortization of deferred refunding charges of general obligation bonds and certificates of participation from $1.4 million in the prior fiscal year to $1.2 million in the current fiscal year which represent the difference between the carrying value of refunded debt and the reacquisition price.

The District's total liabilities increased $0.9 million or 0.1 percent from $654.3 million in the prior fiscal year to $655.2 million in the current fiscal year. Accounts payable increased $11.0 million primarily relating to payments due the District's third party sewer service provider (Orange County Sanitation District) and various other capital project vendors for the District's major capital projects. The increase was partially offset by a reduction of $13.0 million in the long-term liabilities associated primarily with principal payments on the District's debt during the current fiscal year.

The District's deferred inflows of resources decreased $10.2 million or 69.9 percent from $14.6 million in the prior fiscal year to $4.4 million in the current fiscal year. This is due primary to a decrease of $13.4 million for cumulative differences between projected and actual earnings on the pension plan investments, partially offset by an increase of $3.2 million for changes in pension actuarial assumptions. During the current fiscal year, CalPERS increased their discount rate assumption from 7.50 percent in the prior fiscal year to 7.65 percent in the current fiscal year which partially contributed to an increase of $3.2 million at the end of the current fiscal year. Additional information on the District's deferred inflows of resources can be found in Note 13 of the Notes to the Basic Financial Statements.

Net Position at June 30, 2016



Net position at end of the current fiscal year increased from $1,354.7 million in the prior fiscal year to $1,578.3 million in the current fiscal year, an increase of $223.6 million or 16.5 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 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 $1,178.5 million or 74.7 percent of total net position, an increase of $103.9 million or 9.7 percent from the prior fiscal year.

Several major District capital projects contributed to the increase, including the MWRP Biosolids and Energy Recovery Facilities which will reduce the District's overall sewage treatment costs as well as provide other resource recovery benefits and the purchase of agricultural land in Riverside County, CA which has first priority water rights on the Colorado River and are part of the District's plan to enhance its water supply reliability. These projects account for approximately 65 percent of the increase.

Restricted net position for water services were $221.5 million or 14.0 percent of total net position. Restricted net position for sewer services were $178.3 million or 11.3 percent of total net position. Restricted net positions are externally restricted by legislation which imposes legally enforceable requirements that its assets be used only for the specific purposes for which it was formed.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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:

Table 2 - Revenues, Expenses and Changes in Net Position (in millions)

			Increase/(Decrease)	
	2016	**2015**	**Amount**	**Percentage**
Operating Revenues				
Water sales and service charges	$ 76.7	$ 70.1	$ 6.6	9.4%
Sewer sales and service charges	67.7	62.8	4.9	7.8%
Total operating revenues	144.4	132.9	11.5	8.7%
Non-operating Revenues				
Property taxes	46.3	42.4	3.9	9.2%
Interest income	1.2	1.2	-	0.0%
Real estate income	13.1	12.5	0.6	4.8%
Increase (decrease) in fair value of real estate investments	5.6	-	5.6	100%
Other income	7.8	7.9	(0.1)	-1.3%
Total non-operating revenues	74.0	64.0	10.0	15.6.%
Total revenues	218.4	196.9	21.5	10.9%
Operating Expenses				
Water services expenses	69.3	67.3	2.0	3.0%
Sewer services expenses	48.1	60.4	(12.3)	-20.4%
Depreciation	58.3	51.0	7.3	14.3%
Total operating expenses	175.7	178.7	(3.0)	-1.7%
Non-operating Expenses				
Interest expense	15.4	13.9	1.5	10.8%
Real estate expense	4.4	6.3	(1.9)	-30.2%
Other expense	2.8	9.7	6.9	-71.1%
Total non-operating expenses	22.6	29.9	(7.3)	-24.4%
Total expenses	198.3	208.6	(10.3)	-4.9%
Income/(loss) before capital contributions	20.1	(11.7)	31.8	-271.8%
Capital contributions	53.3	42.6	10.7	25.1%
Change in Net Position	73.4	30.9	42.5	137.5%
Beginning Net Position	1,354.7	1,389.6	(34.9)	-2.5%
Prior period adjustments (1)	150.2	(65.8)	216.0	-328.3%
Ending Net Position	**$ 1,578.3**	**$ 1,354.7**	**$ 223.6**	**16.5%**

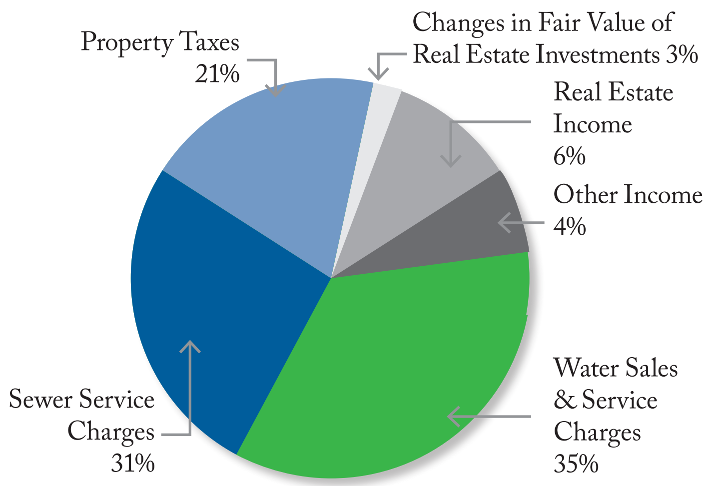
(1) These include two prior period adjustments. In the fiscal year ended 2015, the prior period adjustment relates to the implementation of the new pension accounting standards, GASB 68 and 71 as information relating to the prior year was not readily available. In fiscal year ended 2016, the prior period adjustment relates to the implementation of the new fair value accounting standards, GASB 72 as information relating to the prior year was not readily available. Additional information on the restatement of net position can be found in Note 18 of the Notes to the Basic Financial Statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Revenues:

As shown in Table 2, the District's operating revenues total $144.4 million or 66.1 percent of total revenues. Water sales contributed 53.1 percent to total operating revenues and sewer sales contribute 46.9 percent to total operating revenues. Operating revenues increased by $11.5 million or 8.7 percent from the prior fiscal year. Overall, approximately 90 percent of the operating revenue increase is attributable to a Board approved rate increase resulting from increased water and sewer production charges from third parties that were passed through to customers. The remaining increase in operating revenue is due to customer growth in the District's service areas due to increased housing activity. The chart below illustrates the sources of revenue for the fiscal year ended June 30, 2016.

Sources of Revenue for Fiscal Year Ended June 30, 2016



Non-operating revenues account for 33.9 percent of total revenue for the fiscal year ended June 30, 2016. This is an increase of $10.0 million or 15.6 percent from the prior fiscal year due primarily to (1) $5.6 million in fair value of real estate investments as a result of new accounting standard (GASB 72) which requires real estate investments to be reflected at fair market value; (2) $3.9 million in 1 percent property tax revenue associated with higher assessed valuations in the District's service area; and (3) $0.6 million in real estate income generated from the District's real estate investment assets.

Expenses:

As shown in Table 2, operating expenses total $175.7 million, of which $117.4 million relates to the cost of providing water and sewer services to the District's customers. Water service operating costs are 90.4 percent and 96.0 percent of revenues in fiscal years 2016 and 2015, respectively. Sewer service operating costs are 71.0 percent and 96.2 percent of revenues in fiscal years 2016 and 2015, respectively. Water and sewer operating expenses, excluding depreciation, decreased by $10.3 million or 8.1 percent over the prior fiscal year.

Water expenses totaled $69.3 million, an increase of $2.0 million or 3.0 percent primarily due to:

- An increase of $2.6 million in labor and benefit costs, most of which are associated with new or planned additional facilities coming on line.
- An increase of $2.4 million in additional outreach and expanded water conservation programs to promote water use efficiency.
- A $2.0 million decrease for imported water purchases due to lower customer demand resulting from the effective water conservation messaging during the drought. This is the District's most expensive source of water. Total imported water purchased decreased from 18,628 acre feet to 11,853 acre feet.
- A $0.8 million decrease in expensed water projects related to the District's capital program.
- Other decreases of $0.2 million.

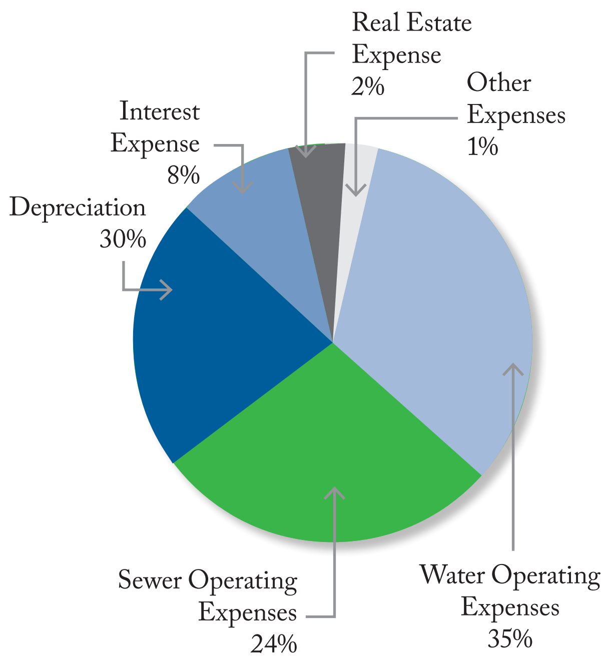
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Expenses: (Continued)

Sewer service expenses totaled $48.1 million, a decrease of $12.3 million or 20.4 percent over the prior fiscal year. The decrease is due primarily to:

- A reduction of $11.0 million in the cost of handling, treatment, and disposal of sewage solids residuals sent to the District's third party provider (the Orange County Sanitation District).
- A decrease of $3.6 million in recycled water purchases as a result of recycled water customers who responded well to the water efficiency messaging and reduced overall recycled water demands.
- A decrease of $2.4 million in expensed sewer and recycled projects related to the District's capital program.
- An increase of $2.9 million in sewage treatment and recycled system maintenance and $1.9 million overhead regular and contract labor and benefits costs.
- Other increase of $1.8 million.

Functional Expenses for Fiscal Year Ended June 30, 2016



Depreciation expense totaled $58.3 million, an increase of $7.3 million or 14.3 percent over the prior fiscal year. The increase is the result of the completion of several capital projects. During the fiscal year ended June 30, 2016, $73.3 million assets were placed in service.

Non-operating expenses totaled $22.6 million, a decrease of $7.3 million or 24.4 percent over the prior fiscal year. The decrease is primarily due to a reduction of $7.3 million in other expense capital assets and project write-offs. Non-operating expenses consist primarily of $15.4 million interest expense for the District's debts and $4.4 million real estate expense associated with the District's real estate investment assets.

Capital Contributions:

Capital contributions totaled $53.3 million, an increase of $10.7 million or 25.1 percent over $42.6 million in the prior fiscal year. Donated facilities from developers increased from $12.3 million in the prior fiscal year to $20.3 million in the current fiscal year. The District also received $32.1 million of connection fees from developers as a result of increased housing construction and $0.9 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:

Table 3 - Capital Assets, Net of Depreciation (in millions)

	2016	2015	Increase/(Decrease) Amount	Increase/(Decrease) Percentage
Water assets	$ 982.4	$ 964.3	$ 18.1	1.9%
Sewer assets	1,166.4	1,124.1	42.3	3.8%
Less: accumulated depreciation	(746.6)	(688.6)	(58.0)	8.4%
Land and water rights	93.2	82.7	10.5	12.7%
Construction in progress	236.2	164.9	71.3	43.2%
Total	**$ 1,731.6**	**$ 1,647.4**	**$ 84.2**	**5.1%**

Capital assets, net of depreciation increased $84.2 million or 5.1% from $1,647.4 million in the prior fiscal year to $1,731.6 million in the current fiscal year. This was primarily due to an increase of $71.3 million in Construction in Progress during the current fiscal year. The following is a list of top 10 capital projects expenditures incurred in the current fiscal year (in millions):

Project Description	Amount
MWRP Biosolids and Energy Recovery Facilities	$ 56.2
PVID Eaton Property	11.5
Michelson Lift Station Property	3.7
Baker Water Treatment Plant of the District (IRWD Portion)	3.4
Rosedale Drought Relief Project Facilities	3.0
PA9 Jeffrey Road Pipelines, 36" Zone, 36" Syphon	2.2
Rattlesnake Chlorine Gas Removal	1.7
Stockdale West Integrated Water Banking Project	1.6
General Plant Machinery and Vehicle	1.5
ILP North Conversion (Rattlesnake to Peters Canyon)	0.9
Total	**$ 85.7**

Total projects transferred from Construction in Progress to Capital Assets and depreciated during the fiscal year ended June 30, 2016 were $57.5 million. In addition, $1.6 million of projects were expensed during the current fiscal year.

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, 2016, the District had total debt outstanding of $553.1 million, a decrease of $19.7 million or 3.4 percent from $572.8 million in the prior fiscal year.

Table 4 - Outstanding Debt (including current portions) (in millions)

			Increase/(Decrease)	
	2016	**2015**	**Amount**	**Percentage**
General obligation bonds	$ 491.2	$ 503.8	$ (12.6)	-2.5%
Certificates of participation	60.4	67.3	(6.9)	-10.3%
Notes payable	1.5	1.7	(0.2)	-11.8%
Total	**$ 553.1**	**$ 572.8**	**$ (19.7)**	**-3.4%**

During the current fiscal year, the decreases in the District's total debt were primarily due to principal maturities of $19.3 million. The District also amortized $0.4 million of certificates of participation during the current fiscal year.

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 and 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, 2016
(with comparative data as of June 30, 2015)
(amounts expressed in thousands)

	2016	2015
ASSETS		
Current Assets:		
Cash and Investments (note 2)	$ 213,863	$ 250,372
Receivables:		
Customer accounts receivable	8,055	6,288
Interest receivable	502	293
Notes receivable, current portion	28	13
Other receivables	8,649	5,218
Total receivables	17,234	11,812
Other Current Assets:		
Inventories (note 4)	3,197	3,693
Prepaid items and deposits	1,532	4,796
Total other current assets	4,729	8,489
Total current assets	235,826	270,673
Noncurrent Assets:		
Capital Assets (note 5):		
Water assets	982,372	964,305
Sewer assets	1,166,362	1,124,081
Subtotal	2,148,734	2,088,386
Less accumulated depreciation	(746,561)	(688,599)
Total capital assets being depreciated, net	1,402,173	1,399,787
Land and water rights	93,244	82,721
Construction in progress	236,174	164,914
Total capital assets, net	1,731,591	1,647,422
Other Noncurrent Assets:		
Investments - swap collateral (note 2)	13,109	11,005
Investment in installment sale agreement (note 8)	8,562	6,216
Notes receivable, net of current portion	140	100
Real estate investments (note 7)	199,003	43,270
Net pension asset (note 13)	-	1,567
Total other noncurrent assets	220,814	62,158
Total noncurrent assets	1,952,405	1,709,580
TOTAL ASSETS	**2,188,231**	**1,980,253**
DEFERRED OUTFLOWS OF RESOURCES		
Deferred refunding charges	1,192	1,389
Accumulated decrease in fair value of swap agreements (note 3)	41,200	35,260
Pension contributions (note 13)	6,866	6,638
Pension actuarial (note 13)	407	-
TOTAL DEFERRED OUTFLOW OF RESOURCES	**49,665**	**43,287**

See accompanying notes to the basic financial statements.

