



Orange County Water District Comprehensive Annual Financial Report

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

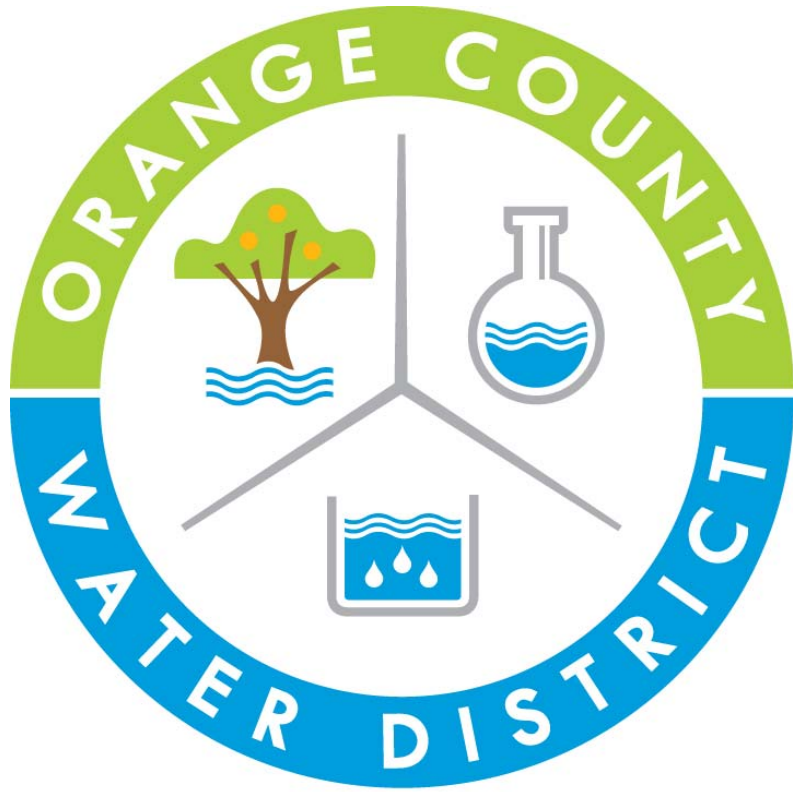
**ORANGE COUNTY WATER DISTRICT
FOUNTAIN VALLEY, CALIFORNIA**

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

**WITH REPORT ON AUDIT
BY INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

**FOR THE YEARS ENDED
JUNE 30, 2017 AND 2016**

**PREPARED BY:
FINANCE DEPARTMENT**



SINCE 1933

ORANGE COUNTY WATER DISTRICT

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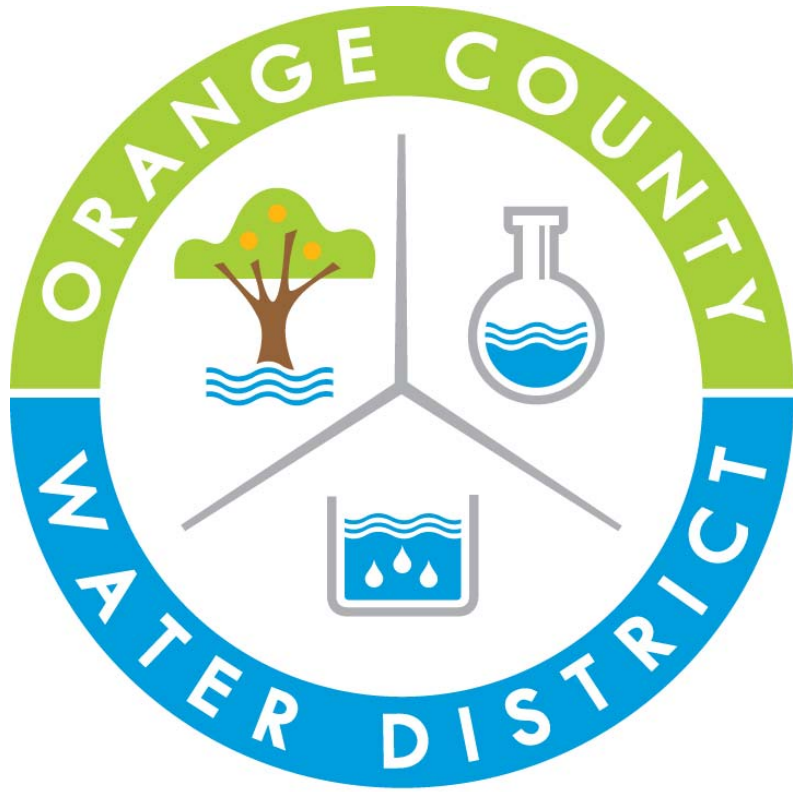
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Introductory Section



SINCE 1933

DIRECTORS

PHILIP L. ANTHONY
 DENIS R. BILODEAU, P.E.
 SHAWN DEWANE
 CATHY GREEN
 DINA NGUYEN
 VICENTE SARMIENTO
 STEPHEN R. SHELDON
 JAMES VANDERBILT
 BRUCE WHITAKER
 ROGER C. YOH, P.E.



