# East Orange County Water District

Orange, California

## Annual Financial Report

*For the Year Ended June 30, 2019*

# Our Mission Statement

*"To provide the most cost effective, reliable, and highest quality water services for the present as well as the future by operating in the most cost efficient manner possible, keeping the cost of water to our customers affordable and provide a safe working environment for our employees. Serve the community in an open manner and, at all times, communicate and deliberate in public meetings where open discussions are promoted."*

**Board of Directors as of June 30, 2019**

| Name | Title | Elected / Appointed | Current Term |
|---|---|---|---|
| Douglass S. Davert | President | Elected | 12/16 - 12/20 |
| Richard B. Bell | Vice President | Elected | 12/18 - 12/22 |
| John Dulebohn | Director | Elected | 12/18 - 12/22 |
| George Murdoch | Director | Elected | 12/18 - 12/22 |
| John L. Sears | Director | Elected | 12/16 - 12/20 |


**Lisa Ohlund, General Manager**
**East Orange County Water District**
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# East Orange County Water District
## Annual Financial Report
## For the Year Ended June 30, 2019

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# FINANCIAL SECTION

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DavisFarr
CERTIFIED PUBLIC ACCOUNTANTS

Davis Farr LLP
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Main: 949.474.2020 | Fax: 949.263.5520

# INDEPENDENT AUDITORS' REPORT

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

## Report on the Financial Statements

We have audited the accompanying financial statements of the East Orange County Water District as of and for the year ended June 30, 2019, 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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District, as of June 30, 2019 and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

***Report on Summarized Comparative Information***

We have previously audited the City's 2018 financial statements, and we expressed a modified audit opinion on those audited financial statements in our report dated December 10, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 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 on pages 6 through 10 and Schedule of the District's Proportionate Share of the Plan's Net Pension Liability and Schedule of the District's Contributions to the Pension Plan, on pages 30 and 31, respectfully, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Government 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 Combining Schedules of Balance Sheets and Combining Schedules of Revenues, Expenses, and Change in Net Position are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Combining Schedules of Balance Sheets and Combining Schedules of Revenues, Expenses, and Change in Net Position are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2019, 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 11, 2019

DavisFarr
CERTIFIED PUBLIC ACCOUNTANTS

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# REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

***Independent Auditors' Report***

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of East Orange County Water District as of and for year ended June 30, 2019, and the related notes to the financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated December 11, 2019.

## Internal Control Over Financial Reporting

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

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

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

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Davis Farr LLP

Irvine, California
December 11, 2019

# East Orange County Water District
## Management's Discussion and Analysis
## For the Year Ended June 30, 2019

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the East Orange County Water District (District) provides an introduction to the financial statements of the District for the years ended June 30, 2019. We encourage readers to consider the information presented here in conjunction with the transmittal letter in the Introductory Section and with the basic financial statements and related notes, which follow this section.

**Financial Highlights**

- In 2019, the District's net position increased $4,921,225 due primarily to an increase in operating revenues of $908,295, an increase in non-operating revenues of $1,581,302 and an increase in overall expenses of $1,416,228 from fiscal year 2018.

- In 2019, operating revenues increased by $908,295 due primarily to an increase in water sales of $1,082,427, sewer use fees of $27,110, and capacity and connection fees of $28,346.

- In 2019, operating expenses increased by $1,416,076 due primarily to an increase in source of supply of $1,180,317, and transmission and distribution of $269,555.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the District's financial statements. The financial statements are comprised of two components: 1) financial statements and, 2) notes to financial statements. This report also contains other supplementary information in addition to the financial statements themselves.

The financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *balance sheet* presents information on all of the District's assets, deferred outflow of resources, liabilities, and deferred inflow of resources with the difference between the four reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of revenues, expenses and changes in net position* presents information showing how net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

The *statement of cash flows* presents information showing the sources and uses of cash related to operating activities, noncapital financing activities, capital and related financing activities and investing activities. In addition, the statement provides information about significant non-cash investing, capital and financing activities.

### Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

### Financial Analysis of the District

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Position report information about the District in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the District's *net position* and changes in them. One can think of the District's net position – the difference between assets and liabilities – as a way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net position are one indicator of whether its *financial health* is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, natural disasters, zoning and new or changed government legislation, such as changes in Federal and State water quality standards.

### Condensed Balance Sheets

| | June 30, 2019 | June 30, 2018 | Change |
|---|---|---|---|
| **Assets:** | | | |
| Current assets | $ 59,478,012 | $ 55,542,131 | $3,935,881 |
| Capital assets, net | 14,215,058 | 13,146,834 | 1,068,224 |
| **Total assets** | 73,693,070 | 68,688,965 | 5,004,105 |
| **Deferred outflows of resources** | 224,870 | 230,077 | (5,207) |
| **Total assets and deferred outflows of resources** | $ 73,917,940 | $ 68,919,042 | $4,998,898 |
| **Liabilities:** | | | |
| Current liabilities | $ 1,090,327 | $ 929,534 | $ 160,793 |
| Noncurrent liabilities | 582,611 | 600,628 | (18,017) |
| **Total liabilities** | 1,672,938 | 1,530,162 | 142,776 |
| **Deferred inflows of resources** | 68,903 | 109,306 | (37,760) |
| **Net position:** | | | |
| Investment in capital assets | 14,215,058 | 13,146,834 | 1,068,224 |
| Restricted for sewer operations | 44,031,180 | 42,136,457 | 1,894,723 |
| Unrestricted | 13,929,861 | 11,996,283 | 1,933,578 |
| **Total net position** | 72,176,099 | 67,279,574 | 4,896,525 |
| **Total liabilities, deferred inflows and net position** | $ 73,917,940 | $ 68,919,042 | $5,001,541 |

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources of the District exceeded liabilities and deferred inflows of resources by $72,176,099 as of June 30, 2019.

The District's investment in capital assets over net position of 20% at June 30, 2019 reflects its investment in capital assets net of accumulated depreciation. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are *not* available for future spending.

The District's Improvement District No. 1 restricted net position of $44,031,180 as of June 30, 2019 is restricted for future sewer system capital replacement and maintenance costs.

At the end of fiscal year 2019, the District shows a positive balance in its unrestricted net position of $13,929,861 that may be utilized in future years. The Board of Directors has taken action to reserve aspects of the unrestricted net position for specified purposes such as asset replacement, rate stabilization, growth accommodation and emergency reserves. The District has committed to the following internal funds and objectives:

1. Operating Fund – Funds are maintained to capture all operating and maintenance revenues and expenditures separately for the Wholesale and Retail Zone operations. Excess revenues over expenditures are routinely transferred to the Replacement and Capital Improvements funds.

2. Replacement and Capital Improvement Funds – Separate replacement and capital improvement funds are maintained for the Wholesale District and Retail Zone.

3. Emergency Reserve Fund – This fund is earmarked by the Board of Directors for unforeseen Wholesale District emergencies or contingency expenditures.