Irvine Ranch Water District

Statement of Net Position
June 30, 2016
(with comparative data as of June 30, 2015)
(amounts expressed in thousands)
(Continued)

	2016	2015
LIABILITIES		
Current Liabilities:		
Account payable and accrued expenses	33,399	21,823
Customer deposits and advance payments	5,091	3,576
Accrued interest:		
General obligation bonds	1,568	1,479
Other accrued interest payable	2,088	2,257
Current portion of long-term liabilities:		
General obligation bonds (note 9)	12,900	12,600
Certificates of participation (note 9)	7,496	6,906
Notes payable (note 9)	260	259
Other long term liabilities (note 9)	1,653	1,638
Unearned revenue (note 10)	525	525
Claims liability (note 17)	411	428
Total current liabilities	65,391	51,491
Long-Term Liabilities:		
General obligation bonds, net of current portion (note 9)	478,300	491,200
Certificates of participation, net of current portion (note 9)	52,891	60,387
Notes payable, net of current portion (note 9)	1,209	1,469
Other long term liabilities (note 9)	3,109	3,010
Unearned revenue, net of current portion (note 10)	7,323	7,849
Claims liability, net of current portion (note 17)	751	768
Net pension liability (note 13)	1,923	-
Net OPEB obligation (note 14)	3,079	2,856
Swap liability (note 3)	41,200	35,260
Total long-term liabilities	589,785	602,799
TOTAL LIABILITIES	**655,176**	**654,290**
DEFERRED INFLOWS OF RESOURCES		
Pension actuarial (note 13)	4,409	14,587
TOTAL DEFERRED INFLOWS OF RESOURCES	**4,409**	**14,587**
NET POSITION (note 12):		
Net investment in capital assets	1,178,535	1,074,602
Restricted for water services	221,503	148,564
Restricted for sewer services	178,273	131,497
TOTAL NET POSITION	**$ 1,578,311**	**$ 1,354,663**

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, 2016
(with comparative data for the Fiscal Year Ended June 30, 2015)
(amounts expressed in thousands)

	2016	2015
OPERATING REVENUES:		
Water sales and service charges	$ 76,692	$ 70,110
Sewer sales and service charges	67,682	62,808
Total operating revenues	144,374	132,918
OPERATING EXPENSES:		
Water:		
Water services	57,499	57,978
General and administrative	11,827	9,319
Sewer:		
Sewer services	40,413	54,575
General and administrative	7,625	5,826
Depreciation	58,330	51,015
Total operating expenses	175,694	178,713
Operating income (loss)	(31,320)	(45,795)
NONOPERATING REVENUES (EXPENSES):		
Property taxes	46,303	42,431
Interest income	1,249	1,214
Increase (decrease) in fair value of investments	(32)	(28)
Real estate income	13,056	12,518
Increase (decrease) in fair value of real estate investments	5,597	-
Other income	7,837	7,899
Interest expense	(15,415)	(13,903)
Real estate expense	(4,363)	(6,251)
Other expenses	(2,800)	(9,752)
Total nonoperating revenues (expenses)	51,432	34,128
Income (loss) before capital contributions	20,112	(11,667)
CAPITAL CONTRIBUTIONS:		
Donated facilities	20,305	12,277
Connection fees	32,110	29,183
Other	863	1,080
Increase (decrease) in net position	73,390	30,873
NET POSITION AT BEGINNING OF YEAR	**1,354,663**	**1,389,615**
Prior period adjustments (note 18)	150,258	(65,825)
NET POSITION AT END OF YEAR	**$ 1,578,311**	**$ 1,354,663**

See accompanying notes to the basic financial statements.

Irvine Ranch Water District

Statement of Cash Flows
For the Fiscal Year Ended June 30, 2016
(with comparative data for the Fiscal Year Ended June 30, 2015)
(amounts expressed in thousands)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers and users	$ 137,941	$ 131,872
Cash paid to suppliers of goods and services	(67,987)	(65,453)
Cash paid for employees services	(51,421)	(49,376)
Net cash provided by (used for) operating activities	18,533	17,043
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Property tax receipts	48,746	42,431
Net cash provided by noncapital financing	48,746	42,431
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(105,474)	(116,836)
Proceeds from disposition of capital assets	-	27
Principal payments on long-term liabilities	(19,378)	(18,121)
Interest and issuance costs on long term liabilities	(19,321)	(14,057)
Developer connection fees and related receipts	32,973	30,263
Net cash provided by (used for) capital and related financing activities	(111,200)	(118,724)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment earnings	910	1,261
Investment earnings in real estate	8,693	8,609
Proceeds from sale or maturity of investments	244,625	274,883
Purchases of investments	(201,358)	(290,094)
Issuance of notes receivable	67	-
Collections on notes receivable	(122)	15
Net cash provided by (used for) investing activities	52,815	(5,326)
Net increase (decrease) in cash and cash equivalents	8,894	(64,576)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**49,623**	**114,199**
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 58,517**	**$ 49,623**

See accompanying notes to the basic financial statements.

Irvine Ranch Water District

Statement of Cash Flows
For the Fiscal Year Ended June 30, 2016
(with comparative data for the Fiscal Year Ended June 30, 2015)
(amounts expressed in thousands)
(Continued)

	2016	2015
Reconciliation of cash and cash equivalents to amounts reported on the Statement of Net Position:		
Cash and investments	$ 213,863	$ 250,372
Investments - swap collateral	13,109	11,005
Investment in installment sale agreement	8,562	6,216
Subtotal	235,534	267,593
Less long-term investments	(177,017)	(217,970)
Cash and cash equivalents at end of year	$ 58,517	$ 49,623
Reconciliation of operating income to net cash provided by (used for) operating activities:		
Operating income (loss)	$ (31,320)	$ (45,795)
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:		
Other nonoperating income	7,959	10,103
Other nonoperating expenses	(2,800)	(9,752)
(Gain) loss on disposition of capital assets	3	7,629
Depreciation and amortization	58,330	51,015
(Increase) decrease in customer receivables	(1,767)	1,876
(Increase) decrease in installment sale receivables	(2,346)	-
(Increase) decrease in other receivables	(3,431)	(1,964)
(Increase) decrease in inventories	496	(646)
(Increase) decrease due from other agencies	-	9,336
(Increase) decrease in prepaid expenses and other assets	3,264	7,326
(Increase) decrease in net pension asset	1,567	(22,021)
(Increase) decrease in deferred outflows	(635)	(72)
Increase (decrease) in accounts payable and accrued expenses	(3,798)	(3,936)
Increase (decrease) in customer deposits and advance payments	1,515	(433)
Increase (decrease) in compensated absences	88	64
Increase (decrease) in claims payable	(34)	20
Increase (decrease) in unearned revenue	(526)	(525)
Increase (decrease) in net OPEB obligation	223	231
Increase (decrease) in net pension liability	1,923	-
Increase (decrease) in deferred inflows	(10,178)	14,587
Net cash provided by (used for) operating activities	$ 18,533	$ 17,043
Noncash investing, capital and financing activities:		
Contributions of capital assets from developers	$ 20,305	$ 12,277
Unrealized gain (loss) on investments	5,597	(28)
Total noncash investing, capital and financing activities	$ 25,902	$ 12,249

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, 2016
(with comparative data as of June 30, 2015)
(amounts expressed in thousands)

	2016	2015
ASSETS		
Cash and investments (note 2):		
Equities	$ 28,600	$ 30,756
Fixed income bonds	13,011	10,472
Money market	5,520	4,068
Total cash and investments	47,131	45,296
Interest receivable	16	17
TOTAL ASSETS	**47,147**	**45,313**
NET POSITION		
Net position held in trust for pension benefits	$ 47,147	$ 45,313

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, 2016
(with comparative data for the Fiscal Year Ended June 30, 2015)
(amounts expressed in thousands)

	2016	2015
ADDITIONS		
Contributions:		
Employer	$ 1,940	$ 2,113
Total contributions	1,940	2,113
Investment income:		
Interest	16	17
Dividends	810	894
Investments gain (loss)	(1,004)	128
Net increase (decrease) in the fair value of investments	103	(357)
Total investment earnings	(75)	682
Total additions	1,865	2,795
DEDUCTIONS		
Administrative expenses	31	73
Total additions	31	73
Increase (decrease) in net position	1,834	2,722
NET POSITION AT BEGINNING OF YEAR	**45,313**	**42,591**
NET POSITION AT END OF YEAR	**$ 47,147**	**$ 45,313**

See accompanying notes to the basic financial statements.

(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 service areas. The Los Alisos areas were consolidated into the District in 2001. Los Alisos currently has separate user rate structures for water sales and service charges.

Description of the Reporting Entity

The financial statements of the District include the financial activities of the following sub-fund improvement districts and planning areas:

111/222	Area Excluded from IDs
112/212	Former El Toro Marine Base
113/213	Former Tustin Marine Base
125/225	Developed/Underlay
240	Newport Coast/Newport Ridge
252	Santiago Hills
153/253	Irvine Business District /Spectrum /Shady Canyon/Laguna Laurel/East Orange
154	Santiago Canyon(s)
256	Orange Park Acres
185/285	Los Alisos Area
188/288	Portola Hills Commercial
110/210	Overall District Boundary

(1) Summary of Significant Accounting Policies (Continued)

(a) Reporting Entity (Continued)

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 both financially accountability and operational responsibility for the blended component units. 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.

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 District 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.

(1) Summary of Significant Accounting Policies (Continued)

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 for as 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.

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.

(1) Summary of Significant Accounting Policies (Continued)

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

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.

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.

(1) Summary of Significant Accounting Policies (Continued)

(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 12 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.

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. All real estate investments are reported at fair value. Changes in fair value that occur during the fiscal year are recognized as increase (decrease) in fair value of real estate investments reported for that fiscal year.

(i) Fair Value Measurements

Certain assets and liabilities are required to be reported at fair value. The fair value framework provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

(1) Summary of Significant Accounting Policies (Continued)

(i) Fair Value Measurements (Continued)

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly and fair value is determined through the use of models or other valuation methodologies including:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in markets that are inactive;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement. These unobservable input reflect the District's own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). These unobservable inputs are developed based on the best information available in the circumstances and may include the District's own data.

(j) 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.

(k) 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 acquisition 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

(l) 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.

(1) Summary of Significant Accounting Policies (Continued)

(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. Fifty percent 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) Pensions

For purposes of measuring the net pension liability and deferred outflows and inflows of resources relating to pensions, and pension expense, information about the fiduciary net position of the District's California Public Employees' Retirement System (CalPERS) plan (Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported as fair value.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date (VD)	June 30, 2014
Measurement Date (MD)	June 30, 2015
Measurement Period (MP)	June 30, 2014 to June 30, 2015

(o) 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 has the following 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 changes in fair market value of the fixed payer interest rate swaps.

(1) Summary of Significant Accounting Policies (Continued)

(o) Deferred Outflows/Inflows of Resources (Continued)

- As a result of implementation of GASB Statement No. 68, all cash contributions made to the CalPERS and the Benefits Trust during the current fiscal year are reclassified as deferred outflows of resources.

- As a result of implementation of GASB Statement No. 68, the difference between the actual experience and expected experience is amortized over 4.3 years. The unamortized amount of that difference is represented as deferred outflows of resources.

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 has the following items that qualify for reporting in this category:

- As a result of implementation of GASB Statement No. 68, the difference between the actual earnings on pension plan investments and projected earnings on pension plan investments is amortized over five years. The unamortized amount of that difference is represented as deferred inflows of resources.

- As a result of implementation of GASB Statement No. 68, the changes in actuarial assumptions are amortized over 4.3 years. The unamortized amount of that changes is represented as deferred inflows of resources.

(p) 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.

(q) 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.

(2) Cash and Investments

Cash and investments as of June 30, 2016 are classified in the accompanying financial statements as follows (in thousands):

Statement of Net Position:	
Cash and investments	$ 213,863
Investments-swap collateral	13,109
Total Cash and Investments	**226,972**
Fiduciary Fund - Pension Benefits Trust:	
Cash and investments:	
Equities	28,600
Fixed income	13,011
Money market	5,520
	47,131
Total Cash and Investments	**$ 274,103**

Cash and investments as of June 30, 2016 consist of the following (in thousands):

District Cash and Investments:	
Cash on hand	$ 3
Deposits with financial institutions	(3,555)
Investments	230,524
Total Cash and Investments	226,972
Fiduciary Fund - Pension Benefits Trust:	
Cash and investments:	
Equities - mutual funds	28,600
Fixed income bonds - mutual funds	13,011
Money market - mutual funds	5,520
	47,131
Total Cash and Investments	**$ 274,103**

Investments-swap collateral funds are held in separate trust accounts and earn the Federal Funds Effective Rate which was 0.32% as of June 30, 2016.

(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.

(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:

Asset Classes	Minimum	Maximum
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. 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.

(2) Cash and Investments (Continued)

Pension Benefits 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.

(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 investments by maturity (in thousands):

District Cash and Investments:

		Remaining Maturity	
Investment Type	**Amount**	**12 Months Or Less**	**13 to 36 Months**
Federal Agency Securities	$ 155,346	$ 75,106	$ 80,240
Local Agency Investment Fund	62,069	62,069	-
Treasury Equivalents[1]	13,109	13,109	-
Total	$ 230,524	$ 150,284	$ 80,240

Fiduciary Fund - Pension Benefits Trust:

		Remaining Maturity			
Investment Type	**Amount**	**12 Months Or Less**	**13 to 36 Months**	**36 Months Or More**	**Not Applicable**
Mutual Funds - Equities	$ 28,600	$ -	$ -	$ -	$ 28,600
Mutual Funds - Fixed Income Bonds	13,011	867	992	11,152	-
Mutual Funds - Money Market	5,520	5,520	-	-	-
Total	$ 47,131	$ 6,387	$ 992	$ 11,152	$ 28,600

[1] Treasury Equivalents represent invested swap collateral earning the Effective Federal Funds Rate of interest which was 0.32% as of June 30, 2016.

(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:

		Rating as of Year End	
Investment Type	**Amount**	**Between AA- and AA+**	**Not Rated**
Federal Agency Securities	$ 155,346	$ 140,382	$ 14,964
Local Agency Investment Fund	62,069	-	62,069
Treasury Equivalents	13,109	13,109	-
Total	$ 230,524	$ 153,491	$ 77,033

Fiduciary Fund - Pension Benefits Trust:

Investment Type	**Amount**
Mutual Funds - Equities	$ 28,600 [1]
Mutual Funds - Fixed Income Bonds	13,011[2]
Mutual Funds - Money Market	5,520[3]
Total	$ 47,131

[1] Equity Mutual Funds as of 6/30/2016 include three "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 three diversified portfolios of fixed income securities. As of 6/30/2016, 76.39% of the holdings were rated A-AAA, 20.89% of the holdings were rated B-BBB, and 2.72% of the holdings were rated below B or Not Rated.

[3] The Money Market Mutual Fund is rated AAA by Standard & Poor's, 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.

(2) Cash and Investments (Continued)

Disclosures Relating to Credit Risk (Continued)

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):

Issuer	Investment Type	Amount
FHLMC	Federal Agency Securities	$ 49,114
FHLB	Federal Agency Securities	46,178
FNMA	Federal Agency Securities	40,041
FFCB	Federal Agency Securities	15,006
	Total	$ 150,339

The long term asset allocation policy of the Trust authorizes investment of assets in financial instruments in three broad categories: equity, fixed income, and real estate with a minimum-maximum asset allocation range for each asset class as approved by the Retirement Board.