ORANGE COUNTY WATER DISTRICT
 ORANGE COUNTY'S GROUNDWATER AUTHORITY

OFFICERS

President
 DENIS R. BILODEAU, P.E.

First Vice President
 PHILIP L. ANTHONY

Second Vice President
 SHAWN DEWANE

General Manager
 MICHAEL R. MARKUS, P.E., D.WRE

LETTER OF TRANSMITTAL

October 12, 2017

To the Board of Directors of the Orange County Water District:

It is our pleasure to submit the Comprehensive Annual Financial Report of the Orange County Water District (District) for the fiscal years ended June 30, 2017 and 2016. District staff worked collectively and followed guidelines set forth by the Governmental Accounting Standards Board to prepare this report. This document, which contains a complete set of basic financial statements, is presented in conformity with generally accepted accounting principles (GAAP) and audited by White Nelson Diehl Evans LLP, a firm of licensed certified public accountants, in accordance with generally accepted auditing standards. State law requires that all special-purpose local governments publish these basic financial statements within seven months of the close of the agency's fiscal year.

Management assumes full responsibility for the completeness and reliability of the information contained in this report. To provide a reasonable basis for making these representations, the District has established a comprehensive framework of internal controls. The District's internal controls have been designed to provide appropriate assurance that the basic financial statements will be free from material misstatements.

The goal of the independent audit was to provide reasonable assurance and not absolute assurance that the basic financial statements of the District for the fiscal year ended June 30, 2017 were free of material misstatement. The independent audit involved examining the District's records on a test basis, disclosures in the basic financial statements, assessing the accounting principles used, estimates made by management, and evaluating the overall financial statement presentation. The independent auditors rendered an unmodified opinion that the District's basic financial statements for the fiscal year ended June 30, 2017 are presented fairly in conformity with GAAP.

The Management Discussion and Analysis (MD&A), which follows the Independent Auditor's Report, provides an overview and analysis of the basic financial statements and should be read in conjunction with the financial statements.

AGENCY PROFILE

The District was formed in 1933 by a special act of the California State Legislature to protect Orange County's rights to water in the Santa Ana River. The District's primary responsibility is managing the vast groundwater basin under northern and central Orange County that supplies water to 19 cities and water districts (Producers), serving more than 2.5 million Orange County residents. The District gives highest priority to protection, safety, and enhancement of groundwater.

A ten member Board of Directors (Board), seven of whom are elected directly by voters of the District, govern the District. The other three Directors are appointed by their representative city councils of Anaheim, Fullerton and Santa Ana. The District currently has 218.5 employees overseeing day-to-day activities at the direction of the General Manager.

The District Act provides for local financing of the District's operations by a combination of ad valorem taxes and water replenishment assessments. It empowers the District to levy and collect a replenishment assessment (RA) and an additional replenishment assessment (ARA) on water extracted from the groundwater basin. These monies are used to purchase supplemental water for groundwater recharge, to construct, operate and maintain water production facilities, and to acquire water rights and spreading facilities to replenish and protect the groundwater supply of the District and for administrative purposes.

The Board also sets an annual basin equity assessment (BEA) that generally represents the differential cost between pumping groundwater and purchasing supplemental water. Producers annually pay the BEA on each acre-foot pumped in excess of the basin production percentage (BPP) established by the Board.

The District primarily recharges the groundwater basin with Santa Ana River flows, Groundwater Replenishment System (GWRS) water and untreated water purchased from the Metropolitan Water District (MWD) of Southern California. The Santa Ana River flows valued at approximately \$90.2 million a year are essentially free to the District, less the expense to capture and percolate the water, resulting in groundwater that costs about a third of the cost of MWD water imported from Northern California and the Colorado River. The Santa Ana River flows, GWRS water and untreated MWD water are percolated into deep groundwater aquifers through spreading basins in Anaheim and Orange. By naturally filtering the water through the ground, the District saves ratepayers millions of dollars each year in water treatment costs.

The groundwater basin provides about three-fourths of all water used within the District's service area. With one of the most sophisticated groundwater protection programs in the country, the District uses more than 699 (owned and non-owned) wells providing more than 1,290 sampling points from which the District takes more than 18,177 water samples and conducts approximately 358,049 laboratory analyses every year.

The District's monitoring program looks for more than 550 possible contaminants, which are more than the required 146 target contaminants required by health agencies.