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

| | June 30, 2019 | June 30, 2018 | Change |
|---|---|---|---|
| **Revenues:** | | | |
| Operating Revenues | $ 9,987,321 | $ 9,382,595 | $ 604,726 |
| Non-operating revenues | 3,736,600 | 2,148,708 | 1,587,892 |
| **Total revenues** | 13,723,921 | 11,531,303 | 2,192,618 |
| **Expenses:** | | | |
| Operating expenses | 8,113,186 | 7,007,559 | 1,105,627 |
| Depreciation | 691,866 | 623,514 | 68,352 |
| Non-operating expenses | 44,079 | 5,757 | 38,322 |
| **Total expenses** | 8,849,131 | 7,636,830 | 1,212,301 |
| **Change in net position before capital contributions** | 4,874,790 | 3,894,473 | 980,317 |
| **Capital Contributions** | 21,735 | 333,407 | (311,672) |
| **Change in net position** | 4,896,525 | 4,227,880 | 668,645 |
| **Net position:** | | | |
| Beginning of year | 67,279,574 | 63,051,694 | 4,227,880 |
| End of year | $ 72,176,099 | $ 67,279,574 | $4,896,525 |

The Statement of Revenues, Expenses, and Changes in Net Position show how the District's net position changes during the fiscal year. In the case of the District, net position increased by $4,896,525 as of June 30, 2019.

**Revenues**

| **Operating Revenues:** | **June 30, 2019** | **June 30, 2018** | **Change** |
|---|---|---|---|
| Water use sales: | | | |
| Wholesale | $ 4,136,899 | $ 3,104,481 | $1,032,418 |
| Retail | 1,518,523 | 1,468,514 | 50,009 |
| Meter and standby service charges | 612,485 | 588,407 | 24,078 |
| Capacity and connection fees | 880,651 | 852,305 | 28,346 |
| Sewer use fees | 3,007,647 | 2,980,537 | 27,110 |
| Other connection fees | 107,139 | 341,912 | (234,773) |
| Other service charges | 27,546 | 46,439 | (18,893) |
| **Total operating revenue** | 10,290,890 | 9,382,595 | 908,295 |
| **Non-operating revenues:** | | | |
| Property taxes | 1,728,106 | 1,633,665 | 94,441 |
| Rental income - cellular antenas | 121,927 | 103,230 | 18,697 |
| Investment earnings | 1,850,253 | 391,002 | 1,459,251 |
| Other, net | 83,369 | 20,811 | 62,558 |
| **Total non-operating revenues** | 3,783,655 | 2,148,708 | 1,634,947 |
| **Total revenue** | $ 14,074,545 | $ 11,531,303 | $2,543,242 |

In 2019, operating revenues increased by $908,295 due primarily to an increase in water sales of $1,032,418.

**Expenses**

| **Operating Expenses:** | **June 30, 2019** | **June 30, 2018** | **Change** |
|---|---|---|---|
| Source of Supply | $ 5,207,572 | $ 4,027,201 | $1,180,371 |
| Pumping | 90,563 | 53,267 | 37,296 |
| Transmission and distribution | 1,137,465 | 867,910 | 269,555 |
| Sewer system maintenance | 512,616 | 484,153 | 28,463 |
| General and administrative | 1,475,571 | 1,575,028 | (99,457) |
| **Total operating expenses** | 8,423,787 | 7,007,559 | 1,416,228 |
| Depreciation | 691,866 | 623,514 | 68,352 |
| **Non-operating expenses:** | | | |
| Other expenses | 1,903 | 5,757 | (3,854) |
| Interest Expense | 15,323 | - | 15,323 |
| Gain (loss) on sale of asset | 42,176 | - | 42,176 |
| **Total expenses** | $ 9,175,055 | $ 7,636,830 | $1,538,225 |

In 2019, operating expenses increased by $1,495,897 due primarily to an increase in source of supply of $1,180,317, and transmission and distribution of $269,555.

### Capital Asset Administration

Capital assets as of June 30th are as follows:

| Description | June 30, 2019 | June 30, 2018 |
|---|---|---|
| Non-depreciable assets | $ 1,831,105 | $ 1,933,804 |
| Depreciable assets | 25,237,399 | 24,377,723 |
| Accumulated depreciation | (12,853,446) | (13,164,693) |
| Total capital assets, net | $ 14,215,058 | $ 13,146,834 |

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

### Economic and Other Factors Effecting Next Year's Operations and Budget

The District has adopted its Fiscal Year 2019-2020 Budget with expected revenues of $16,299,425 over expected expenses of $16,299,425.

### Contacting the District's Financial Management Team

This financial report is designed to provide the District's funding sources, customers, stakeholders and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District's General Manager, Lisa Ohlund, at (714) 538-5815.

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# BASIC FINANCIAL STATEMENTS

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# East Orange County Water District
## Balance Sheet
## June 30, 2019
(with comparative information as of June 30, 2018)

| ASSETS | 2019 | 2018 |
|---|---|---|
| **Current assets:** | | |
| Cash and investments (Note 2) | $ 57,726,526 | $ 54,296,349 |
| Accrued interest receivable | 220,062 | 146,630 |
| Accounts receivable – services, net (Note 3) | 1,341,703 | 941,009 |
| Deposit receivable | 1,710 | 1,710 |
| Property taxes receivable | 29,932 | 29,539 |
| Prepaid expenses | 131,934 | 101,376 |
| Water-in-storage inventory | 26,145 | 25,518 |
| **Total current assets** | 59,478,012 | 55,542,131 |
| **Noncurrent assets:** | | |
| Capital assets – not being depreciated (Note 4) | 1,831,105 | 1,933,804 |
| Capital assets – being depreciated, net (Note 4) | 12,383,953 | 11,213,030 |
| **Total noncurrent assets** | 14,215,058 | 13,146,834 |
| **Total assets** | 73,693,070 | 68,688,965 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | |
| Pension related deferred outflows of resources (Note 6) | 224,870 | 230,077 |
| **Total deferred outflows of resources** | 224,870 | 230,077 |
| **Total assets and deferred outflows of resources** | $ 73,917,940 | $ 68,919,042 |
| **LIABILITIES** | | |
| **Current liabilities:** | | |
| Accounts payable and accrued expenses | $ 742,406 | $ 656,874 |
| Accrued salaries and benefits | 54,588 | 40,786 |
| Compensated absences (Note 5) | 105,421 | 75,466 |
| Deposits and unearned revenue | 180,844 | 156,408 |
| Due to other governments | 7,068 | - |
| **Total current liabilities** | 1,090,327 | 929,534 |
| **Noncurrent liabilities:** | | |
| Net pension liability (Note 6) | 582,611 | 600,628 |
| **Total noncurrent liabilities** | 582,611 | 600,628 |
| **Total liabilities** | 1,672,938 | 1,530,162 |
| **DEFERRED INFLOWS OF RESOURCES** | | |
| Pension related deferred inflows of resources (Note 6) | 68,903 | 109,306 |
| **Total deferred inflows of resources** | 68,903 | 109,306 |
| **NET POSITION** | | |
| Investment in capital assets | 14,215,058 | 13,146,834 |
| Restricted for sewer operations | 44,031,180 | 42,136,457 |
| Unrestricted | 13,929,861 | 11,996,283 |
| **Total net position** | 72,176,099 | 67,279,574 |
| **Total liabilities, deferred inflows of resources and net position** | $ 73,917,940 | $ 68,919,042 |

See accompanying Notes to the Basic Financial Statements.