Fiduciary Fund - Pension Benefits Trust:

Fund Name	Amount
Vanguard Institutional Index	$ 20,539
Vanguard Extended Market Index	2,009
Vanguard Developed Markets Index	6,052
Metropolitan West Total Return Bond	9,996
Baird Core Plus Bond	2,013
Vanguard High-Yield Corporate	1,002
Federated Government Obligations Money Market Fund	5,520
Total	$ 47,131

Disclosures Relating to Fair Value Measurements

The District categorizes its fair value investments within the fair value hierarchy established by generally accepted accounting principles. The District has the following fair value measurements as of June 30, 2016 (in thousands):

District Cash and Investments:

		Fair Value Measurements	
Investment Type	Amount	Level 1	Level 2
Federal Agency Securities	$ 155,346	$ -	$ 155,346
Local Agency Investment Fund	62,069	-	62,069
Treasury Equivalents	13,109	13,109	-
Total	$ 230,524	$ 13,109	$ 217,415

(2) Cash and Investments (Continued)

Disclosures Relating to Fair Value Measurements (Continued)

Fiduciary Fund - Pension Benefits Trust:

Investment Type	Amount	Fair Value Measurements Level 1
Mutual Funds - Equities	$ 28,600	$ 28,600
Mutual Funds - Fixed Income Bonds	13,011	13,011
Mutual Funds - Money Market	5,520	5,520
Total	$ 47,131	$ 47,131

(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 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, 2016, the notional amount and fair value balance of the District's interest rate swaps is $130.0 million and ($41.2) million, respectively. For the year ended June 30, 2016, the decrease in fair market value of the fixed payer interest rate swaps was $5.9 million.

The fair value of the swap agreements at June 30, 2016 is calculated using a zero-coupon method (Level 2 inputs). 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.

(3) Interest Rate Swap Agreements (Continued)

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, 2016, along with the credit rating of the associated counterparty.

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	A1/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	A1/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	A1/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	A1/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	A1/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, 2016, 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 $8.2 million, and the mark-to-market value of the total interest rate swaps with Bank of America, N.A. as counterparty exceeded the threshold amount requiring a collateral deposit in the amount of $4.9 million. The collateral funds are held in separate trust accounts and earn interest at the Federal Funds Effective Rate (0.32% as of June 30, 2016). Swap collateral funds totaling $13.1 million are included as non-current Investments-Swap Collateral on the Statement of Net Position as of June 30, 2016.

(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 A1/A/A+ (62% of net exposure to credit risk) and A1/A/A+ (38% of net exposure to credit risk) as of June 30, 2016.

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, 2016, other than the collateral posted as a result of the mark-to-market valuations at June 30, 2016.

(4) Inventories

Inventories consist of available water in storage and materials and supplies in the District's warehouse facility. As of June 30, 2016, the District had 148.9 acre-feet of wheeled water stored in the Irvine Lake in the amount of $0.1 million. In addition, the District had 19,322 acre-feet of banked water in various water bank facilities in the amount of $0.7 million. Inventories at June 30, 2016 consisted of the following (in thousands):

Water in storage	$ 777
Materials and supplies	2,420
Total	$ 3,197

(5) Capital Assets

Capital Asset activity for the year ended June 30, 2016 is as follows (in thousands):

	Balance at June 30, 2015	Additions	Deletions	Balance at June 30, 2016
Capital assets:				
Land leasehold	$ 4,860	$ -	$ -	$ 4,860
Buildings and structures	698,690	14,360	-	713,050
Transmissions and distributions	1,113,707	44,914	-	1,158,621
Machinery and equipment	271,129	1,445	(371)	272,203
Sub-total	2,088,386	60,719	(371)	2,148,734
Less: Accumulated depreciation:				
Land leasehold	(971)	(97)	-	(1,068)
Buildings and structures	(239,255)	(16,599)	-	(255,854)
Transmissions and distributions	(331,250)	(29,841)	-	(361,091)
Machinery and equipment	(117,123)	(11,792)	367	(128,548)
Sub-total	(688,599)	(58,329)	367	(746,561)
Total depreciable capital assets, net	1,399,787	2,390	(4)	1,402,173
Capital assets, non-depreciable:				
Land and water rights	82,721	10,523	-	93,244
Construction in progress	164,914	130,403	(59,143)	236,174
Total capital assets, net	$ 1,647,422	$ 143,316	$ (59,147)	$ 1,731,591

(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, 2016 is as follows (in thousands):

Administrative and general expense, capitalized	$ 5,830
Interest expenses, capitalized[1]	3,662
	$ 9,492

[1] The total amount of interest cost incurred for the year ended June 30, 2016 (both the amounts expensed and the amounts capitalized) was $19,077.

(7) Real Estate Investments

Real estate investments as of June 30, 2016 consist of the following (in thousands):

Real estate investments at fair value	$ 198,848
Real estate assets at cost	155
Total	$ 199,003

During the fiscal year ended June 30, 2016, the District implemented GASB Statement No. 72, *Fair Value Measurement and Application*. The District has the following fair value measurements for the real estate investments that are valued based on an appraisal valuation (Level 3 inputs) (in thousands):

	Level 3
Wood Canyon Villas, L.P.	$ 27,296
Sycamore Canyon Apartments	143,910
230 Commerce Office Property	9,384
Waterworks Way Business Park	7,650
Sand Canyon Professional Center	10,606
Total	$ 198,848

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).

(7) Real Estate Investments (Continued)

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 97% occupied at June 30, 2016. 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, 2016. In addition, the Sycamore Canyon Apartments completed a renovation project in 2007 for a total cost of $9.6 million.

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 54% occupied as of June 30, 2016.

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, 2016 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, 2016.

Net real estate income as of June 30, 2016 is as follows (in thousands):

Real estate income	$ 13,056
Increase (decrease) in fair value of real estate investments	5,597
Real estate expense	(4,363)
Net real estate income	$ 14,290

(8) Investment in Installment Sale Agreement

In February 2014, the District and El Toro Water District (ETWD) entered into an Installment Sale Agreement (the ISA) pursuant to which the District agreed to fund ETWD's share of the costs of construction of, and the acquisition of capacity rights in, the Baker Water Treatment Plant project (the Baker WTP) in exchange for quarterly installment payments from ETWD. ETWD's obligation to repay the District under the ISA is payable from net revenues of ETWD's water system over a period of twenty years. 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. The principal amount of ETWD's obligations under the ISA will not exceed $12.5 million. The amount outstanding under the ISA as of June 30, 2016 was $8.6 million and the applicable interest rate is 4.57% which 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.

(9) Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2016 is as follows (in thousands):

	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016	Due within One Year	Due in more than one Year
General Obligation Bonds:						
1993 C Consolidated	$ 34,600	$ -	$ (1,500)	$ 33,100	$ 1,600	$ 31,500
1995 Consolidated	14,200	-	(2,100)	12,100	2,200	9,900
2008A Refunding	54,000	-	(1,500)	52,500	1,500	51,000
2009A Consolidated	67,500	-	(2,500)	65,000	2,500	62,500
2009B Consolidated	67,500	-	(2,500)	65,000	2,500	62,500
2010B BABS	175,000	-	-	175,000	-	175,000
2011A-1 Refunding	54,600	-	(1,500)	53,100	1,560	51,540
2011A-2 Refunding	36,400	-	(1,000)	35,400	1,040	34,360
Sub-total	**503,800**	-	**(12,600)**	**491,200**	**12,900**	**478,300**
Certificates of Participation:						
2010 Refunding Certificates	61,280	-	(6,545)	54,735	7,135	47,600
Unamortized Premium	6,013	-	(361)	5,652	361	5,291
Sub-total	**67,293**	-	**(6,906)**	**60,387**	**7,496**	**52,891**
Notes Payable	1,728	-	(259)	1,469	260	1,209
Other Long-Term Liabilities:						
Compensated Absences	3,672	3,675	(3,587)	3,760	1,503	2,257
Other Long-Term Liabilities	976	3,020	(2,994)	1,002	150	852
Sub-total	4,648	6,695	(6,581)	4,762	1,653	3,109
Total Long-Term Liabilities	**$ 577,469**	**$ 6,695**	**$ (26,346)**	**$ 557,818**	**$ 22,309**	**$ 535,509**

(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	6.60%
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	3.80%

(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, 2016 ranging from 0.02% to 0.38% 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
2017	$ 12,900	$ 12,790	$ 7,305	$ (3,776)	$ 29,219
2018	13,100	12,741	7,305	(3,776)	29,370
2019	13,400	12,691	7,305	(3,776)	29,620
2020	13,700	12,640	3,214	(3,776)	25,778
2021	13,800	12,588	3,214	(3,776)	25,826
2022-2026	68,110	62,024	16,070	(18,813)	127,391
2027-2031	87,870	56,724	9,642	(17,500)	136,736
2032-2036	126,770	46,235	-	(14,540)	158,465
2036-2041	136,550	18,108	-	(5,719)	148,939
2042	5,000	50	-	-	5,050
Total	$ 491,200	$ 246,591	$ 54,055	$ (75,452)	$ 716,394

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

(9) Long-Term Liabilities (Continued)

General Obligation Bonds (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 7.0% under the Congressionally-mandated sequestration which began in FY 2012-13. 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
2017	$ 7,135	$ 2,677	$ 9,812
2018	1,615	2,380	3,995
2019	1,795	2,299	4,094
2020	1,980	2,210	4,190
2021	2,170	2,110	4,280
2022-2026	14,060	8,723	22,783
2027-2031	20,815	4,572	25,387
2032	5,165	258	5,423
Subtotal	54,735	25,229	79,964
Plus: Unamortized premium	5,652	-	5,652
Total	$ 60,387	$ 25,229	$ 85,616

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 $0.8 million at June 30, 2016. 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, 2016 was $0.7 million.

(9) Long-Term Liabilities (Continued)

Notes Payable (Continued)

Amounts required to amortize notes payable at June 30, 2016 are as follows (in thousands):

Fiscal Year	Principal	Interest	Total
2017	$ 260	$ 48	$ 308
2018	262	46	308
2019	263	45	308
2020	265	43	308
2021	72	9	81
2022-2026	347	21	368
Total	$ 1,469	$ 212	$ 1,681

(10) Unearned Revenue

Unearned revenue at June 30, 2016 consisted of the following (in thousands):

Unearned revenue, current portion	$ 525
Unearned revenue, net of current portion	7,323
Total	$ 7,848

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 reserve capacity in the District system and reimburse the District for various new intertie facilities which provide that up to 25 cfs of water supply per month may be made available during a water supply disruption. 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, 2016 was $0.5 million.

(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, 2016 are summarized as follows (in thousands):

Letter of Credit	Trustee	Amount	Expiration Date
Bank of America:			
2009 Series B Consolidated	U.S. Bank	$ 65,727	July 15, 2019
Sumitomo Mitsui:			
1995 Consolidated	Bank of New York Mellon	12,279	July 14, 2017
2008 Series A Refunding	Bank of New York Mellon	53,277	July 14, 2017
U.S. Bank:			
1993 Consolidated	Bank of New York Mellon	33,546	November 7, 2018
2009 Series A Consolidated	U.S. Bank	65,727	December 22, 2020

(12) Net Position

Net position at June 30, 2016 consisted of the following (in thousands):

Net investment in capital assets:	
Property, plant and equipment, net	$ 1,731,591
Less:	
Outstanding debt issued to construct capital assets:	
General obligation bonds	(491,200)
Certificates of participation	(60,387)
Notes payable	(1,469)
Total net investment in capital assets	1,178,535
Restricted net position:	
Restricted for water services	221,503
Restricted for sewer services	178,273
Total restricted net position	399,776
Total net position	$ 1,578,311

(13) Defined Benefit Pension Plan (PERS)

Plan Descriptions

All qualified employees are eligible to participate in the District's agent multiple-employer public employee defined benefit pension plan which is administrated by the California Public Employees' Retirement System (CalPERS). CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by State statute and the District's Board of Directors. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website at www.calpers.ca.gov.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. The Plan's provisions and benefits in effect at June 30, 2016, are summarized as follows:

Hire Date	Prior to October 1, 2012	On or after October 1, 2012 to December 31, 2013	On or after January 1, 2013
Benefit Formula	2.5% @ 55	2.0% @ 60	2.0% @ 62
Benefit Vesting Schedule	5 Years of Service	5 Years of Service	5 Years of Service
Benefit Payments	Monthly for Life	Monthly for Life	Monthly for Life
Retirement Age	50+	50+	52+
Monthly Benefits, as a % of eligible compensation	2.0% to 2.5%	1.092% to 2.418%	1.0% to 2.5%
Required employee contribution Rate	8.00%	7.00%	6.25%
Required employer contribution Rate	18.331%	18.331%	18.331%

Employees Covered

As of June 30, 2015, the following employees were covered by the benefit terms for the Plan:

Inactive Employees or Beneficiaries Currently Receiving Benefits	253
Inactive Employees Entitled to But not Yet Receiving Benefits	173
Active Employees	339
Total	**765**

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

Contributions

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

As of June 30, 2016, the total pension liability was determined using the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Asset Valuation Method	Market Value of Assets
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.65% Net of Pension Plan Investment and Administrative Expenses; includes Inflation
Mortality Rate Table (1)	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

(1) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

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

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

Change in Assumptions
According to GASB 68, the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50 percent used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65 percent used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

Discount Rate
The discount rate used to measure the total pension liability was 7.65 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.65 percent is applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at the CalPERS' website under the GASB 68 section.

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

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

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

Asset Class	New Strategic Allocation	Real Return Years 1 – 10 (1)	Real Return Years 11+ (2)
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	2.0%	(0.55)%	(1.05)%
Total	100%		

(1) An expected inflation of 2.5% used for this period
(2) An expected inflation of 3.0% used for this period

In addition to the CalPERS' pension plan investments, the following table reflects long-term expected real rate of return by asset class of the Benefits Trust investments. The same method and assumptions used by CalPERS were also applied to the following table.

Asset Class	Strategic Allocation	Real Return Years 1 – 10 (1)	Real Return Years 11+ (2)
Global Equity	68.0%	5.25%	5.71%
Global Fixed Income	23.0%	0.99%	2.43%
Liquidity	9.0%	(0.55)%	(1.05)%
Total	100%		

(1) An expected inflation of 2.5% used for this period
(2) An expected inflation of 3.0% used for this period

Pension Plan Fiduciary Net Position

The plan fiduciary net position (assets) disclosed in the GASB report may differ from the plan assets reported in the actuarial valuation report due to several reasons. First, CalPERS must keep reserves for deficiencies and fiduciary self-insurance. These amounts are excluded for rate setting purposes in the funding actuarial valuation report while required to be included for GASB reporting purposes. In addition, differences may result from early CAFR closing and final reconciled reserves.

Changes in the Net Pension Liability

The changes in the net pension liability for the Plan were as follows (in thousands):

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balance at June 30, 2015	$ 219,410	$ 220,977	$ (1,567)
Changes	8,386	4,896	3,490
Balance at June 30, 2016	$ 227,796	$ 225,873	$ 1,923

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

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Plan (in thousands), calculated using the discount rate of 7.65 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.65 percent) or 1 percentage-point higher (8.65 percent) than the current rate:

	Discount Rate - 1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate + 1% (8.65%)
Plan's Net Pension Liability/(Asset)	$ 33,507	$ 1,923	$ (24,190)

Subsequent Events

There were no subsequent events that would materially affect the results presented in this disclosure.

Recognition of Gains and Losses

Under GASB 68, gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time.

The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense.