The District currently holds rights to all Santa Ana River flows reaching Prado Dam in Riverside County (the dam is owned by the U.S. Army Corps of Engineers for flood prevention). The District owns 2,150 acres behind the dam that is used for water conservation, water quality improvement and environmental enhancement. The District saves approximately \$20.6 million a year by collecting storm water behind Prado Dam, which is recharged into the basin instead of being lost to the ocean.

The District operates the world's largest wastewater purification facility of its kind, called the Groundwater Replenishment System (GWRS). The GWRS takes highly treated sewer water destined for the ocean, purifies it to near-distilled quality, and puts it back into the groundwater basin and the District's seawater intrusion barrier. The GWRS, a joint project of the District and the Orange County Sanitation District (OCSD), produces high-quality water for approximately 54% of the cost of MWD water, and uses less energy than is required to import water from Northern California.

Additional efforts to increase local water supplies include expanding the capacity of the existing percolation facilities, treating poor quality water to make it useable, studying methods to extend the life of water treatment filtration membranes, improving advanced purification technologies, and studying the quality of Santa Ana River water and other water-related issues. Other District activities focus on expanding the Prado wetlands, groundwater treatment at well heads, computer modeling of the groundwater basin and conservation of endangered or threatened species.

The District continues to adopt strategies to ensure that sufficient water supplies will be available in the future to replenish, protect and maximize the use of the groundwater basin. Ensuring water quality continues to be a top priority for the District; extra effort is extended in the area of monitoring water quality and improving coastal conditions, along with sound financial choices to minimize the costs of projects. Those extra efforts are summarized in the items listed below:

Maintaining and Improving Water Quality

Drinking water in California is among the most highly regulated and safest in the world. Operating for more than nine years now, the GWRS brings Orange County's water quality to a higher level. The District conducts monitoring programs on behalf of the local water retailers to meet monitoring requirements implemented by the California Department of Health Services and the U.S. Environmental Protection Agency.

The District also implements additional monitoring programs for the purpose of groundwater management. These programs are designed to give the District an advance warning of potential problems so corrective action can be taken to protect northern and central Orange County's water supply before there is a problem.

The District's organic and inorganic laboratory provides real value to local water retailers by testing all groundwater to ensure public health. The District has always maintained a proactive policy toward maintaining water quality.

Improving Coastal Conditions

Production from the basin requires coastal mitigation measures. The District has implemented various capital projects to improve coastal conditions. The District's two main objectives are to ensure high quality coastal groundwater supplies and to protect the coastal aquifer subunits from seawater intrusion through expansion of the seawater barrier.

Using the Safest and Most Cost-Effective Financing Option

The District has traditionally and successfully used long-term debt financing in the form of Certificates of Participation and low cost State loans to pay for capital projects that have increased water production, removed pockets of contamination, increased producer pumping capacity, increased the capture of Santa Ana River flows, and prevented seawater intrusion. The District is always seeking ways to minimize capital project costs.

ECONOMIC CONDITION AND OUTLOOK

The District's service boundary covers virtually the entire northern half of Orange County. More than 2.5 million Orange County residents rely on the groundwater basin for about three-fourths of their water needs. Orange County is one of the major metropolitan areas in California and the nation representing the third most populous county in the state, and fifth in the nation. Population growth is about 1.0% annually.

Orange County's economy is expected to grow slowly in the next year. Local and statewide unemployment has gone down compared to last year. The local unemployment rate in June 2017 was 3.8% versus 4.7% for California and 4.4% for the nation. The California State Budget has passed. Although the precise implications of the state budget are unclear at this time, the District is expecting no cuts in the ad valorem property tax revenues for the upcoming fiscal year 2017-18.

During the water year 2016-17 the District artificially replenished 283,765 acre-feet (af) of water. This includes groundwater replenishment of 135,391 af of Santa Ana River flows, 96,775 af of GWRS water and non-local recharge of 51,599 af of imported water. Other water sources include natural replenishment from rainfall that provided an additional 67,871 af of water.

Groundwater use in Orange County in 2016-17 was approximately 301,637 af or 98.3 billion gallons during the water year. Groundwater met 81% of the water demand within District boundaries. There are challenges ahead in meeting future water demand, but with continued investment in cost-effective capital improvement projects, the District is confident that the groundwater basin can stay ahead of demand and continue to provide a reliable, high-quality water supply.

MAJOR INITIATIVES FOR THE FUTURE

The District's combined projects will provide regional, statewide and national benefits. All of these projects are an effective response to meeting the federal mandate to decrease California's dependency on imported waters from the Colorado River and the Sacramento-San Joaquin River Delta (the "Delta"). The current method of moving water through the Delta to the pumps of the California State Water Project is in jeopardy due to recent environmental rulings. OCWD's projects help to diminish the region's reliance on imported water supplies.