# East Orange County Water District
## Statement of Revenues, Expenses and Changes in Net Position
## For the Year Ended June 30, 2019
(with comparative information for the year ended June 30, 2018)

| | 2019 | 2018 |
|---|---|---|
| **Operating revenues:** | | |
| Water use sales | $ 5,413,349 | $ 4,572,995 |
| Meter and standby service charges | 606,512 | 588,407 |
| Capacity and connection fees | 880,651 | 852,305 |
| Sewer use fees | 3,007,647 | 2,980,537 |
| Other connection fees | 51,616 | 341,912 |
| Other service charges | 27,546 | 46,439 |
| **Total operating revenues** | 9,987,321 | 9,382,595 |
| **Operating expenses:** | | |
| Source of supply | 4,904,003 | 4,027,201 |
| Pumping | 90,563 | 53,267 |
| Transmission and distribution | 1,137,465 | 867,910 |
| Sewer system maintenance | 512,616 | 484,153 |
| General and administrative | 1,468,539 | 1,575,028 |
| **Total operating expenses** | 8,113,186 | 7,007,559 |
| Operating income(loss) before depreciation | 1,874,135 | 2,375,036 |
| Depreciation expense | (691,866) | (623,514) |
| **Operating income(loss)** | 1,182,269 | 1,751,522 |
| **Non-operating revenues(expenses):** | | |
| Property taxes | 1,681,051 | 1,633,665 |
| Rental income – cellular antennas | 121,927 | 103,230 |
| Investment earnings | 1,850,253 | 391,002 |
| Other revenues | 83,369 | 20,811 |
| Other expenses | (1,903) | (5,757) |
| Gain (loss) on sale of asset | (42,176) | - |
| **Total non-operating revenues, net** | 3,692,521 | 2,142,951 |
| **Change in net position before capital contributions** | 4,874,790 | 3,894,473 |
| **Capital contributions:** | | |
| Capital contributions from developers | 21,735 | 333,407 |
| **Total capital contributions** | 21,735 | 333,407 |
| **Change in net position** | 4,896,525 | 4,227,880 |
| **Net position:** | | |
| Beginning of year | 67,279,574 | 63,051,694 |
| End of year | $ 72,176,099 | $ 67,279,574 |

See accompanying Notes to the Basic Financial Statements.

# East Orange County Water District
## Statement of Cash Flows
## For the Year Ended June 30, 2019
(with comparative data for the year ended June 30, 2018)

| | 2019 | 2018 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Cash receipts from customers for sales and services | $ 9,967,694 | $ 9,786,215 |
| Cash paid to employees for salaries and benefits | (1,178,629) | (938,864) |
| Cash paid to vendors and suppliers for materials and services | (7,035,836) | (6,664,093) |
| **Net cash provided by operating activities** | 1,753,229 | 2,183,258 |
| **Cash flows from non-capital financing activities:** | | |
| Proceeds from property taxes | 1,680,658 | 1,634,045 |
| **Net cash provided by non-capital financing activities** | 1,680,658 | 1,634,045 |
| **Cash flows from capital and related financing activities:** | | |
| Acquisition and construction of capital assets | (1,780,531) | (1,767,525) |
| Capital contributions from developers | - | 333,407 |
| **Net cash provided by (used in) capital and related financing activities** | (1,780,531) | (1,434,118) |
| **Cash flows from investing activities:** | | |
| Proceeds from investment earnings | 1,090,139 | 612,467 |
| Maturity of investments | 6,754,131 | 2,653,082 |
| Purchases of investments | (8,198,804) | (4,890,424) |
| **Net cash used in by investing activities** | (354,534) | (1,624,875) |
| **Net increase (decrease) in cash and investments** | 1,298,822 | 758,310 |
| **Cash and cash equivalents:** | | |
| Beginning of year | 1,220,310 | 462,000 |
| End of year | $ 2,519,132 | $ 1,220,310 |

(continued)

See accompanying Notes to the Basic Financial Statements.

# East Orange County Water District

## Statement of Cash Flows (Continued)

## For the Year Ended June 30, 2019

(with comparative data for the year ended June 30, 2018)

| | 2019 | 2018 |
|---|---|---|
| Reconciliation of cash and cash equivalents to amounts reported on the Statement of Net Position: | | |
| Cash and investments | $ 57,726,526 | $ 54,296,349 |
| Less long-term investments | (55,207,394) | (53,076,039) |
| Cash and cash equivalents at end of year | $ 2,519,132 | $ 1,220,310 |
| | | |
| **Reconciliation of operating income to net cash provided by operating activities:** | | |
| **Operating income** | $ 1,182,269 | $ 1,751,522 |
| **Adjustments to reconcile operating income to net cash provided by operating activities:** | | |
| Depreciation expense | 691,866 | 623,514 |
| Other revenues | 83,369 | 20,811 |
| Rental income | 121,927 | 103,230 |
| Other expenses | (1,903) | (5,757) |
| **Changes in assets – (increase) decrease:** | | |
| Accounts receivable – services, net | (400,694) | (90,038) |
| Accounts receivable – other | - | 115,866 |
| Prepaid expenses | (30,558) | (36,379) |
| Water-in-storage inventory | (627) | (2,078) |
| Materials and supplies inventory | - | 75,192 |
| **Change in deferred outflows of resources – (increase) decrease:** | | |
| Pension related deferred outflows of resources | 5,207 | (80,776) |
| **Changes in liabilities – increase (decrease):** | | |
| Accounts payable and accrued expenses | 85,532 | (378,218) |
| Accrued salaries and benefits | 13,802 | 6,921 |
| Compensated absences | 29,955 | (27,985) |
| Deposits and unearned revenue | 24,436 | 32,185 |
| Due to other governments | 7,068 | - |
| Net pension liability | (18,017) | 101,193 |
| **Change in deferred inflows of resources – increase (decrease):** | | |
| Pension related deferred inflows of resources | (40,403) | (25,945) |
| **Total adjustments** | 570,960 | 431,736 |
| **Net cash provided by operating activities** | $ 1,753,229 | $ 2,183,258 |
| | | |
| NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES: | | |
| Unrealized gain (loss) from investments | $ 686,682 | $ (301,928) |

See accompanying Notes to the Basic Financial Statements.

## Note 1 – Reporting Entity and Summary of Significant Accounting Policies

### *Organization and Operations of the Reporting Entity*

The East Orange County Water District (the District) was formed in 1961, in order to furnish imported potable water to an area encompassing the eastern half of the City of Orange. The District provides wholesale potable water to five sub-agencies in the region through its pipeline transmission and distribution system. The five sub-agencies consist of the East Orange County Water District Retail Zone, Golden State Water Company, City of Tustin, Irvine Ranch Water District, and the City of Orange. The District provides potable water service through the East Orange County Water District Retail Zone to 1,179 customers within its service area.

In 2013, the Orange County Sanitation District (OCSD) proposed a transfer of ownership and operation of the local sewer system (Sewer Area 7) to the District. On May 11, 2016, after an extensive review and approval process, the Orange County Local Agency Formation Commission approved the transfer of sewers to the District effective August 1, 2016. The sewer system was transferred to the District as Improvement District No. 1 (ID No.1). It is comprised of 175 miles of primarily vitrified clay pipe sewers and approximately 3,700 manholes, both of which were largely installed in the 1960s.

The District is governed by a Board of Directors, which consists of five directors, each of whom is elected at-large for a four-year term by the citizens living within the District's service area.

### *Financial Reporting*

The District's basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applied to enterprise funds. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District solely operates as a special-purpose government which means it is only engaged in business-type activities; accordingly, activities are reported in the District's enterprise fund.

### *Basis of Accounting and Measurement Focus*

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs of providing water to its customers on a continuing basis be financed or recovered, primarily through user charges (water sales and services) or similar funding. The District segregates its Wholesale and Retail Zone accounting internally as separate entities. Revenues and expenses are recognized on the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place.