The amortization period differs depending on the source of the gain or loss:

Difference between Projected and Actual Earnings	5 year straight-line amortization
All Other Amounts	Straight-line amortization over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period

The expected average remaining service lifetime (EARSL) is calculated by dividing the total future service years by the total number of plan participants (active, inactive, and retired).

The EARSL for the Plan for the fiscal year ended June 30, 2016 was 4.3 years, which was obtained by dividing the total service years of 3,146 (the sum of remaining service lifetimes of the active employees) by 724 (the total number of participants: active, inactive, and retired). Note that inactive employees and retirees have remaining service lifetimes equal to 0. Also note that total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

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

Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions
For the fiscal year ended June 30, 2016, the District recognized pension income of $458,089. At June 30, 2016, the District reported deferred outflows and deferred inflows of resources related to pensions from the following sources (in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension Contributions made Subsequent to the Measurement Date	$ 6,866	$ -
Differences between Expected and Actual Experiences	407	-
Changes in Assumptions	-	(3,167)
Net Difference between Projected and Actual Earnings on Pension Plan Investments	-	(1,242)
Total	$ 7,273	$ (4,409)

The amount above is net of deferred inflows of resources recognized as pension expense / (income) in the fiscal year ended June 30, 2016.

$6.9 million reported as deferred outflows of resources related to employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2017. $4.0 million net of deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows (in thousands):

Fiscal Year	Amount
2017	$ (2,058)
2018	(2,058)
2019	(2,058)
2020	2,172

Funding of CalPERS Plan
The following Schedule of Funding Progress shows the recent history of the plan assets (including the Benefits Trust), total liability, their relationship, and the relationship of the unfunded liability to payroll.

Fiscal Year	Total Liability	Plan Assets	Net Liability/ (Asset)	Funded Ratio	Annual Covered Payroll
06/30/14	$ 207,663	$ 187,209	$ 20,454	90.2%	$ 25,499
06/30/15	219,410	220,977	(1,567)	100.7	26,264
06/30/16	227,796	225,873	1,923	99.2	27,596

(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. Participation in PEMHCA is financed in part by the District through a contribution of $125 per month per participating retiree.

- **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. The duration of the benefit is based on employees' years of service as follows: 36 months of benefits for employees with 10-14 years of service; 48 months of benefits for employees with 15-19 years of service; and 60 months of benefits for employees with at least 20 years of service. 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 and who retire from the District on or after age 55 with at least 10 years of service at the District 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, 2014, the date of latest actuarial valuation:

	PEMHCA	Retiree Health Costs Reimbursement	Retiree Death Benefit Only
Retirees and beneficiaries receiving benefits	134	52	127
Terminated plan members entitled to but not yet receiving benefits	-	-	-
Active plan members	309	309	213
Total	443	361	340

(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, 2016, 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	$ 383,818	$ 315,283	$ 26,930	$ 726,031
Interest on net OPEB obligation	66,287	18,624	29,343	114,254
Adjustment to annual required contribution	(95,834)	(26,925)	(42,423)	(165,182)
Annual OPEB cost (expense)	354,271	306,982	13,850	675,103
Contribution made	(118,936)	(305,749)	(27,380)	(452,065)
Increase (Decrease) in net OPEB obligation	235,335	1,233	(13,530)	223,038
Net OPEB obligation beginning of year	1,657,172	465,589	733,586	2,856,347
Net OPEB obligation end of year	**$ 1,892,507**	**$ 466,822**	**$720,056**	**$ 3,079,385**

(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, 2016 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	6/30/2014	$ 305,269	32.48%	$ 1,404,151
	6/30/2015	358,782	29.48%	1,657,172
	6/30/2016	354,271	33.57%	1,892,507
Retiree Health	6/30/2014	305,098	108.37%	487,159
	6/30/2015	306,597	107.04%	465,589
	6/30/2016	306,982	99.60%	466,822
Retiree Death Benefit Only	6/30/2014	12,893	93.62%	733,984
	6/30/2015	13,843	102.87%	733,586
	6/30/2016	13,850	197.69%	720,056
Total - All Plans	6/30/2014	623,260	67.67%	2,625,294
	6/30/2015	679,222	70.89%	2,856,347
	6/30/2016	675,103	66.96%	3,079,385

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.

(14) Other Post Employment Benefits (Continued)

Funded Status and Progress (Continued)

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.

Plan	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liabiity (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
PEMHCA	1/1/2011	$ -	$ 2,484	$ 2,484	0.00%	$ 24,695	10.1%
	7/1/2012	-	3,202	3,202	0.00%	24,836	12.9%
	7/1/2014	-	3,773	3,773	0.00%	27,290	13.8%
Retiree	1/1/2011	-	2,541	2,541	0.00%	24,695	10.3%
Health Costs	7/1/2012	-	3,009	3,009	0.00%	24,836	12.1%
Reimbursement	7/1/2014	-	3,044	3,044	0.00%	27,290	11.2%
Retiree Death	1/1/2011	-	365	365	0.00%	24,695	1.5%
Benefit Only	7/1/2012	-	439	439	0.00%	24,836	1.8%
	7/1/2014	-	456	456	0.00%	27,290	1.7%

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 2.5% 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.

(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, 2016, the District's payroll covered by the plan was $150,340. The District made no employee contributions. Employees contributed $11,275 (7.5% of current covered payroll) for the year ended June 30, 2016.

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 2016 is $18,000. 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 fiscal year ended June 30, 2016, the District contributed $779,689 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 basic financial statements of the District.

(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, 2016 totaled $3.6 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, 2016, estimated at $2.1 million, is included in Sewer Services as an operating expense. As of June 30, 2016, the District had a payable of $5.1 million to OCSD and is reflected as accounts payable and accrued expenses in the District's basic financial statements.

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.

Complaint against OCWD

The Orange County Water District (OCWD), the agency responsible for managing the Orange County groundwater basin, to produce other local groundwater and to have sufficient capacity to meet demands during supply interruptions. OCWD annually establishes the District's basin production percentage (BPP), which is the amount of groundwater, as a percentage of total water demands, that groundwater producers can pump from the Orange County groundwater basin without incurring additional assessments. Currently, OCWD calculates total water demands without considering recycled water sales. The District sells significant quantities of recycled water to its customers. Because OCWD does not consider recycled water sales in calculating the District's total water demands, OCWD considers the District's total water demands to be lower than they would be if recycled water sales were counted. As a result, the amount of groundwater that the District can pump from the Orange County groundwater basin without incurring additional assessments is lower than it would be if recycled water sales were considered. In June 2016, the District filed a complaint (the Complaint) against OCWD in the Superior

(16) Commitments and Contingencies (Continued)

Complaint against OCWD (Continued)

Court for the State of California, County of Orange, seeking an order determining that OCWD's BPP calculation methodology is unlawful. In August 2016, OCWD filed an answer to the Complaint denying all substantive allegations. In addition, the City of Anaheim, three local water agencies and one private water company that produce groundwater from the Orange County groundwater basin have filed an answer and seek to join the litigation as interested parties. The District expects the discovery process to commence with respect to the litigation in the coming months. If the Complaint is successful, the District may recover past assessments and would be able to pump additional amounts of groundwater without incurring additional assessments, thereby reducing the groundwater pumping charges that the District pays to OCWD.

(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 (CSAC-EIA). Property insurance includes flood insurance for all properties, and earthquake insurance for the District's real estate investment properties. General and excess liability coverage and workers compensation insurance is provided through participation in the CSAC-EIA. Pollution and legal liability coverage for the Irvine Desalter Project is provided by a policy with Illinois Union 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, property claims in excess of $25,000 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	Liability Beginning of Year	Claims and Changes in Estimates	Claim Payments	Liability End of Year	Due within One Year	Due in more than One Year
2015	$ 1,176	$ 236	$ (216)	$ 1,196	$ 428	$ 768
2016	1,196	2	(36)	1,162	411	751

(18) Restatement of Net Position

During the fiscal year ended June 30, 2016, the District recorded the following prior period adjustments (in thousands):

Net position at beginning of year	$ 1,354,663
Prior period adjustments:	
Implementation of GASB 72	150,258
Net position at beginning of year, as restated	$ 1,504,921

The District implemented GASB 72, *Fair Value Measurement and Application* resulting in recording the District's real estate investments at fair value as a prior period adjustment. This Statement addresses accounting and financial reporting issues related to fair value measurements. The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2015. The Statement was implemented effective July 1, 2015.

(19) Subsequent Events

Issuance of Irvine Ranch Water District Service Corporation Certificates of Participation, Series 2016
On September 1, 2016, the Irvine Ranch Water District Service Corporation issued $116.7 million of Certificates of Participation Series 2016 (the Series 2016 Certificates) to finance the cost of certain capital improvements and refund the outstanding principal amount of the Certificates of Participation Refunding Series 2010.

Issuance of Irvine Ranch Water District General Obligation Bonds, Series 2016
On October 12, 2016, the Irvine Ranch Water District issued $103.4 million of General Obligation Bonds Series 2016 (the Series 2016) to finance the cost of certain capital improvements.

Irvine Ranch Water District

Required Supplementary Information
For the Fiscal Year Ended June 30, 2016

(1) Schedule of Changes in the Net Pension Liability and Related Ratio (in thousands) [1]

	Measurement Date: June 30, 2014	Measurement Date: June 30, 2015
Total Pension Liability		
Service Cost	$ 3,942	$ 4,005
Interest	15,436	16,343
Changes of Benefit Terms	-	(4,127)
Changes of Assumptions	-	530
Benefit Payments, Including Refunds of Employee Contributions	(7,631)	(8,365)
Net Change in Total Pension Liability	11,747	8,386
Total Pension Liability - Beginning	207,663	219,410
Total Pension Liability – Ending (a)	$ 219,410	$ 227,796
Plan Fiduciary Net Position		
Contributions – Employer	$ 6,566	$ 6,638
Contributions – Employee	2,712	2,170
Investment Income	32,452	4,734
Administrative Expense	(331)	(281)
Benefit Payments, Including Refunds of Employee Contributions	(7,631)	(8,365)
Net Change in Fiduciary Net Position	33,768	4,896
Plan Fiduciary Net Position – Beginning	187,209	220,977
Plan Fiduciary Net Position – Ending (b)	220,977	225,873
Plan Net Pension Liability – Ending (a) - (b)	$ (1,567)	$ 1,923
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	100.71%	99.16%
Covered-Employee Payroll	$ 26,264	$ 27,596
Plan Net Pension Liability as a Percentage of Covered-Employee Payroll	-5.97%	6.97%

[1] Historical information is required only for measurement periods from which GASB 68 is applicable. Fiscal Year 2015 was the first year of GASB 68 implementation.

Notes to Schedule of Changes in the Net Pension Liability and Related Ratio

Benefit Changes: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2014. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit.

Changes of Assumptions: The discount rate was changed from 7.5 percent (net of administrative expense) to 7.65 percent.

Irvine Ranch Water District

Required Supplementary Information
For the Fiscal Year Ended June 30, 2016
(Continued)

(2) Schedule of Contributions (in thousands) [1]

	2015	2016
Actuarially Determined Contribution	$ 4,524	$ 4,926
Contributions in Relation to the Actuarially Determined Contribution	(6,638)	(6,866)
Contribution Deficiency (Excess)	$ (2,114)	$ (1,940)
Covered-Employee Payroll	$ 27,596	$ 27,863
Contributions as a Percentage of Covered-Employee Payroll	24.05%	24.64%

[1] Historical information is required only for measurement periods from which GASB 68 is applicable. Fiscal Year 2015 was the first year of GASB 68 implementation.

Notes to Schedule of Contributions

The actuarial methods and assumptions used to set the actuarially determined contributions for the fiscal year ended June 30, 2016 were from the June 30, 2013 pubic agency valuations.

Actuarial Cost Method	Entry Age Normal
Amortization Method/Period	Level Percent of Payroll
Asset Valuation Method	Actuarial value of Assets
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Payroll Growth	3.00%
Investment Rate of Return	7.50% Net of Pension Plan Investment and Administrative Expenses; includes Inflation
Retirement Age	The probabilities of Retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

STATISTICAL SECTION

Statistical Section

Irvine Ranch Water District
Fiscal Year Ended June 30, 2016

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 schedules present information to help the reader assess the affordability of the District's current levels of outstanding debt and the District's ability to issue 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
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 Past Ten Fiscal Years
(in millions)

	Fiscal Year				
	2007	2008	2009	2010	2011
Assets					
Current & other assets	$ 1,088.9	$ 1,103.8	$ 1,224.1	$ 1,172.3	$ 1,300.0
Capital assets	1,224.3	1,346.1	1,423.1	1,396.6	1,430.3
Total assets	2,313.2	2,449.9	2,647.2	2,568.9	2,730.3
Deferred Outflow of Resources					
Deferred refunding charges	-	-	-	-	-
Accumulated decrease in fair value of swaps agreements	-	-	-	37.4	32.7
Pension contributions	-	-	-	-	-
Total deferred outflow of resources	-	-	-	37.4	32.7
Liabilities					
Current and other liabilities	95.3	96.5	99.4	67.3	97.7
Long-term liabilities	1,022.2	1,074.7	1,190.8	1,204.3	1,323.7
Total liabilities	1,117.5	1,171.2	1,290.2	1,271.6	1,421.4
Deferred Inflows of Resources					
Pension actuarial	-	-	-	-	-
Net Position					
Net investment in capital assets	927.6	977.7	994.3	929.5	900.6
Restricted for water services	229.2	253.8	271.7	249.8	213.6
Restricted for sewer services	38.9	47.2	91.0	155.4	227.4
Total net position	$ 1,195.7	$ 1,278.7	$ 1,357.0	$ 1,334.7	$ 1,341.6

Irvine Ranch Water District

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

	Fiscal Year				
	2012	**2013[(1)]**	**2014[(1)]**	**2015[(2)]**	**2016[(3)]**
Assets					
Current & other assets	$ 1,167.0	$ 1,128.2	$ 462.7	$ 332.9	$ 456.6
Capital assets	1,508.8	1,506.1	1,567.5	1,647.4	1,731.6
Total assets	2,675.8	2,634.3	2,030.2	1,980.3	2,188.2
Deferred Outflow of Resources					
Deferred refunding charges	-	9.8	1.6	1.4	1.2
Accumulated decrease in fair value of swaps agreements	53.0	37.5	36.1	35.3	41.2
Pension contributions	-	-	-	6.6	6.9
Pension actuarial	-	-	-	-	0.4
Total deferred outflow of resources	53.0	47.3	37.7	43.3	49.7
Liabilities					
Current and other liabilities	99.0	672.7	54.9	51.5	65.4
Long-term liabilities	1,281.8	647.7	623.4	602.8	589.8
Total liabilities	1,380.8	1,320.4	678.3	654.3	655.2
Deferred Inflows of Resources					
Pension actuarial	-	-	-	14.6	4.4
Net Position					
Net investment in capital assets	943.1	918.1	981.3	1,074.6	1,178.5
Restricted for water services	179.3	185.4	165.1	148.6	221.5
Restricted for sewer services	225.6	257.7	243.2	131.5	178.3
Total net position	$ 1,348.0	$ 1,361.2	$ 1,389.6	$ 1,354.7	$ 1,578.3

Source: Irvine Ranch Water District Basic Financial Statements

Notes:

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

(2) The District implemented GASB Statement Nos. 68 and 71 for the fiscal year ended June 30, 2015. The District did not restate the prior years' financial statements because the data for the prior years was not readily available.

(3) The District implemented GASB Statement No. 72 for the fiscal year ended June 30, 2016. The District did not restate the prior years' financial statements because the data for the prior years was not readily available.