Operating revenues and expenses are generated and incurred through the water sales activities to the District's customers. Management, administration, and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses.

In accordance with U.S. GAAP, the Statement of Net Position reports separate sections for Deferred Outflows of Resources, and Deferred Inflows of Resources, when applicable.

> **Deferred Outflows of Resources** represent outflows of resources (consumption of net position) that apply to future periods and that, therefore, will not be recognized as an expense until that time.
>
> **Deferred Inflows of Resources** represent inflows of resources (acquisition of net position) that apply to future periods and that, therefore, will not be recognized as revenue until that time.

**Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)**

***Use of Estimates***

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in net position during the reporting period. Actual results most likely will differ from those estimates.

***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.

***Cash and Cash Equivalents***

Substantially all of the District's cash is invested in interest bearing accounts. The District considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

***Investments***

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

U.S. GAAP defines fair value and establishes a framework for measuring fair value and establishes disclosures about fair value measurement. Investments, unless otherwise specified, recorded at fair value in the balance sheet, are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Levels of inputs are as follows:

Level 1 – Inputs are unadjusted, quoted prices for identical assets and liabilities in active markets at the measurement date.

Level 2 – Inputs, other than quoted prices included in Level 1 that are observable for the asset or liability through corroboration with market data at the measurement date.

Level 3 – Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date.

***Accounts Receivable***

The District has uncollectible accounts receivable at year-end. Accordingly, an allowance for doubtful accounts has been recorded.

***Property Taxes***

Property taxes receivable at year-end are related to property taxes collected by the County of Orange, which have not been credited to the District as of June 30. The property tax calendar is as follows:

| | |
|---|---|
| Lien date | March 1 |
| Levy date | July 1 |
| Due dates | November 1 and March 1 |
| Collection dates | December 10 and April 10 |

## Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)

The County of Orange Assessor's Office assesses all real and personal property within the County each year. The County of Orange Auditor-Controller's Office bills and collects the District's share of property taxes and assessments. The County of Orange Treasurer's Office remits current and delinquent property tax collections to the District throughout the year. Property tax in California is levied in accordance with Article XIIIA of the State Constitution at one percent (1%) of countywide assessed valuations.

### *Prepaid Expenses*

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

### *Water-In-Storage Inventory*

Annually, a controlled quantity of water is purchased by the District and, if not used in the current year, is stored for use in the following year. Purchased stored water is subject to loss through meter error or leakage. The losses are not covered by insurance nor has a loss reserve been recorded.

### *Capital Assets*

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at $5,000. Donated assets are recorded at estimated acquisition value at the date of donation. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. (See Note 4 for further details) Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

| | |
|---|---|
| Transmission and distribution systems | 5 to 100 years |
| Structures and improvements | 3 to 50 years |
| Capacity rights | 75 years |
| Water treatment plant | 10 to 100 years |
| Equipment | 5 to 50 years |

### *Construction-in-Process*

The costs associated with developmental stage projects are accumulated in an in-progress account until the project is fully developed. Once the project is complete and in use, the entire cost of the project is transferred to a capital asset account and depreciated over its estimated useful life.

### *Compensated Absences*

The District's policy allows full-time employees to accumulate a maximum of 160 hours of vacation time. No compensation in lieu of time off is allowed except for termination or disability. Employees may accumulate up to 80 hours of sick time. As of December 31 each year, one-half of the excess over 80 hours may be credited to additional vacation or may be paid to the employee. The remaining one-half is forfeited. The District has recorded the liability for accrued vacation and sick pay in the accompanying financial statements as a current liability.

**Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)**

***Pensions***

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions and pension expense, information about the fiduciary net pension of the District's pension plans 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 benefit terms. Investments are reported at fair value.

The following timeframes are used for pension reporting:

| | |
|---|---|
| Valuation date | June 30, 2017 |
| Measurement date | June 30, 2018 |
| Measurement period | July 1, 2017 to June 30, 2018 |

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. The difference between projected and actual earnings is amortized straight-line over 5 years. All other amounts are amortized straight-line over the average expected remaining service lives of all members that are provided with benefits (active, inactive and retires) as of the beginning of the measurement period.

***Net Position***

The financial statements utilize a net position presentation. Net position is categorized as follows:

**Investment in capital assets** – This component of net position consists of capital assets, net of accumulated depreciation.

**Restricted** – This component of net position consists of external constraints placed on net position imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. The net position of Improvement District No. 1 is considered restricted.

**Unrestricted** – This component of net position is the amount of the assets, deferred outflows or resources, liabilities, and deferred inflows of resources that are not included in the determination of net investments in capital assets or the restricted component of net position.

***Water Use Sales – Wholesale and Retail***

Wholesale water sales are billed on a monthly basis and retail water sales are billed on a bi-monthly cyclical basis. Estimated unbilled retail water sales revenue through June 30 has been accrued at year-end.

***Capital Contributions***

Capital contributions represent cash and capital asset additions contributed to the District by property owners, granting agencies, governmental agencies or real estate developers desiring services that require capital expenditures or capacity commitment.

## Note 2 – Cash and Investments

Cash and investments as of June 30, consisted of the following:

| Description | June 30, 2019 |
|---|---|
| Cash on hand | $ 250 |
| Demand deposits held with financial institutions | 274,549 |
| Investments | 57,451,727 |
| **Total cash and investments** | $ 57,726,526 |

### *Demand Deposits*

At June 30, 2019, the carrying amount of the District's demand deposits was $299,249, and the financial institution balance was $438,494. The respective net difference represents outstanding checks, deposits-in-transit and/or other reconciling items.

The California Government Code requires California banks and savings and loan associations to secure an entity's deposits by pledging government securities with a value of 110% of an entity's deposits. California law also allows financial institutions to secure entity deposits by pledging first trust deed mortgage notes having a value of 150% of an entity's total deposits. The entity's Treasurer may waive the collateral requirement for deposits which are fully insured up to $250,000 by the FDIC.

The collateral for deposits in federal and state chartered banks is held in safekeeping by an authorized agent of depository recognized by the State of California Department of Banking. The collateral for deposits with savings and loan associations is generally held in safekeeping by the Federal Home Loan Bank in San Francisco, California as an agent of depository. These securities are physically held in an undivided pool for all California public agency depositors. Under Government Code Section 53655, the placement of securities by a bank or savings and loan association with an agent of depositor has the effect of perfecting the security interest in the name of the local governmental agency. Accordingly, all collateral held by California agents of depository are considered to be held for, and in the name of, the local government.

### *Custodial Credit Risk*

The 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 deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District's investment policy requires that collateral be held by an independent third party with whom the District has a current custodial agreement.

The custodial credit risk for *investments* is the risk that in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The District's investment policy requires that all security transactions are conducted on a delivery-versus-payment (DVP) method and that all securities are held by a qualified, third-party custodian, as evidenced by safekeeping receipts. The trust department of the District's bank may act as third-party custodian, provided that the custodian agreement is separate from the banking agreement. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

## Note 2 – Cash and Investments (Continued)

### *Investments*

The District's investments as of June 30, 2019 were as follows:

| Investments | Measurement Input | Credit Rating | Fair Value | Maturity: 12 Months or Less | Maturity: 13 to 24 Months | Maturity: 25 to 60 Months |
|---|---|---|---|---|---|---|
| Local Agency Investment Fund (LAIF) | Uncategorized | N/A | $ 34,932,203 | $ 34,932,203 | $ - | $ - |
| U.S. Treasury notes | Level 2 | AAA | 7,424,702 | 2,526,771 | 1,702,092 | 3,195,839 |
| Governmental agency securities | Level 2 | AAA | 8,112,800 | 2,786,324 | 2,159,954 | 3,166,522 |
| Corporate bonds | Level 2 | A to A+ | 5,304,509 | 1,872,275 | 1,494,583 | 1,937,651 |
| Money Market | Uncategorized | AAA | 29,385 | 29,385 | - | - |
| Negotiable certificates-of-deposit | Level 2 | N/A | 1,648,128 | 113,393 | 540,740 | 993,995 |
| **Total investments** | | | $ 57,451,727 | $ 42,260,351 | $ 5,897,369 | $ 9,294,007 |

### *Authorized Investments and Investment Policy*

The District has adopted an investment policy allowing authorized investments to be made in the following areas:

California Local Agency Investment Fund (LAIF)
U.S. Treasury notes
Governmental agency securities
Corporate bonds
Money market funds
Negotiable certificates-of-deposit

### *Investment in State Investment Pool*

The District is a voluntary participant in LAIF which is regulated by California Government Code Section 16429 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.

The District's investments with LAIF at June 30, 2019 included a portion of the pool funds invested in structured notes and asset-backed securities:

**Structured Notes**: debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.

**Asset-Backed Securities**: generally mortgage-backed securities that entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (for example, Collateralized Mortgage Obligations) or credit card receivables.

The District had $34,932,203 invested in LAIF. The LAIF fair value factor of 1.00171179 was used to calculate the fair value of the investments in LAIF as of June 30, 2019.

## Note 2 – Cash and Investments (Continued)

### *Fair Value Measurement Input*

The District categorizes its fair value measurement inputs within the fair value hierarchy established by generally accepted accounting principles. The District has presented its measurement inputs as noted in the table above.

### *Credit Risk*

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. As of June 30, 2019, the District's investment in the LAIF was not rated as noted in the table above.

### *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 fair values of investments with longer maturities have greater sensitivity to changes in market interest rates. The District's investment policy follows the Code as it relates to limits on investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates. The District has elected to use the segmented time distribution method of disclosure for the maturities of its investments as related to interest rate risk as noted in the table above.

### *Concentration of Credit Risk*

The District's investment policy contains no limitations on the amount that can be invested in any one governmental agency or non-governmental issuer beyond that stipulated by the California Government Code. The following are investments in any one governmental or non-governmental issuer that represents 5% or more of the District's total cash and investment portfolio except for those investments in U.S. Treasury securities, mutual funds, and external investment pools.

| Description | Percentage | June 30, 2019 |
|---|---|---|
| Federal Farm Credit Bank | 5% | $ 2,925,162 |
| Federal Home Loan Bank | 9% | 5,187,638 |

## Note 3 – Accounts Receivable – Services, Net

Accounts receivable consisted of the following at June 30, 2019:

| Description | June 30, 2019 |
|---|---|
| Accounts receivable – services | $ 1,432,591 |
| Allowance for doubtful accounts | (3,287) |
| **Accounts receivable – services, net** | $ 1,429,304 |

## Note 4 – Capital Assets

Changes in capital assets for the year ended June 30, 2019, were as follows:

| | Balance July 1, 2018 | Additions | Deletions | Balance June 30, 2019 |
|---|---|---|---|---|
| Non-depreciable assets: | | | | |
| Land and easements | $ 579,284 | $ - | $ - | $ 579,284 |
| Construction-in-process | 1,354,520 | 1,221,765 | (1,324,464) | 1,251,821 |
| Total non-depreciable assets | 1,933,804 | 1,221,765 | (1,324,464) | 1,831,105 |
| Depreciable assets: | | | | |
| Transmission and distribution system | 14,025,109 | 1,221,305 | (57,209) | 15,189,205 |
| Structures and improvements | 8,897,994 | - | (894,626) | 8,003,368 |
| Capacity rights | 943,320 | - | - | 943,320 |
| Equipment | 511,300 | 683,660 | (93,454) | 1,101,506 |
| Total depreciable assets | 24,377,723 | 1,904,965 | (1,045,289) | 25,237,399 |
| Accumulated Depreciation: | | | | |
| Transmission and distribution system | 8,216,693 | 428,492 | (56,833) | 8,588,352 |
| Structures and improvements | 3,905,557 | 193,481 | (852,825) | 3,246,213 |
| Capacity rights | 680,788 | 12,578 | - | 693,366 |
| Equipment | 361,655 | 57,314 | (93,454) | 325,515 |
| Accumulated depreciation | 13,164,693 | 691,865 | (1,003,112) | 12,853,446 |
| Total depreciable assets, net | 11,213,030 | 1,213,100 | (42,177) | 12,383,953 |
| **Total capital assets, net** | $ 13,146,834 | $ 2,434,865 | $ (1,366,641) | $ 14,215,058 |

## Note 5 – Compensated Absences

Compensated absences consisted of the following at June 30, 2019:

| Balance July 1, 2018 | Earned | Taken | Balance June 30, 2019 | Due within one year |
|---|---|---|---|---|
| $ 75,466 | $ 53,430 | $ (23,475) | 105,421 | $ 105,421 |

### Note 6 – Net Pension Liability and Defined Benefit Pension Plan

*The Plans Description Schedule*

The District has engaged with CalPERS to administer the following pension plans for its employees (members):

| | Miscellaneous Plans | |
|---|---|---|
| | Classic Tier 1 | PEPRA Tier 2 |
| Hire date | Prior to January 1, 2013 | On or after January 1, 2013 |
| Benefit formula | 2.0% @ 60 | 2.0 @ 62 |
| Benefit vesting schedule | 5-years or service | 5-years or service |
| Benefits payments | monthly for life | monthly for life |
| Retirement age | 50 - 67 & up | 52 - 67 & up |
| Monthly benefits, as a % of eligible compensation | 2.00% | 2.00% |
| Required member contribution rates | 6.912% | 6.250% |
| Required employer contribution rates – FY 2019 | 7.634% | 6.842% |

*Plan Description*

The District contributes to the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer defined benefit pension plan. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. A full description of the pension plan, benefit provisions, assumptions (for funding, but not accounting purposes), and membership information are listed in the June 30, 2017 Annual Actuarial Valuation Reports. This report and CalPERS' audited financial statements are publicly available reports that can be obtained at CalPERS' website under Forms and Publications.

*Members Covered by Benefit Terms*

At June 30, 2017 (Valuation Date), the following members were covered by the benefit terms:

| | Miscellaneous Plans | | |
|---|---|---|---|
| Plan Members | Classic Tier 1 | PEPRA Tier 2 | Total |
| Active members | 4 | 3 | 7 |
| Transferred and terminated members | 8 | 2 | 10 |
| Retired members and beneficiaries | 8 | 1 | 9 |
| **Total plan members** | 20 | 6 | 26 |

*Benefits Provided*

CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. A Classic CalPERS Miscellaneous member becomes eligible for service retirement upon attainment of age 55 with at least 5 years of credited service. Public Employees' Pension Reform Act (PEPRA) Miscellaneous members become eligible for service retirement upon attainment of age 62 with at least 5 years of service. The service retirement benefit is a monthly allowance equal to the product of the benefit factor, years of service, and final compensation. The final compensation is the monthly average of the member's highest 36 full-time equivalent monthly pay. Retirement benefits for Classic Miscellaneous and Safety members are calculated as a percentage of

**Note 6 – Net Pension Liability and Defined Benefit Pension Plan (Continued)**

their plan based the average final 36 months compensation. Retirement benefits for PEPRA Miscellaneous members are calculated as a percentage of their plan based the average final 36 months compensation.