Irvine Ranch Water District

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

	Fiscal Year				
	2007	2008	2009	2010	2011
Operating Revenues					
Water sales and service charges	$ 45,138	$ 48,516	$ 50,940	$ 51,268	$ 54,796
Sewer sales and service charges	37,649	39,811	41,157	45,344	45,375
Total operating revenues	82,787	88,327	92,097	96,612	100,171
Operating Expenses					
Water					
Water services	34,979	39,029	42,273	43,591	45,961
General and administrative	10,267	11,257	12,536	13,349	12,327
Sewer					
Sewer services	24,570	27,211	28,696	30,992	33,382
General and administrative	6,328	7,259	7,712	6,651	6,569
Depreciation	28,449	31,595	34,699	39,444	43,592
Total operating expenses	104,593	116,351	125,916	134,027	141,831
Operating income (loss)	(21,806)	(28,024)	(33,819)	(37,415)	(41,660)
Nonoperating Revenues (Expenses)					
Property taxes	30,667	34,245	36,240	38,392	38,679
Investment income	10,768	10,674	4,365	2,191	2,599
Increase (decrease) in fair value of investments	(3,996)	26,976	9,837	(7,782)	(20,172)
JPA investment income	61,793	59,854	57,676	55,726	53,708
Real estate income	9,483	10,478	10,792	9,701	9,719
Increase (decrease) in fair value of real estate investments	-	-	-	-	-
Other income	10,457	11,130	9,918	10,706	7,987
Interest expense	(12,762)	(8,515)	(6,061)	(9,962)	(14,174)
JPA interest expense	(58,404)	(56,616)	(54,686)	(51,530)	(41,264)
Real estate expense	(4,562)	(5,149)	(5,698)	(6,186)	(6,004)
Other expenses	(883)	(2,288)	(1,535)	(1,286)	(989)
Total nonoperating revenue (expenses)	42,561	80,789	60,848	39,970	30,089
Income (loss) before capital contributions	20,755	52,765	27,029	2,555	(11,571)
Contributed capital assets	52,672	29,319	32,517	17,963	18,506
Increase (decrease) in net position	73,427	82,084	59,546	20,518	6,935
Net position at beginning of year	1,112,799	1,195,761	1,278,703	1,357,046	1,334,666
SCWD Retained Earnings at 6/30/06	9,535	-	-	-	-
OPA Net Assets at 6/1/08	-	858	-	-	-
Prior period adjustments	-	-	18,797	(42,898)	-
Net position at end of year	$ 1,195,761	$ 1,278,703	$ 1,357,046	$ 1,334,666	$ 1,341,601

Irvine Ranch Water District

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

	Fiscal Year				
	2012	2013	2014	2015[1]	2016[2]
Operating Revenues					
Water sales and service charges	$ 57,558	$ 62,565	$ 66,321	$ 70,110	$ 76,692
Sewer sales and service charges	49,234	53,085	58,109	62,808	67,682
Total operating revenues	106,792	115,650	124,430	132,918	144,374
Operating Expenses					
Water					
Water services	44,883	51,163	57,624	57,978	57,499
General and administrative	12,305	14,619	13,660	9,319	11,827
Sewer					
Sewer services	33,086	38,189	37,715	54,575	40,413
General and administrative	7,792	8,048	8,612	5,826	7,625
Depreciation	41,378	47,539	46,809	51,015	58,330
Total operating expenses	139,444	159,558	164,420	178,713	175,694
Operating income (loss)	(32,652)	(43,908)	(39,990)	(45,795)	(31,320)
Nonoperating Revenues (Expenses)					
Property taxes	38,062	41,068	42,751	42,431	46,303
Investment income	3,132	224	1,079	1,214	1,249
Increase (decrease) in fair value of investments	(23,586)	(29,180)	(16,177)	(28)	(32)
JPA investment income	51,530	49,178	29,522	-	-
Real estate income	11,039	10,789	11,899	12,518	13,056
Increase (decrease) in fair value of real estate investments	-	-	-	-	5,597
Other income	6,141	8,323	10,974	7,899	7,837
Interest expense	(16,924)	(16,770)	(15,836)	(13,903)	(15,415)
JPA interest expense	(39,603)	(28,884)	(17,166)	-	-
Real estate expense	(6,016)	(6,047)	(6,139)	(6,251)	(4,363)
Other expenses	(10,713)	(6,110)	(7,163)	(9,752)	(2,800)
Total nonoperating revenue (expenses)	13,062	22,591	33,744	34,128	51,432
Income (loss) before capital contributions	(19,590)	(21,317)	(6,246)	(11,667)	20,112
Contributed capital assets	25,948	34,535	34,684	42,540	53,278
Increase (decrease) in net position	6,358	13,218	28,438	30,873	73,390
Net position at beginning of year	1,341,601	1,347,959	1,361,177	1,389,615	1,354,663
SCWD Retained Earnings at 6/30/06	-	-	-	-	-
OPA Net Assets at 6/1/08	-	-	-	-	-
Prior period adjustments	-	-	-	(65,825)	150,258
Net position at end of year	$ 1,347,959	$ 1,361,177	$ 1,389,615	$ 1,354,663	$ 1,578,311

Source: Irvine Ranch Water District Basic Financial Statements

Notes:

(1) The District implemented GASB Statement Nos. 68 and 71 for the fiscal year ended June 30, 2015. The District did not restate the prior years' financial statements because the data for the prior years was not readily available.

(2) The District implemented GASB Statement No 72 for the fiscal year ended June 30, 2016. The District did not restate the prior years' financial statements because the data for the prior years was not readily available.

Irvine Ranch Water District

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

	Fiscal Year				
	2007	**2008**	**2009**	**2010**	**2011**
Residential	34,097	33,771	34,189	31,721	31,127
Commercial	8,710	8,710	8,382	7,586	7,632
Industrial	5,438	5,353	5,009	4,711	4,733
Public Authority	2,474	2,588	2,571	2,293	2,305
Construction & Temporary	696	513	133	127	174
Treated - Landscape Irrigation	6,249	6,039	5,789	4,712	4,252
Treated - Agricultural	1,009	820	563	210	183
Untreated - Agricultural	7,583	6,211	6,452	5,024	3,025
Recycled - Landscape/Agricultural	24,624	24,564	24,415	20,951	20,147
Total	**90,880**	**88,569**	**87,503**	**77,335**	**73,578**

Irvine Ranch Water District

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

	Fiscal Year				
	2012	**2013**	**2014**	**2015**	**2016**
Residential	32,262	33,166	34,068	32,375	28,573
Commercial	8,021	8,353	8,803	8,391	8,377
Industrial	4,713	4,783	4,891	6,233	5,118
Public Authority	2,373	2,458	2,458	2,583	2,234
Construction & Temporary	275	378	739	863	1,230
Treated - Landscape Irrigation	4,741	5,316	5,671	5,327	3,843
Treated - Agricultural	229	206	202	241	116
Untreated - Agricultural	2,204	2,543	3,075	2,306	2,100
Recycled - Landscape/Agricultural	25,011	28,259	30,021	32,139	26,386
Total	**79,829**	**85,462**	**89,928**	**90,458**	**77,977**

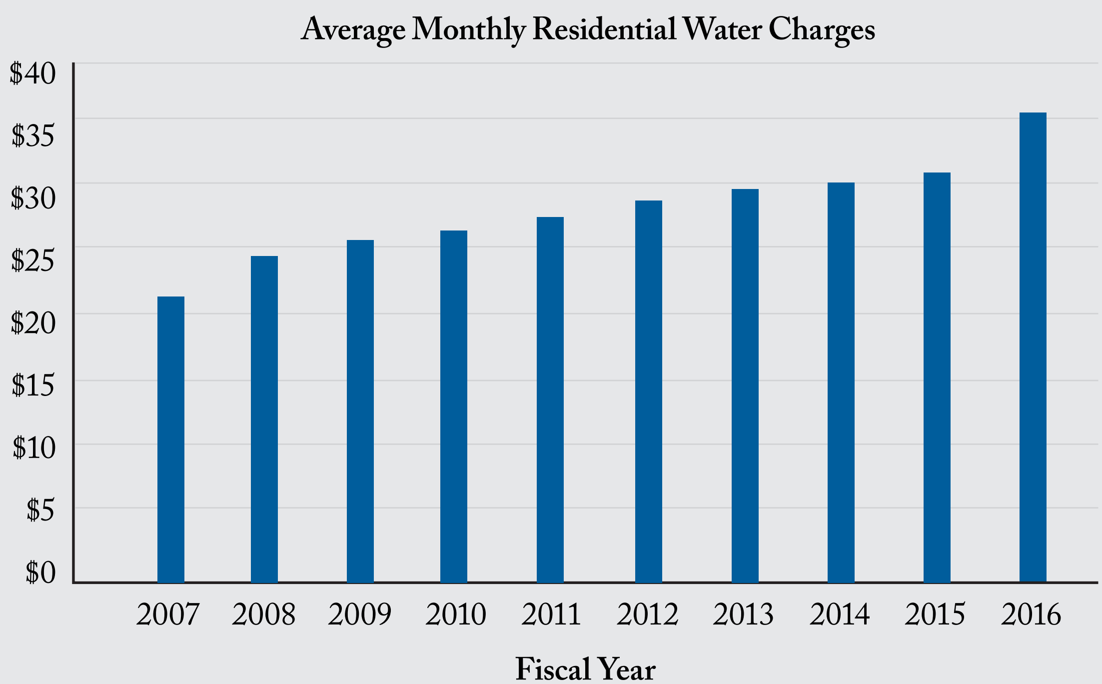
Source: Irvine Ranch Water District

Irvine Ranch Water District

Water Rates(1)

For the Past Ten Fiscal Years

Fiscal Year	Fixed Service Charge	Commodity Rate (per ccf)	Average Monthly Residential Charge
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
2015	10.50	1.34	30.94
2016	10.30	1.62	35.38



Source: Irvine Ranch Water District

Note:

(1) 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.

Irvine Ranch Water District

Largest Water Customers
Current Year and Nine Years Ago

	2016			2007		
Customer Name	**Total Paid**	**Rank**	**Percentage of Water Sales Revenues**	**Total Paid**	**Rank**	**Percentage of Water Sales Revenues**
TIC-Irvine Apartment Communities	$ 6,840,148	1	8.92%	$ 2,665,191	1	5.90%
University of California - Irvine	1,323,149	2	1.73%	1,123,757	4	2.49%
Jazz Semiconductor	982,407	3	1.28%	593,681	5	1.32%
B Braun Medical Inc	860,399	4	1.12%			
Allergan Sales, LLC	333,733	5	0.44%			
City of Irvine	320,057	6	0.42%	1,656,406	3	3.67%
ERP Operating LP	268,513	7	0.35%			
Royalty Carpet Mills	239,695	8	0.31%			
City of Lake Forest	223,565	9	0.29%			
Irvine Unified School District	202,414	10	0.26%	402,702	10	0.89%
The Irvine Company - Agricultural Division				1,872,642	2	4.15%
The Irvine Company - Spectrum Office				574,185	6	1.27%
County of Orange				435,588	7	0.96%
Woodbridge Village Association				424,614	8	0.94%
Hines Nurseries				404,068	9	0.90%
Total	**$ 11,594,080**		**15.12%**	**$ 10,152,834**		**22.49%**

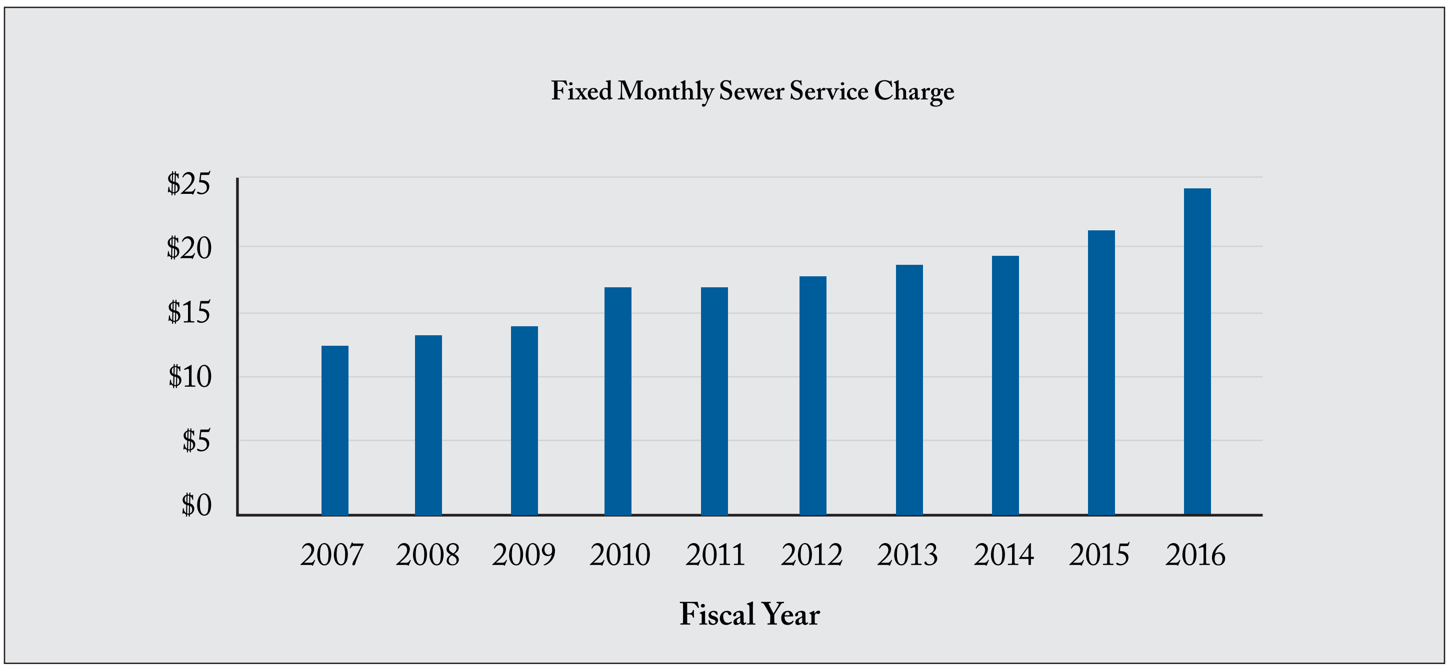
Source: Irvine Ranch Water District

Irvine Ranch Water District

Sewer Rates[1]

For the Past Ten Fiscal Years

Fiscal Year	Fixed Monthly Service Charge
2007	$ 13.05
2008	13.65
2009	13.80
2010	16.60
2011	16.65
2012	16.90
2013	17.20
2014	18.40
2015	20.50
2016	24.05



Source: Irvine Ranch Water District

Note:

(1) Fixed monthly service charge for fiscal year 2006 is for the Irvine Ranch rate area only (excluding Los Alisos). For fiscal 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.