Participant members are eligible for non-industrial disability retirement if they become disabled and have at least 5 years of credited service. There is no special age requirement. The standard non-industrial disability retirement benefit is a monthly allowance equal to 1.8% of final compensation, multiplied by service. Industrial disability benefits are not offered to miscellaneous employees.

A member's beneficiary may receive the basic death benefit if the member dies while actively employed. The member must be actively employed with the District to be eligible for this benefit. A member's survivor who is eligible for any other pre-retirement death benefit may choose to receive that death benefit instead of this basic death benefit. The basic death benefit is a lump sum in the amount of the members' accumulated contributions, where interest is currently credited at 7.5 percent per year, plus a lump sum in the amount of one month's salary for each completed year of current service, up to a maximum of six months' salary. For purposes of this benefit, one month's salary is defined as the member's average monthly full-time rate of compensation during the 12 months preceding death.

Upon the death of a retiree, a one-time lump sum payment of $500 will be made to the retiree's designated survivor(s), or to the retiree's estate.

Benefit terms provide for annual cost-of-living adjustments to each member's retirement allowance. Beginning the second calendar year after the year of retirement, retirement and survivor allowances will be annually adjusted on a compound basis by 3%.

*Contributions*

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers will 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 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. Employer contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements are classified as plan member contributions.

Contributions for the year ended June 30, 2019 were as follows:

| | Miscellaneous Plans |
|---|---|
| **Contribution Type** | **Total** |
| Contributions – employer | $ 96,026 |
| Contributions – members | 60,484 |
| **Total contributions** | $ 156,510 |

**Note 6 – Net Pension Liability and Defined Benefit Pension Plan (Continued)**

*Actuarial Methods and Assumptions Used to Determine the Total Pension Liability*

For the measurement period ending June 30, 2018 (Measurement Date), the total pension liability was determined by rolling forward the June 30, 2017 pension liability. The June 30, 2018 total pension liability were based on the following actuarial methods and assumptions:

| | |
|---|---|
| Actuarial Cost Method | Entry Age Normal |
| Actuarial Assumptions: | |
| Discount Rate | 7.15% |
| Inflation | 2.50% |
| Salary Increases | Varies by Entry Age and Service |
| Mortality Rate Table | Derived using CalPERS' Membership Data for all Funds. |
| Post Retirement Benefit Increase | Contract COLA up to 2.0% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.50% thereafter |

*Discount Rate*

The discount rate used to measure the total pension liability was 7.15 percent. To determine whether the municipal bond rate should be used in the calculation of the 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. The tests revealed the assets would not turn out. Therefore, the current 7.15 percent discount rate is appropriate and use the of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.15 percent is applied to all plans in the Public Employees' Retirement Fund (PERF). The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at 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 expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

| Asset Class[1] | New Strategic Allocation | Real Return Years 1 - 10[2] | Real Return Years 11+[3] |
|---|---|---|---|
| Global Equity | 50.00% | 4.80% | 5.98% |
| Fixed Income | 28.00% | 1.00% | 2.62% |
| Inflation Assets | 0.00% | 0.77% | 1.81% |
| Private Equity | 8.00% | 6.30% | 7.23% |
| Real Assets | 13.00% | 3.75% | 4.93% |
| Liquidity | 1.00% | 0.00% | -0.92% |
| | 100.00% | | |

[1] In the System's CAFR, Fixed Income is included in Global Securities; Liquidity is included in Short-term investments; Inflation Assets are included in both Equity Securities and Global Debt Securities.

[2] An expected inflation of 2.00% used for this period.

[3] An expected inflation of 2.92% used for this period.

## Note 6 – Net Pension Liability and Defined Benefit Pension Plan (Continued)

*Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*

The following presents the District's proportionate share of the net pension liability of the Plan as of the measurement date, calculated using the discount rate of 7.15%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.15%) or 1 percentage-point higher (8.15%) than the current rate for the June 30, 2017 Valuation Date as follows:

| | Plan's Net Pension Liability/(Asset) | | |
|---|---|---|---|
| **Plan Type** | **Discount Rate - 1% 6.15%** | **Current Discount Rate 7.15%** | **Discount Rate + 1% 8.15%** |
| CalPERS – Miscellaneous Plan | $ 1,020,166 | $ 582,611 | $ 211,416 |

*Pension Plan Fiduciary Net Position*

Detail information about the plan's fiduciary net position is available in the separately issued CalPERS financial report and can be obtained from CalPERS' website under Forms and Publications.

*Proportionate Share of Net Pension Liability and Pension Expense*

The following table shows the plan's proportionate share of the risk pool collective net pension liability over the measurement period for the Miscellaneous Plan for the fiscal year ended June 30, 2019:

| Plan Type and Balance Descriptions | Plan Total Pension Liability | Plan Fiduciary Net Position | Net Pension Liability |
|---|---|---|---|
| **CalPERS – Miscellaneous Plan:** | | | |
| Balance as of June 30, 2017 (Measurement Date) | $ 2,857,352 | $ 2,256,724 | $ 600,628 |
| Balance as of June 30, 2018 (Measurement Date) | $ 3,234,656 | $ 2,652,045 | $ 582,611 |
| **Change in Plan Net Pension Liability** | $ 377,304 | $ 395,321 | $ (18,017) |

## Note 6 – Net Pension Liability and Defined Benefit Pension Plan (Continued)

The District's proportionate share of the net pension liability for the June 30, 2018 measurement date was as follows:

| | Percentage Share of Risk Pool | | |
|---|---|---|---|
| | **Fiscal Year Ending June 30, 2019** | **Fiscal Year Ending June 30, 2018** | **Change Increase/ (Decrease)** |
| Measurement Date | June 30, 2018 | June 30, 2017 | |
| Percentage of Risk Pool Net Pension Liability | 0.019150% | 0.017840% | 0.001310% |

For the year ended June 30, 2019, the District recognized pension expense/(credit) in the amounts of $49,852, for the CalPERS Miscellaneous Plan.

**Note 6 – Net Pension Liability and Defined Benefit Pension Plan (Continued)**

The amortization period differs depending on the source of the gain or loss. The difference between projected and actual earnings is amortized over 5-years straight line. All other amounts are amortized straight-line 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) for PERF C for the measurement date ending June 30, 2018 is 3.8 years, which was obtained by dividing the total service years of 516,147 (the sum of remaining service lifetimes of the active employees) by 135,474 (the total number of participants: active, inactive, and retired) in PERF C. Inactive employees and retirees have remaining service lifetimes equal to 0. Total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

*Deferred Outflows of Resources and Deferred Inflows of Resources*

At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| Account Description | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Pension contributions made after the measurement date | $ 96,026 | $ - |
| Difference between actual and proportionate share of employer contributions | - | 43,939 |
| Adjustment due to differences in proportions | 37,191 | 1,079 |
| Differences between expected and actual experience | 22,354 | 7,607 |
| Differences between projected and actual earnings on pension plan investments | 2,880 | - |
| Changes in assumptions | 66,419 | 16,277 |
| **Total Deferred Outflows/(Inflows) of Resources** | $ 224,870 | $ 68,902 |

The District will recognize $96,026 reported as deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date as a reduction of the net pension liability in the fiscal year ended June 30, 2020, as noted above.

*Amortization of Deferred Outflows of Resources and Deferred Inflows of Resources*

Other remaining amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be amortized to pension expense in future periods as follows:

## Note 6 – Net Pension Liability and Defined Benefit Pension Plan (Continued)

| Amortization Period Fiscal Year Ended June 30 | Deferred Outflows/(Inflows) of Resources |
|---|---|
| 2020 | $ 50,742 |
| 2021 | 29,465 |
| 2022 | (15,026) |
| 2023 | (5,240) |
| **Total** | $ 59,941 |

## Note 7 – Deferred Compensation Savings Plan

For the benefit of its employees, the District participates in the California Public Employees Retirement System (CalPERS) Section 457 Deferred Compensation Program (Program). The purpose of this Program is to provide deferred compensation for California public employees that elect to participate in the Program. This Program is established pursuant to sections 21670 through 21685 of the Government Code of the State of California and is intended to constitute an "eligible deferred compensation plan" within the meaning of Section 457 of the Federal Internal Revenue Code. Generally, eligible employees may defer receipt of a portion of their salary until termination, retirement, death or unforeseeable emergency. Until the funds are paid or otherwise made available to the employee, the employee is not obligated to report the deferred salary for income tax purposes.

The Program was created under the administrative and investment control of the CalPERS Board, which requires the Board to act in the interest of Program participants. Also, Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of participants. Accordingly, the District is in compliance with legislation, which requires Section 457 plan assets to be held in trust for employees. This means that employee assets held in Section 457 plans are no longer viewed as the legal property of the District and are no longer subject to claims of the District's general creditors and are not presented in the accompanying financial statements.

## Note 8 – Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, injuries to employees and natural disasters. The District is a member of the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California water agencies. The purpose of the ACWA/JPIA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. At June 30, 2019, the District participated in the liability and property programs of the ACWA/JPIA as follows:

- General and auto liability, public officials and employees' errors and omissions: Total risk financing self-insurance limits of $500,000, combined single limit at $500,000 per occurrence. The District purchased additional excess coverage layers: $50 million for general, auto and public officials liability, which increases the limits on the insurance coverage noted above.
- Fidelity coverage up to $250,000 per loss includes public employee dishonesty, forgery or alteration, computer fraud and ERISA coverage's, subject to a $100,000 pooled self –insurance limit with a deductible of $1,000 per claim.
- Property loss is paid at the replacement cost for property on file, if replaced within two years after the loss, otherwise paid on an actual cash value basis, to a combined total of $50 million per occurrence, subject to a $50,000 pooled self –insurance limit. Boiler and machinery coverage for the replacement cost up to $50 million per occurrence, subject to various deductibles depending on the type of equipment.

**Note 8 – Risk Management (Continued)**

- Workers' compensation insurance up to California statutory limits for all work related injuries/illnesses covered by California law.

There have been no losses or claims in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the years ending June 30, 2019, 2018 and 2017. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of June 30, 2019, 2018 and 2017.

**Note 9 – Commitments and Contingencies**

***Construction Contracts***

The District has a variety of agreements with private parties relating to the installation, improvement or modification of water facilities and distribution systems within its service area. The financing of such construction contracts is being provided primarily from the District's replacement reserves and advances for construction.

***Litigation***

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. After consultation with legal counsel, the District believes that there are no legal matters that will materially affect its financial condition.

## REQUIRED SUPPLEMENTARY INFORMATION

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# East Orange County Water District
## Required Supplementary Information (Unaudited)
## Schedule of the District's Proportionate Share of the Plan's Net Pension Liability
## Last Ten Fiscal Years

| Measurement Date: | June 30, 2018 | June 30, 2017 | June 30, 2016 | June 30, 2015 | June 30, 2014 |
|---|---|---|---|---|---|
| District's Proportion of the Net Pension Liability | 0.019150% | 0.017840% | 0.005772% | 0.004970% | 0.006416% |
| District's Proportionate Share of the Net Pension Liability | $ 582,611 | $ 600,628 | $ 499,435 | $ 341,116 | $ 399,219 |
| District's Covered Payroll | $ 703,788 | $ 570,254 | $ 439,988 | $ 446,749 | $ 424,397 |
| District's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll | 82.78% | 105.33% | 113.51% | 76.36% | 94.07% |
| Plan's Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability | 81.99% | 78.98% | 74.06% | 78.40% | 83.03% |

[1] Historical information is presented only for measurement periods for which GASB No. 68 is applicable.

Summary of Changes of Benefits or Assumptions:
Benefit Changes: There were no changes to benefit terms that applied to all members of the Public Agency Pool. However, individual employers in the Plan may have provided a benefit improvement to their employees by granting Two Years Additional Service Credit to members retiring during a specified time period (a.k.a Golden Handshakes). Employers that have done so may need to report this information as a separate liability in their financial statements as CalPERS considers such amounts to be separtelt financed employer-specific liabilities.

Changes in Assumptions: In 2018, demographic assumptions and inflation rate were changed in accordance to CalPERS Experience Study and Review of Actuarial Assumptions December 2017. In 2017, the accounting discount rate reduced from 7.65 percent to 7.15 percent.

# East Orange County Water Diustrict
## Required Supplementary Information (Unaudited)
## Schedule of the District's Contributions to the Pension Plan
## Last Ten Fiscal Years [1]

| **Fiscal Year:** | **2018-19** | **2017-18** | **2016-17** | **2015-16** | **2014-15** | **2013-14** |
|---|---|---|---|---|---|---|
| Actuarially Determined Contribution | $ 96,026 | $ 69,318 | $ 56,240 | $ 40,547 | $ 33,913 | $ 27,002 |
| Contribution in Relation to the Actuarially Determined Contribution | (96,026) | (69,318) | (56,240) | (40,547) | (33,913) | (27,002) |
| Contribution Deficiency (Excess) | $ - | $ - | $ - | $ - | $ - | $ - |
| District's Covered Payroll | $ 886,564 | $ 703,788 | $ 570,254 | $ 439,988 | $ 446,749 | $ 424,397 |
| Contributions as a Percentage of Covered Payroll | 10.83% | 9.85% | 9.86% | 9.22% | 7.59% | 6.36% |

[1] Historical information is presented only for measurement periods for which GASB No. 68 is applicable.

Notes to schedule:

| | |
|---|---|
| Fiscal Year End: | 6/30/2019 |
| Valuation Date: | 6/30/2016 |
| Methods and assumptions used to determine contributions rates: | |
| Actuarial Cost Method | Entry Age |
| Amortization Method | Level Percent of Payroll |
| Asset Valuation Method | Market Value |
| Discount Rate | 7.375% |
| Project Salary Increase | 3.30% to 14.20% dependinf on Age, Service, and type of employment |
| Inflation | 2.75% |
| Payroll Growth | 3.00% |
| Individual Salary Growth | A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25% |

The mortality table used was developed based on CalPERS' specific data. The table includes 15 years of mortality improvements using Society of Actuaries Scale 90% of scale MP 2016. For more details on this table, please refer to the December 2017 experience study report (based on CalPERS demographic data from 1997 to 2015) that can be found on the CalPERS website.