Irvine Ranch Water District

Largest Sewer Customers
Current Year and Nine Years Ago

Customer Name	2016 Total Paid	2016 Rank	2016 Percentage of Sewer Sales Revenues	2007 Total Paid	2007 Rank	2007 Percentage of Sewer Sales Revenues
TIC-Irvine Apartment Communities	$ 10,980,957	1	16.22%	$ 2,331,263	1	6.29%
City of Irvine	2,067,260	2	3.05%			
University of California - Irvine	1,848,176	3	2.73%	672,665	2	1.81%
B Braun Medical Inc	743,310	4	1.10%			
Irvine Unified School District	546,002	5	0.81%			
Caltrans District 12	417,388	6	0.62%			
Orange County Produce	386,681	7	0.57%			
Royal Carpet Mills	377,990	8	0.56%	277,107	3	0.75%
Heritage Fields	342,817	9	0.51%			
Crystal Cove Community Assn	327,704	10	0.48%			
Allergan Sales, LLC				182,223	4	0.49%
The Irvine Company - Spectrum Office				179,463	5	0.48%
Sicor Pharmaceuticals				176,465	6	0.48%
ERP Operating LP				156,238	7	0.42%
Airport Complex				130,196	8	0.35%
Maguire Properties				93,350	9	0.25%
Maruchan Inc				92,508	10	0.25%
Total	**$ 18,038,285**		**26.65%**	**$ 4,291,478**		**11.57%**

Source: Irvine Ranch Water Dis

Irvine Ranch Water District

Ad Valorem Property Tax Rates[2]

For the Past Ten Fiscal Years

Improvement District	Fiscal Year 2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
112	$ N/A	$ N/A	$ N/A	$0.07920	$0.07920	$0.03168	$0.03168	$0.03168	$0.03000	$0.03000
113 [1]	0.01920	0.01920	0.01920	0.01980	0.01980	0.05940	0.05940	0.05940	0.03000	0.03000
120	0.01168	0.01298	0.01298	0.01311	0.00001	N/A	N/A	N/A	N/A	N/A
121	0.00001	0.00001	0.00001	0.00001	0.01311	0.01311	0.01311	0.01311	N/A	N/A
125	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.01300	0.01300
130	0.00001	0.00500	0.00500	0.00680	0.00680	0.00680	0.00680	0.00680	N/A	N/A
135	0.00842	0.00842	0.00842	0.00842	0.00842	0.00421	0.00421	0.00421	N/A	N/A
140	0.00001	0.00001	0.00001	0.00001	0.00001	0.01000	0.01000	0.01000	N/A	N/A
150	0.00001	0.00780	0.00780	0.00990	0.00990	0.01980	0.01980	0.01980	N/A	N/A
153	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.00001	0.00001
160	0.01168	0.01648	0.01648	0.01758	0.00001	N/A	N/A	N/A	N/A	N/A
161	0.00001	0.00001	0.00001	0.00001	0.01758	0.01758	0.01758	0.01758	N/A	N/A
182	0.00808	0.01300	0.01300	0.01350	0.01350	0.02700	0.02700	0.02700	N/A	N/A
184	0.00001	0.00001	0.00001	0.00001	0.00001	0.01350	0.01350	0.01350	N/A	N/A
185	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.00001	0.00001
186	0.02051	0.02700	0.02700	0.03191	0.03191	0.04787	0.04787	0.04787	N/A	N/A
188	0.02051	0.02700	0.02700	0.03590	0.03590	0.21540	0.21540	0.21540	0.21540	0.21540
190	0.00001	0.00500	0.00500	N/A	N/A	N/A	N/A	N/A	N/A	N/A
210	0.00001	0.00001	0.00001	0.00001	0.00001	N/A	N/A	N/A	N/A	N/A
212	N/A	N/A	N/A	0.12420	0.12420	0.07452	0.07452	0.07452	0.04500	0.04500
213 [1]	0.14093	0.14093	0.14093	0.14533	0.14533	0.08720	0.08720	0.08720	0.03800	0.03800
220	0.01000	0.01400	0.01400	0.01800	0.00001	N/A	N/A	N/A	N/A	N/A
221	0.00001	0.00001	0.00001	0.00001	0.01800	0.01700	0.01700	0.01700	N/A	N/A
225	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.01500	0.01500
230	0.01995	0.02000	0.02000	0.02200	0.02200	0.02200	0.02200	0.02200	N/A	N/A
235	0.00532	0.00532	0.00532	0.00532	0.00532	0.00266	0.00266	0.00266	N/A	N/A
240	0.02168	0.02699	0.02699	0.03140	0.03140	0.02140	0.02140	0.02140	0.01500	0.01500
250	0.03199	0.03200	0.03200	0.03600	0.03600	0.03600	0.03600	0.03600	N/A	N/A
252	N/A	0.00001	0.00001	0.00001	0.00001	0.00001	0.00001	0.00001	N/A	N/A
253	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.00001	0.00001
260	0.02030	0.02330	0.02330	0.02830	0.00001	N/A	N/A	N/A	N/A	N/A
261	0.00001	0.00001	0.00001	0.00001	0.02830	0.02830	0.02830	0.02830	N/A	N/A
282	0.01280	0.01400	0.01400	0.01890	0.01890	0.01890	0.01890	0.01890	N/A	N/A
284	0.00001	0.02699	0.02699	0.03239	0.03239	0.03239	0.03239	0.03239	N/A	N/A
285	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.00001	0.00001
286	N/A	N/A	N/A	N/A	0.00001	0.00201	0.00201	0.00201	N/A	N/A
288	N/A	N/A	N/A	N/A	0.00001	0.01000	0.01000	0.01000	0.01000	0.01000
290	0.01995	0.02000	0.02000	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Source: Irvine Ranch Water District

Notes:

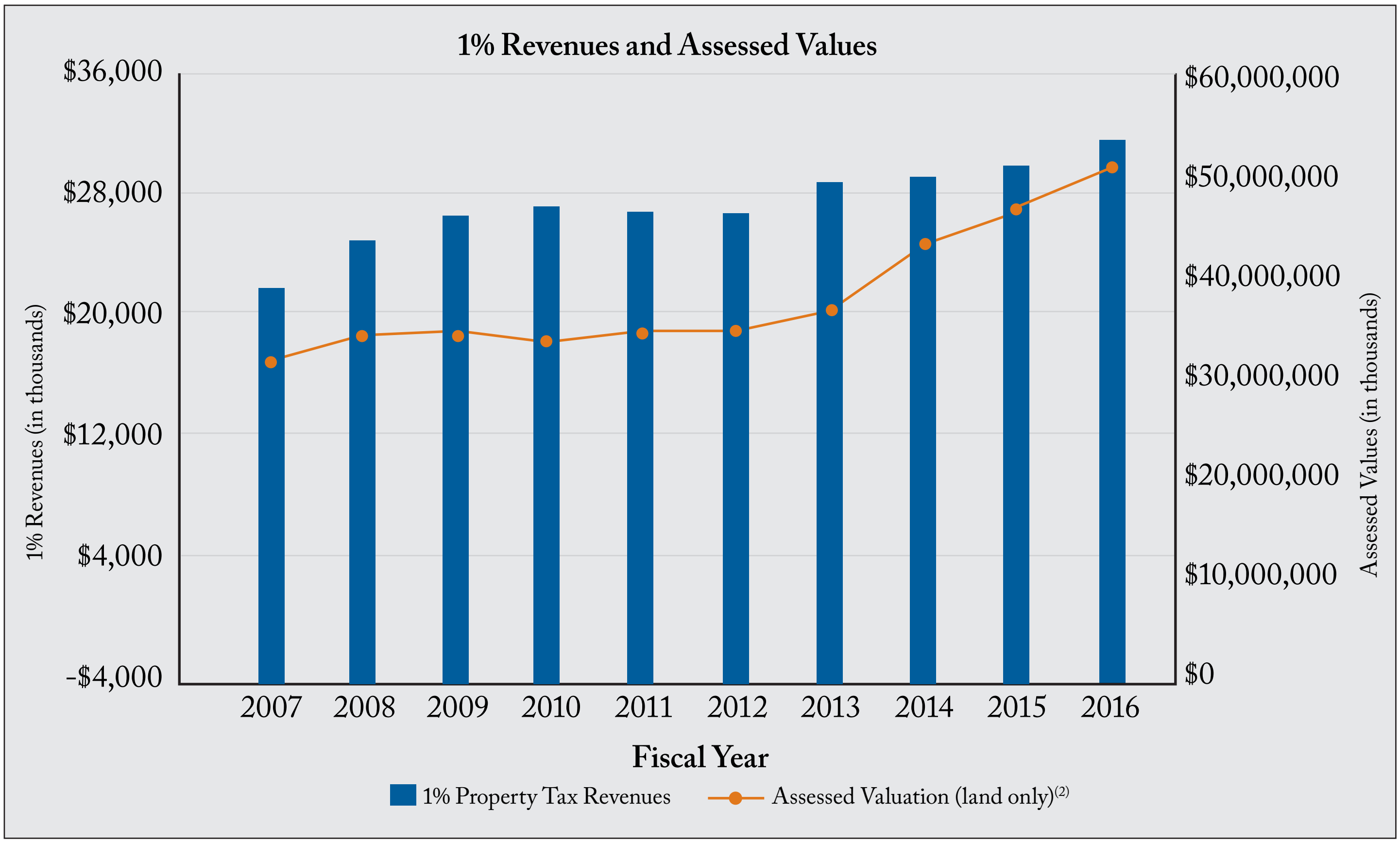
[1] Improvement Districts 113 and 213 encompass the former Tustin Marine Base.

[2] 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	Assessed Valuation (land only)[2]	1 % Property Tax Revenue
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
2015	47,059,437	30,924
2016	51,340,888	32,427



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

Notes:

[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 reassassed at the purchase price of the property sold.

Irvine Ranch Water District

Direct and Overlapping Property Tax Rates
Fiscal Year Ended June 30, 2016

Direct Rate:	
Irvine Ranch Water District I.D. No. 112	$0.03000
Irvine Ranch Water District I.D. No. 113	0.03000
Irvine Ranch Water District I.D. No. 125	0.01300
Irvine Ranch Water District I.D. No. 153	0.00001
Irvine Ranch Water District I.D. No. 185	0.00001
Irvine Ranch Water District I.D. No. 188	0.21540
Irvine Ranch Water District I.D. No. 212	0.04500
Irvine Ranch Water District I.D. No. 213	0.03800
Irvine Ranch Water District I.D. No. 225	0.01500
Irvine Ranch Water District I.D. No. 240	0.01500
Irvine Ranch Water District I.D. No. 252	0.00001
Irvine Ranch Water District I.D. No. 253	0.00001
Irvine Ranch Water District I.D. No. 285	0.00001
Irvine Ranch Water District I.D. No. 288	0.01000
Overlapping Rates:	
School Districts:	
Coast Community College District	0.03092
Rancho Santiago Community College District	0.03063
Rancho Santiago Community College District SFID 1	0.01976
Laguna Beach Unified School District	0.01396
Newport Mesa Unified School District	0.02125
Saddleback Valley Unified School District	0.03008
Santa Ana Unified School District	0.06604
Tustin Unified School District SFID 2002-1	0.02718
Tustin Unified School District SFID 2008-1	0.04142
Tustin Unified School District SFID 2012-1	0.01476
Cities	
Laguna Beach	0.00000

Source: California Municipal Statistics, Inc.

Irvine Ranch Water District

Principal Property Taxpayers
Fiscal Year Ended June 30, 2016

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	$ 4,571,733,136	8.23%
The New Home Company Southern California	Homebuilder	997,258,641	1.79%
Irvine Apartment Communities	Real Estate	731,500,575	1.32%
Allergan	Pharmaceutical (R&D/Marketing)	491,862,535	0.89%
B Braun Medical Inc.	Bio-Medical Manufacturing	384,980,768	0.69%
Heritage Fields El Toro	Real Estate Developer	366,774,542	0.66%
Jamboree Center LLC	Developer/Real Estate	350,071,088	0.63%
LBA IV-PPI LLC	Real Estate Investment and Management	300,913,296	0.54%
John Hancock Life Insurance	Insurance	281,712,009	0.51%
Broadcom Corporation	Technology	229,631,400	0.41%
		$ 8,706,437,990	**15.67%**

Source: City of Irvine Comprehensive Annual Financial Report (Fiscal Year Ended June 30, 2015)
Data was not yet available for FY2015/16 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	Levied During Fiscal Year		Collected During Fiscal Year	
	1 Percent[1]	General[2]	1 Percent	General[3]
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
2015	29,000,000	9,203,641	28,668,756	9,585,904
2016	31,900,000	11,133,538	31,115,506	10,879,713
Total	$ 260,678,700	$ 98,203,475	$ 262,276,935	$ 106,417,121

Irvine Ranch Water District

Property Tax Collections/Delinquency
For the Past Ten Fiscal Years
(Continued)

Fiscal Year	Percentage Collected		Amount of Levy Collected in Subsequent Periods	
	1 Percent	General	1 Percent	General
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
2015	98.86%	104.15%	2,275,461	4,888
2016	97.54%	97.72%	1,192,700	884,301
Total			$ 11,445,480	$ 5,142,085

Source: County of Orange Tax Ledger

Notes:

(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
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
2015	204,475	503,800,000	2,464	67,293,000	329
2016	212,364	491,200,000	2,313	60,387,000	284

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
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
2015	-	-	1,728,000	8	572,820,000	2,801
2016	-	-	1,469,000	7	553,056,000	2,604

Source: Irvine Ranch Water District

Notes:

(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, 2016

Improvement District	General Obligation Bonds Authorized	General Obligation Bonds Issued	Remaining Unissued General Obligation Bonds Authorized	Amount Outstanding as of June 30, 2016
112	$ 28,512,300	$ 5,740,000	$ 22,772,300	$ 5,378,000
113	25,769,500	14,800,000	10,969,500	13,638,000
125	735,246,000	413,156,360	322,089,640	182,932,000
153	237,300,000	-	237,300,000	-
154	4,839,000	-	4,839,000	-
185	13,500,000	-	13,500,000	-
188	8,174,000	4,437,010	3,736,990	1,456,000
Total	**$ 1,053,340,800**	**$ 438,133,370**	**$ 615,207,430**	**$ 203,404,000**
210	$ 2,000,000	$ 2,000,000	$ -	$ -
212	108,711,000	15,700,000	93,011,800	14,731,000
213	87,647,500	23,800,000	63,847,500	20,839,000
225	856,643,000	449,748,160	406,894,840	230,535,000
240	117,273,000	48,476,470	68,796,530	21,431,000
253	122,283,000	-	122,283,000	-
285	21,300,000	-	21,300,000	-
288	8,977,000	300,000	8,677,000	260,000
Total	**$ 1,324,835,300**	**$ 540,024,630**	**$ 784,810,670**	**$ 287,796,000**
	$ 2,378,176,100	**$ 978,158,000**	**$ 1,400,018,100**	**$ 491,200,000**

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	Assessed Valuation	General Obligation Debt Outstanding	General Obligation Debt to Assessed Valuation
Improvement District 112			
2007	n/a	n/a	n/a
2008	n/a	n/a	n/a
2009	$ 500,354,220	$ 2,745,000	0.00548611
2010	521,318,307	2,745,000	0.00526550
2011	539,618,060	5,745,000	0.01064642
2012	504,820,526	5,745,000	0.01138028
2013	511,871,892	5,653,500	0.01104476
2014	780,606,904	5,562,000	0.00712523
2015	1,333,029,836	5,470,500	0.00410343
2016	1,850,638,433	5,378,000	0.00290602
Improvement District 113			
2007	n/a	n/a	n/a
2008	$ 691,298,772	$ 1,505,375	0.00217760
2009	609,156,504	4,505,375	0.00739609
2010	651,917,180	4,505,375	0.00691096
2011	553,458,157	9,770,000	0.01765264
2012	536,369,090	15,794,500	0.02944707
2013	562,239,093	15,541,750	0.02764260
2014	674,596,339	14,150,000	0.02097551
2015	827,524,085	13,900,000	0.01679709
2016	885,391,548	13,638,000	0.01540335
Improvement District 125			
2007	n/a	n/a	n/a
2008	n/a	n/a	n/a
2009	n/a	n/a	n/a
2010	n/a	n/a	n/a
2011	n/a	n/a	n/a
2012	n/a	n/a	n/a
2013	n/a	n/a	n/a
2014	$29,578,638,615	$192,075,000	0.00649371
2015	32,752,414,757	187,604,000	0.00572794
2016	35,506,392,050	182,932,000	0.00515209

Fiscal Year	Assessed Valuation	General Obligation Debt Outstanding	General Obligation Debt to Assessed Valuation
Improvement District 212			
2007	n/a	n/a	n/a
2008	n/a	n/a	n/a
2009	$ 500,354,220	$ 7,305,000	0.01459966
2010	521,318,307	7,305,000	0.01401255
2011	539,618,060	15,705,000	0.02910392
2012	504,820,526	15,705,000	0.03111007
2013	511,871,892	15,461,500	0.03020580
2014	780,606,904	15,218,000	0.01949509
2015	1,333,029,836	14,974,500	0.01123306
2016	1,850,638,433	14,731,000	0.00795996
Improvement District 213			
2007	n/a	n/a	n/a
2008	$ 691,298,772	$ 11,139,775	0.01611427
2009	609,156,504	17,544,775	0.02880175
2010	651,917,180	17,544,775	0.02691258
2011	553,458,157	17,283,000	0.03122729
2012	536,369,090	23,418,645	0.04366144
2013	562,239,093	22,828,480	0.04060280
2014	674,596,339	22,074,000	0.03272179
2015	827,524,085	21,488,000	0.02596662
2016	885,391,548	20,839,000	0.02353648
Improvement District 225			
2007	n/a	n/a	n/a
2008	n/a	n/a	n/a
2009	n/a	n/a	n/a
2010	n/a	n/a	n/a
2011	n/a	n/a	n/a
2012	n/a	n/a	n/a
2013	n/a	n/a	n/a
2014	$24,757,488,949	$240,995,000	0.00973423
2015	27,557,606,802	235,865,000	0.00855898
2016	29,945,134,379	230,535,000	0.00769858

Irvine Ranch Water District

Ratio of General Obligation Debt to Assessed Values[1]
For the Past Ten Fiscal Years
(continued)

Fiscal Year	Assessed Valuation	General Obligation Debt Outstanding	General Obligation Debt to Assessed Valuation
Improvement District 153			
2007	n/a	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
2015	666,622,225	n/a	n/a
2016	1,287,363,937	n/a	n/a
Improvement District 154			
2007	n/a	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
2015	9,289,351	n/a	n/a
2016	9,266,433	n/a	n/a

Fiscal Year	Assessed Valuation	General Obligation Debt Outstanding	General Obligation Debt to Assessed Valuation
Improvement District 240			
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
2015	6,031,968,996	22,767,000	0.00377439
2016	6,449,202,772	21,431,000	0.00332305
Improvement District 253			
2007	n/a	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	228,692,347	n/a	n/a
2015	666,622,225	n/a	n/a
2016	1,287,363,937	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	Assessed Valuation	General Obligation Debt Outstanding	General Obligation Debt to Assessed Valuation
Improvement District 188			
2007	$ 12,167,278	$ 1,397,684	0.11487238
2008	12,410,613	1,231,073	0.09919517
2009	12,806,315	1,235,205	0.09645283
2010	14,613,156	1,050,082	0.07185864
2011	13,887,854	2,155,702	0.15522208
2012	14,165,606	1,942,809	0.13714975
2013	14,448,912	1,714,661	0.11867059
2014	14,446,476	1,468,000	0.10161648
2015	14,735,113	1,462,000	0.09921879
2016	185,851,827	1,456,000	0.00783420

Fiscal Year	Assessed Valuation	General Obligation Debt Outstanding	General Obligation Debt to Assessed Valuation
Improvement District 288			
2007	$ 12,167,278	n/a	n/a
2008	12,410,613	n/a	n/a
2009	12,806,315	$ 300,000	0.02342594
2010	14,613,156	300,000	0.02052945
2011	13,887,854	300,000	0.02160161
2012	14,165,606	300,000	0.02117806
2013	14,448,912	290,000	0.02007072
2014	14,446,476	280,000	0.01938189
2015	14,735,113	270,000	0.01832358
2016	185,851,827	260,000	0.00139896

Source: Irvine Ranch Water District

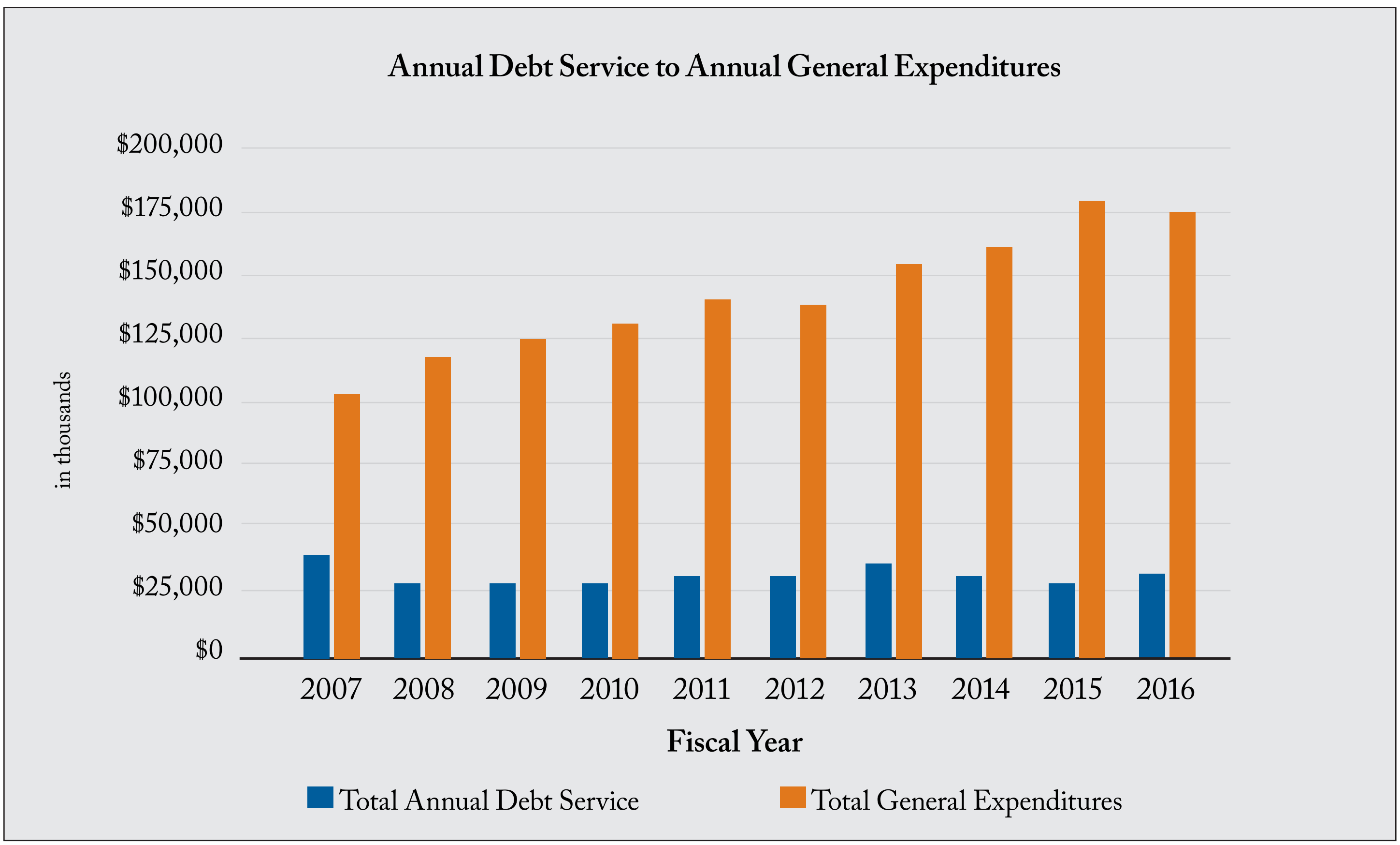
Note:

[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
For the Past Ten Fiscal Years
(in thousands)

Fiscal Year	Total Annual Debt Service	Total General Expenditures	Ratio of Total Annual Debt Service to Total General Expenditures
2007	$ 36,562	$ 104,592	35.0%
2008	28,374	116,351	24.4%
2009	27,326	125,916	21.7%
2010	29,044	134,027	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%
2015	29,921	178,713	16.7%
2016	34,560	175,694	19.7%



Source: Irvine Ranch Water District

Irvine Ranch Water District

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

	Fiscal Year 2007	2008	2009	2010	2011
Revenues					
Water sales and service charges	$ 45,138	$ 48,516	$ 50,940	$ 51,268	$ 54,796
Sewer sales and service charges	37,649	39,811	41,157	45,344	45,375
Developer Connection fees	22,122	6,411	4,535	5,818	10,572
Net real estate income	6,081	7,171	7,010	5,624	5,649
Interest income	8,969	9,859	4,365	2,191	2,599
Net earnings on JPA	3,388	3,238	2,990	4,196	12,444
Available 1% property tax revenue	216	4,869	17,007	19,346	22,396
Other	10,457	11,130	9,918	10,706	7,987
Total Revenues	134,020	131,005	137,922	144,493	161,818
Expenses					
Water supply services	34,979	39,029	42,273	43,591	45,961
Sewer services	24,570	27,211	28,696	30,992	33,382
Administrative and general	16,595	18,516	20,248	20,000	18,896
Other	884	2,288	1,535	1,286	989
Total Expenses	77,028	87,044	92,752	95,869	99,228
Net Revenues	**$ 56,992**	**$ 43,961**	**$ 45,170**	**$ 48,624**	**$ 62,590**
Applicable *Ad Valorem* Assessments Available for GO Double-Barrel Bonds	$ -	$ -	$ -	$ -	$ -
Parity Obligations					
Certificates of Participation	$ 2,319	$ 3,564	$ 2,798	$ 3,119	$ 7,680
1997 State Loan #3	227	227	227	-	226
Series 2010B Bonds	-	-	-	-	4,080
Series 2011-A Index Tender Notes	-	-	-	-	35
Total Parity Obligations Debt Service	2,546	3,791	3,025	3,119	12,021
Remaining Revenues	$ 54,446	$ 40,170	$ 42,145	$ 45,505	$ 50,569
Parity Obligation Coverage	22.4x	11.6x	14.9x	15.6x	5.2x
Subordinate Obligations					
Fixed Payer Swap Payments	$ 612	$ 2,115	$ 5,694	$ 7,391	$ 7,734
State Loans and SCWD Debt	300	559	481	381	253
Total Subordinate Obligations	912	2,674	6,175	7,772	7,987
Remaining Revenues	$ 53,534	$ 37,496	$ 35,970	$ 37,733	$ 42,582
Non-Double-Barrel GO Bonds					
Revenues Pledged to Non-Double-Barrel GO Bonds					
1% Property tax revenues (Pledged to Secured Bonds)	$ 22,040	$ 19,861	$ 9,276	$ 7,804	$ 4,593
Pro-rata Share *Ad valorem* Assessments for Non-Double-Barrel GO Bonds	8,411	9,515	9,959	11,244	11,690
Sub-total Pledged Revenues	83,985	66,872	55,205	56,781	58,865
Additional Funds Available for Non-Double-Barrel GO Bonds					
Remaining 1% Property Tax Revenues	216	2,395	15,454	19,346	22,396
Additional Net Revenues	53,318	35,101	20,516	18,387	20,186
Total with Additional Pledged Revenues	$ 83,985	$ 66,872	$ 55,205	$ 56,781	$ 58,865
Debt Service					
Non-Double-Barrel GO Bond Debt Service	$ 30,451	$ 29,376	$ 19,235	$ 21,179	$ 16,899
GO Bond Coverage	2.8x	2.3x	2.9x	2.7x	3.5x
Remaining Revenues	$ 53,534	$ 37,496	$ 35,970	$ 35,602	$ 41,966
Total Debt Coverage	2.6x	2.0x	2.3x	2.1x	2.1x

Irvine Ranch Water District

Debt Service Coverage

For the Past Ten Fiscal Years (in thousands)

(continued)

	Fiscal Year				
	2012	**2013**	**2014**	**2015**	**2016**
Revenues					
Water sales and service charges	$ 57,558	$ 62,565	$ 66,321	$ 70,110	$ 76,692
Sewer sales and service charges	49,234	53,085	58,109	62,808	67,682
Developer Connection fees	9,030	17,314	22,429	29,183	32,109
Net real estate income	6,736	6,566	7,760	8,191	8,693
Interest income	1,739	1,549	1,671	1,515	1,585
Net earnings on JPA	11,927	20,294	12,356	-	-
Available 1% property tax revenue	27,652	25,796	28,532	29,770	31,645
Other	6,141	8,323	10,974	7,899	7,836
Total Revenues	165,530	195,492	208,152	209,476	226,242
Expenses					
Water supply services	44,883	51,163	57,624	57,978	57,499
Sewer services	33,086	38,189	37,715	54,575	40,413
Administrative and general	20,097	22,667	22,272	15,145	19,451
Other	10,713	6,110	7,163	9,752	2,800
Total Expenses	108,779	118,129	124,774	137,450	120,163
Net Revenues	**$ 56,751**	**$ 77,363**	**$ 83,378**	**$ 72,026**	**$106,079**
Applicable *Ad Valorem* Assessments Available for GO Double-Barrel Bonds	$ 5,823	$ 5,838	$ 6,409	$ 4,839	$ 6,036
Parity Obligations					
Certificates of Participation	$ 8,016	$ 8,388	$ 8,753	$ 9,098	$ 9,487
1997 State Loan #3	226	226	227	227	227
Series 2010B Bonds	7,533	7,519	7,825	7,829	7,823
Series 2011-A Index Tender Notes	2,284	2,306	2,360	2,455	2,927
Total Parity Obligations Debt Service	18,059	18,439	19,165	19,609	20,464
Remaining Revenues	$ 44,515	$ 64,762	$ 70,622	$ 57,256	$ 91,651
Parity Obligation Coverage	**3.5x**	**4.5x**	**4.7x**	**3.9x**	**5.5x**
Subordinate Obligations					
Fixed Payer Swap Payments	$ 7,734	$ 7,452	$ 7,475	$ 7,734	$ 7,712
State Loans and SCWD Debt	308	308	308	308	308
Total Subordinate Obligations	8,042	7,760	7,783	8,042	8,020
Remaining Revenues	$ 36,473	$ 57,002	$ 62,839	$ 49,214	$ 83,631
Non-Double-Barrel GO Bonds					
Revenues Pledged to Non-Double-Barrel GO Bonds					
1% Property tax revenues (Pledged to Secured Bonds)	$ 3,313	$ 3,470	$ 3,013	$ 3,358	$ 3,226
Pro-rata Share *Ad valorem* Assessments for Non-Double-Barrel GO Bonds	5,761	5,940	4,797	4,463	5,396
Sub-total Pledged Revenues	45,547	66,437	70,649	57,035	92,253
Additional Funds Available for Non-Double-Barrel GO Bonds					
Remaining 1% Property Tax Revenues	23,165	25,796	28,532	29,770	31,645
Additional Net Revenues	13,308	25,248	34,307	19,444	51,986
Total with Additional Pledged Revenues	$ 45,547	$ 66,437	$ 70,649	$ 57,035	$ 92,253
Debt Service					
Non-Double-Barrel GO Bond Debt Service	$ 16,899	$ 17,129	$ 10,968	$ 12,840	$ 11,173
GO Bond Coverage	2.7x	3.9x	6.4x	4.4x	8.3x
Remaining Revenues	$ 28,648	$ 49,308	$ 59,681	$ 44,195	$ 81,080
Total Debt Coverage	1.7x	2.1x	2.6x	2.1x	3.0x

Source: Irvine Ranch Water District

Irvine Ranch Water District

Principal Employers

Fiscal Year Ended June 30, 2016

Name of Company	Number of Employees	Products	Percentage of Employment
University of California, Irvine	19,625	Educational	17.12%
Irvine Unified School District	4,709	Educational	4.11%
Blizzard Entertainment Inc.	2,622	Technology	2.29%
Broadcom	2,604	Technology	2.27%
Edwards Lifesciences	2,575	Surgical Appliances and Supplies	2.25%
Parker Hannifin Corporation	2,400	Aircraft Parts	2.09%
Nationstar Mortgage	1,556	Mortgage	1.36%
Glidwell Laboratories	1,538	Dental Appliances	1.34%
24 Hour Fitness	1,426	Fitness Center	1.24%
Thales Avionics	1,424	Aerospace	1.24%
			35.31%

Source: City of Irvine Comprehensive Annual Financial Report (Fiscal Year Ended June 30, 2015)
Data was not yet available for FY2015/16 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	IRWD Population	City of Irvine Population	City of Irvine Median Family Income	Total Personal Income	County of Orange Unemployment Rate
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	242,651	92,663	9,595,168	5.0%
2015	370,000	242,651	90,585	10,595,508	4.2%
2016	390,000	250,384	N/A (1)	N/A(1)	3.6%

Source: City of Irvine Comprehensive Annual Financial Report (Fiscal Year Ended June 30, 2015) 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.