# SUPPLEMENTARY INFORMATION

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# East Orange County Water District
## Combining Schedule of Balance Sheets
## June 30, 2019

| ASSETS | Wholesale | Retail | ID No. 1 | Internal Balances | Total |
|---|---|---|---|---|---|
| **Current assets:** | | | | | |
| Cash and investments | $ 8,467,451 | $ 5,136,291 | $ 44,122,784 | $ - | $ 57,726,526 |
| Accrued interest receivable | 68,124 | 19,039 | 132,899 | - | 220,062 |
| Accounts receivable – services, net | 964,678 | 426,598 | 35,384 | (84,957) | 1,341,703 |
| Accounts receivable – other | - | - | 1,710 | - | 1,710 |
| Property taxes receivable | 8,992 | 5,767 | 15,173 | - | 29,932 |
| Prepaid expenses | 62,804 | 23,428 | 45,702 | - | 131,934 |
| Water-in-storage inventory | 22,876 | 3,269 | - | - | 26,145 |
| **Total current assets** | 9,594,925 | 5,614,392 | 44,353,652 | (84,957) | 59,478,012 |
| **Non-current assets:** | | | | | |
| Capital assets – not being depreciated | 766,576 | 228,850 | 835,679 | - | 1,831,105 |
| Capital assets – being depreciated, net | 4,494,599 | 4,853,568 | 3,035,786 | - | 12,383,953 |
| **Total non-current assets** | 5,261,175 | 5,082,418 | 3,871,465 | - | 14,215,058 |
| **Total assets** | 14,856,100 | 10,696,810 | 48,225,117 | (84,957) | 73,693,070 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | | | |
| Pension related deferred outflows of resources | 74,957 | 74,957 | 74,956 | - | 224,870 |
| **Total deferred outflows of resources** | 74,957 | 74,957 | 74,956 | - | 224,870 |
| **Total assets and deferred outflows of resources** | $ 14,931,057 | $ 10,771,767 | $ 48,300,073 | $ (84,957) | $ 73,917,940 |
| **LIABILITIES** | | | | | |
| **Current liabilities:** | | | | | |
| Accounts payable and accrued expenses | $ 444,623 | $ 286,297 | $ 96,443 | $ (84,957) | $ 742,406 |
| Accrued salaries and benefits | 14,814 | 14,561 | 25,213 | - | 54,588 |
| Compensated absences | 28,426 | 28,444 | 48,551 | - | 105,421 |
| Deposits and unearned revenue | 31,667 | 146,194 | 2,983 | - | 180,844 |
| Due to other governments | - | - | 7,068 | | 7,068 |
| **Total current liabilities** | 519,530 | 475,496 | 180,258 | (84,957) | 1,090,327 |
| **Non-current liabilities:** | | | | | |
| Net pension liability | 194,204 | 194,204 | 194,203 | - | 582,611 |
| **Total non-current liabilities** | 194,204 | 194,204 | 194,203 | - | 582,611 |
| **Total liabilities** | 713,734 | 669,700 | 374,461 | (84,957) | 1,672,938 |
| **DEFERRED INFLOWS OF RESOURCES** | | | | | |
| Pension related deferred inflows of resources | 22,968 | 22,968 | 22,967 | - | 68,903 |
| **Total deferred inflows of resources** | 22,968 | 22,968 | 22,967 | - | 68,903 |
| **NET POSITION** | | | | | |
| Investment in capital assets | 5,261,175 | 5,082,418 | 3,871,465 | - | 14,215,058 |
| Restricted for sewer operations | - | - | 44,031,180 | - | 44,031,180 |
| Unrestricted | 8,933,180 | 4,996,681 | - | - | 13,929,861 |
| **Total net position** | 14,194,355 | 10,079,099 | 47,902,645 | - | 72,176,099 |
| | $ 14,931,057 | $ 10,771,767 | $ 48,300,073 | $ (84,957) | $ 73,917,940 |

# East Orange County Water District
## Combining Schedule of Revenues, Expenditures, and Change in Net Position
## For the Year Ended June 30, 2019

| | Wholesale | Retail | ID No. 1 | Internal Balances | Total |
|---|---|---|---|---|---|
| **Operating revenues:** | | | | | |
| Water use sales | $ 4,136,899 | $ 1,518,523 | $ - | $ (242,073) | $ 5,413,349 |
| Meter and standby service charges | 137,453 | 475,032 | - | (5,973) | 606,512 |
| Capacity and connection fees | 880,651 | - | - | - | 880,651 |
| Sewer use fees | - | - | 3,007,647 | - | 3,007,647 |
| Other connection fees | 49,838 | 43,387 | 13,914 | (55,523) | 51,616 |
| Other service charges | - | 13,132 | 14,414 | - | 27,546 |
| **Total operating revenues** | 5,204,841 | 2,050,074 | 3,035,975 | (303,569) | 9,987,321 |
| **Operating expenses:** | | | | | |
| Source of supply: | | | | | |
| Water purchases | 4,136,062 | 242,073 | - | (242,073) | 4,136,062 |
| Standby service charges | 140,370 | 35,520 | - | | 175,890 |
| Capacity and connection fees | 365,637 | 25,975 | - | (61,496) | 330,116 |
| Replenishment assessment | - | 261,935 | - | - | 261,935 |
| **Total source of supply** | 4,642,069 | 565,503 | - | (303,569) | 4,904,003 |
| Pumping | 1,105 | 89,458 | - | - | 90,563 |
| Transmission and distribution | 595,807 | 541,542 | 116 | - | 1,137,465 |
| Sewer system maintenance | - | - | 512,616 | - | 512,616 |
| General and administrative | 284,559 | 232,967 | 951,013 | - | 1,468,539 |
| **Total operating expenses** | 5,523,540 | 1,429,470 | 1,463,745 | (303,569) | 8,113,186 |
| Operating income(loss) before depreciation | (318,699) | 620,604 | 1,572,230 | - | 1,874,135 |
| Depreciation | (380,610) | (214,370) | (96,886) | - | (691,866) |
| **Operating income(loss)** | (699,309) | 406,234 | 1,475,344 | - | 1,182,269 |
| **Non-operating revenues(expenses):** | | | | | |
| Property taxes | 898,277 | 452,957 | 329,817 | - | 1,681,051 |
| Rental income – cellular antennas | 121,927 | - | - | - | 121,927 |
| Investment earnings | 318,374 | 85,140 | 1,446,739 | - | 1,850,253 |
| Other revenues | 69,746 | 1,692 | 11,931 | - | 83,369 |
| Other expenses | - | - | (1,903) | - | (1,903) |
| Gain (loss) on sale of asset | (374) | (41,802) | - | - | (42,176) |
| Interest Expense | - | - | - | - | - |
| **Total non-operating revenues, net** | 1,407,950 | 497,987 | 1,786,584 | - | 3,692,521 |
| **Capital contributions:** | | | | | |
| Capital contributions from developers | - | (1,875) | 23,610 | - | 21,735 |
| **Total capital contributions** | - | (1,875) | 23,610 | - | 21,735 |
| **Change in net position** | 708,641 | 902,346 | 3,285,538 | - | 4,896,525 |
| **Net position:** | | | | | |
| Beginning of year | 13,485,714 | 9,176,753 | 44,617,107 | - | 67,279,574 |
| End of year | $ 14,194,355 | $ 10,079,099 | $ 47,902,645 | $ - | $ 72,176,099 |