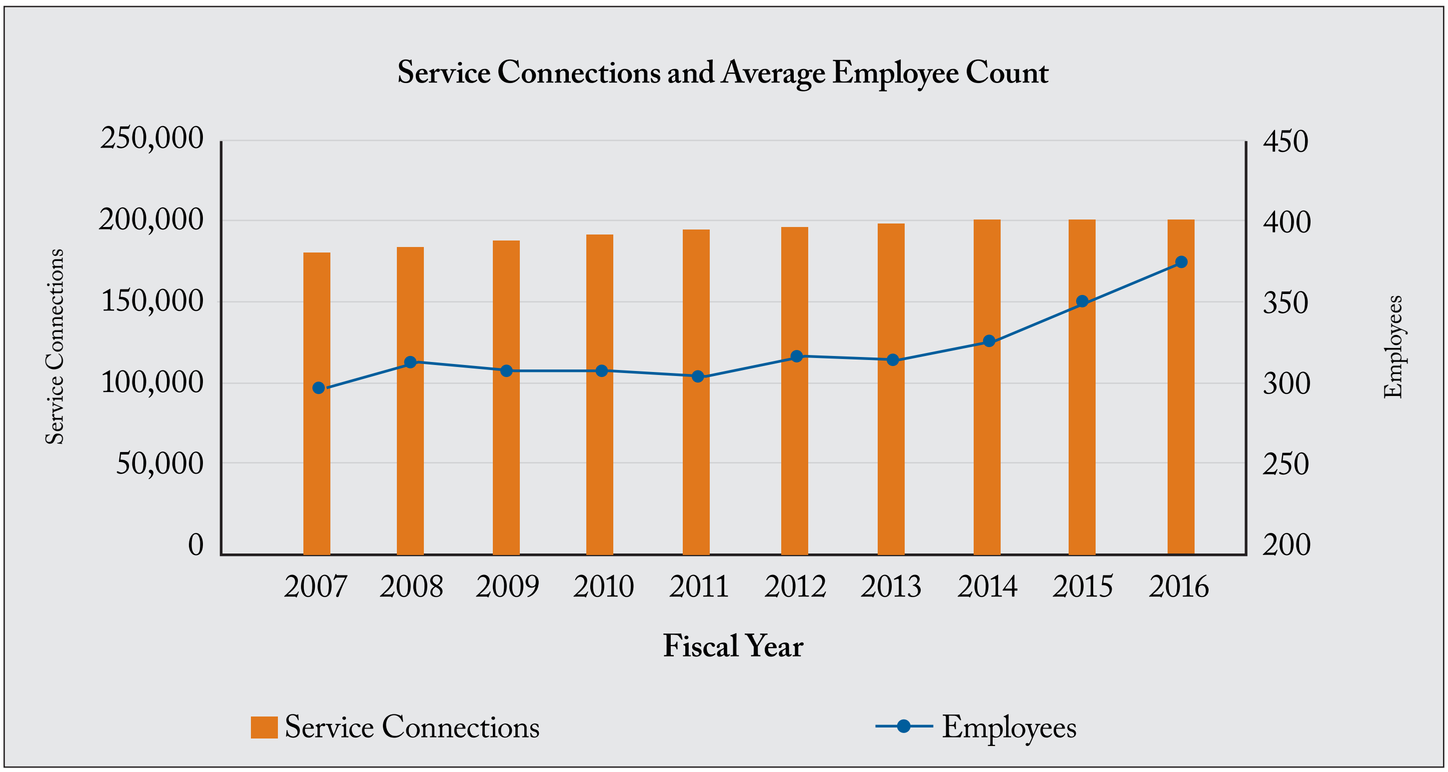
Note:

(1) Median Family Income and Total Personal Income for FY 2016 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	Potable Water	Non-Potable Water	Sewer & Recycled Water	Total Service Connections	Average Employee Population	Service Connections per Employee
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
2015	104,994	84	99,397	204,475	350	584
2016	108,952	84	103,328	212,364	370	574



Source: Irvine Ranch Water District

Irvine Ranch Water District

Operating Indicators by Function
New Service Connections
For the Past Ten Fiscal Years

	Fiscal Year									
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Water										
Residential	2,211	1,439	552	631	1,469	862	1,520	1,848	2,127	3,783
Commercial/Industrial/ Public Authority	312	330	149	19	98	18	27	40	(126)	96
Fire Protection	162	173	86	43	40	37	55	50	29	25
Construction & Temporary	9	(101)	(60)	(6)	39	3	31	36	4	40
Landscape Irrigation	93	(80)	13	33	(21)	(89)	8	(4)	(30)	13
Agricultural	2	(1)	(13)	(8)	(11)	(3)	2	(1)	(3)	1
Sewer										
Residential	1,462	891	527	613	1,462	861	1,521	1,829	2,127	3,783
Commercial/Industrial/ Public Authority	290	357	156	21	37	21	29	41	(319)	119
Landscape Irrigation	276	207	84	63	85	102	112	127	113	25
Agricultural	(2)	4	3	10	1	7	(2)	(3)	(6)	4
Total	**4,815**	**3,219**	**1,497**	**1,419**	**3,199**	**1,819**	**3,303**	**3,963**	**3,916**	**7,889**

Source: Irvine Ranch Water District

Irvine Ranch Water District

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

	Fiscal Year									
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Water										
Residential	11	11	10	10	9	9	9	9	12	11
Commercial	75	69	63	57	56	61	63	66	57	60
Industrial	228	226	211	200	201	201	204	192	267	222
Public Authority	356	359	347	300	295	296	306	305	378	287
Construction & Temporary	94	122	39	52	79	106	181	241	398	285
Treated - Landscape Irrigation	127	122	116	95	85	94	105	182	110	74
Treated - Agricultural	1,653	1,294	1,116	663	925	835	733	575	646	327
Untreated - Agricultural	7,991	6,405	7,495	6,925	4,714	4,768	5,799	6,314	8,504	8,047
	10,534	**8,608**	**9,397**	**8,302**	**6,364**	**6,370**	**7,400**	**7,884**	**10,372**	**9,313**
Recycled water										
Landscape Irrigation	211	191	182	152	134	152	169	182	192	186
Agricultural	1,792	1,792	2,418	1,874	2,247	3,768	4,145	3,882	4,992	3,891
	2,003	**1,983**	**2,600**	**2,026**	**2,381**	**3,920**	**4,314**	**4,064**	**5,184**	**4,077**

Source: Irvine Ranch Water District

Irvine Ranch Water District

Source of Supply and Water Deliveries / Sales in Acre Feet
For the Past Ten Fiscal Years

Source of Supply
(in Acre Feet)

Fiscal Year	Local	Imported	Recycled	Total Supply
2007	45,304	40,252	15,180	100,736
2008	45,379 (1)	36,656	16,110 (2)	98,145
2009	45,537	29,965	22,676	98,178
2010	45,980	24,744	20,912	91,636
2011	41,274 (3)	30,260	21,030	92,564
2012	39,409	26,155	20,602	86,166
2013	49,967 (4)	20,151	22,983	93,101
2014	55,015 (4)	22,508	21,038	98,561
2015	54,057	18,628	22,866	95,551
2016	46,926	11,853	23,206	81,985

Water Deliveries/Sales
(in Acre Feet)

Fiscal Year	Potable and Untreated	Recycled	Total Demand
2007	66,648	27,154	93,802
2008	64,423	27,033	91,456
2009	63,431	26,258	89,689
2010	56,634	22,830	79,464 (5)
2011	53,642	22,250	75,892
2012	54,818	25,011	79,829
2013	57,203	28,259	85,462 (6)
2014	59,907	30,021	89,928 (6)
2015	58,319	32,139	90,458 (6)
2016	51,098	26,879	77,977 (7)

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.

(7) State mandated reduction in usage resulted in a significant decrease in overall demand.

Irvine Ranch Water District

Capital Asset Statistics
For the Past Ten Fiscal Years

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Potable System										
Miles of Water Line[(1)]	1,090	1,132	1,134	1,169	1,460	1,490	1,516	1,597	1,622	1,760
Number of Storage Tanks[(3)]	37	37	37	37	37	37	36	36	36	36
Maximum Storage Capacity (Acre Feet)	456	456	456	456	456	456	456	456	456	456
Number of Pumping Stations	40	40	45	45	45	45	40	41	42	42
Number of Wells	24	24	24	24	24	24	26	26	27	27
Well Production Capacity (cfs)	109	117	117	117	117	117	124	124	128	128
Water Banking Storage (Acre Feet)	-	-	50,000	107,600	109,600	109,600	109,600	109,600	109,600	126,000
Non-Potable and Recycled Systems										
Miles of Recycled Line[(1)]	367	399	400	407	468	478	488	503	509	525
Number of Storage Tanks[(2)]	11	11	11	11	11	11	12	12	12	12
Number of Open Reservoirs[(2)]	4	4	4	4	4	4	5	5	5	5
Maximum Storage Capacity (Acre Feet)[(4)]	23,703	23,703	23,703	23,703	23,703	23,703	24,155	24,155	24,155	24,155
Number of Pumping Plants	18	18	18	18	18	18	19	19	20	20
Number of Wells[(5)]	5	5	5	5	5	5	5	5	5	5
Well Production Capacity (cfs)	9.8	9.8	9.8	9.8	9.8	9.8	9.8	9.8	9.8	9.8
Sewer System										
Miles of Sewer Line	809	899	901	940	950	962	971	1,009	1019	1070
Number of Lift Stations[(6)]	19	19	19	18	18	16	14	14	14	14
Treatment Plants	2	2	2	2	2	2	2	2	2	2
Treatment Capacity	25.5	25.5	25.5	25.5	25.5	25.5	25.5	35.5	35.5	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.

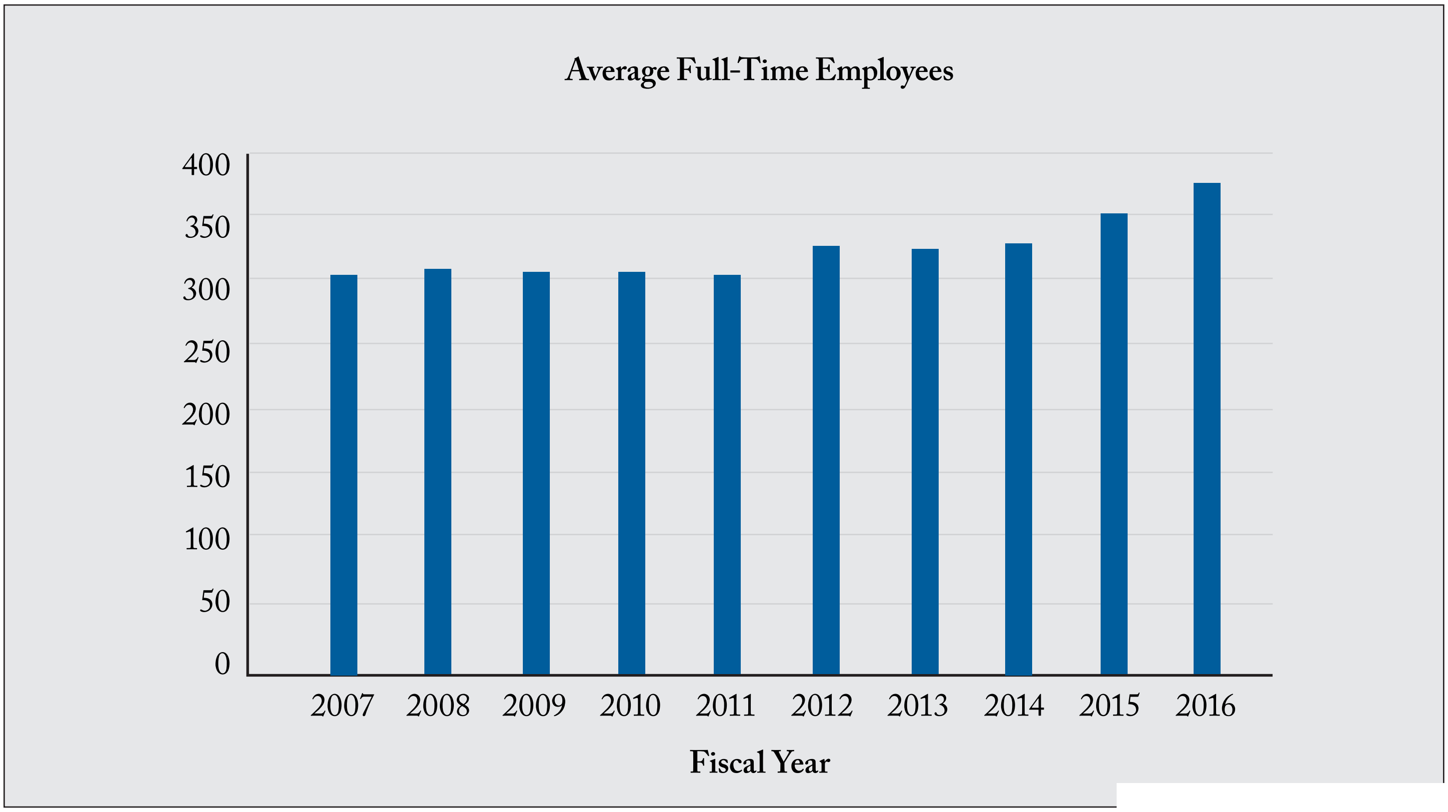
(5) Accounts for active production wells only (Excludes SGU Injection Well).

(6) Excludes private lift stations for IRWD facilities.

Irvine Ranch Water District

Full-Time Employees
For the Past Ten Fiscal Years

	Fiscal Year									
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Average Full-Time Employees	303	313	310	310	305	319	316	324	350	370



Source: Irvine Ranch Water District

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IRVINE RANCH
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