Groundwater Replenishment System Final Expansion

The GWRS was designed and built to be easily expanded. The GWRS Initial Expansion was completed in July 2015, capable of producing 100 million gallons per day (MGD), an increase of 30 MGD from the original construction. The District is currently working towards final expansion of the system and the design started in the summer of 2017. The Final Expansion will increase production capacity by another 30 MGD from our current capacity of 100 MGD to 130 MGD.

Mid-Basin Injection Project – Centennial Park

The Mid-Basin Injection project in Centennial Park will construct 4 wells to inject GWRS product water directly into the principal aquifer near areas of significant water table drawdown. Each well is expected to provide another 1-3 million gallons per day (MGD) of recharge capacity. The project will provide additional basin recharge capacity that must be developed to support the GWRS Final Expansion Project (130 MGD total production capacity), raise groundwater levels in the principal aquifer, and reduce the amount of GWRS water that has to be sent to the Anaheim recharge basins allowing those facilities to be concentrated on capturing Santa Ana River storm flows and recharging untreated imported water. A construction contract has been awarded and the well drilling started in the summer of 2017.

Alamitos Barrier Improvements

This is a joint project between Engineering, Hydrogeology and Planning departments to develop improvements to the Alamitos Barrier to strengthen the control of seawater intrusion. This project includes the installation of 17 injection wells at eight locations to augment injection capacity along the north-south reach of the barrier and the installation of four nested monitoring wells to enhance the intermodal monitoring network near the barrier. The well drilling portion has been completed and construction for the well equipping and pipeline begin in the summer of 2017.

Conrock-Warner Transfer Tube

The project consists of installing a large diameter transfer tube between Conrock and Warner Basin. This transfer tube will be constructed at the invert of the basins to allow both basins to drain and fill quickly and evenly in preparation for storm events and cleaning operations. The design will be complete in the fall of 2017 with the construction contract to bid in concurrence with the next scheduled draining and cleaning of Warner Basin.

Talbert Barrier Pipeline Replacement

This project will remove and replace segments of the seawater barrier pipeline that experience high velocities and have reached the end of their useful life expectancy. The pipeline conveys GWRS water from the product water pump station to the injection wells which keep seawater from intruding inland. The design will start in the fall of 2017.

The components that comprise the O.C. Family Water Conservation Program are:

Water Conservation and Engagement Programs

The Orange County Water District (District) is dedicated to the creation, promotion and management of water education and conservation programs throughout Orange County. This year, District staff gave nearly 50 offsite presentations to community leaders and groups and conducted more than 200 onsite presentations and tours of District facilities. The goal of OCWD's water-use efficiency, outreach and education programs is to draw families' attention to the state's water needs and crisis, teach them useful and simple ways to reduce water consumption and respect this natural resource, and have them make life-long commitments to conserving water.

The components that comprise OCWD's water-use efficiency, outreach and education programs are:

Children's Water Education Festival

The Children's Water Education Festival (the Festival) is the largest event of its kind in the nation, serving 7,500 elementary school students annually. Thanks to more than 400 volunteers and the support of the Disneyland Resort, the Festival celebrated its 21st anniversary in March 2017. For the fifth time, the Festival was held on the campus of the University of California, Irvine (UCI). For many of the students, it was the first time they visited a university campus.

The two-day Festival teaches children about water and the environment through hands-on educational activities. Topics include water resources, watersheds, wildlife and natural habitats, biology, chemistry and recycling at this unique event. Over the past 21 years, the Festival has educated more than 120,000 students, teachers and parents. This educational field trip is widely sought after by educators.

O.C. Water Summit

The annual O.C. Water Summit (the Summit) teaches individuals, business, and community and civic leaders where our water comes from, and provides information about the water supply crisis and water quality challenges we face. The event educates the public on what measures are in place to address these issues as well as possible solutions to water reliability and preserving the Bay-Delta River, California's main source of water. A collaborative effort between businesses, water agencies and local governments, the Summit provides a platform for individuals in the community to work with water utilities and legislators on creating and implementing solutions that will see Orange County through future water challenges. Topics for

each Summit are determined according to the water climate each year. The Summit began in 2008 and is a joint venture between OCWD and the Municipal Water District of Orange County.

O.C. Water Hero Program

The O.C. Water Hero Program was designed to make water conservation fun while helping children and parents develop effective water-use efficiency habits that will last a lifetime. Originally conceived in 2007, children signed up to commit to saving 20 gallons of water per day and in return received a letter confirming their Water Hero status along with a Water Hero kit. The O.C. Water Hero Program underwent an exciting revamp in early 2017. The new program is based entirely online and includes a multi-level game available for download to iOS and Android devices. Players collect water drops while interacting with O.C. Water Hero characters who provide water facts and teach important water conservation practices.

OCWD.COM

As a public agency, the District's website, which was designed in 2015, includes extensive documents, forms for tour reservations and public records requests, audio and video clips of meetings, and information that addresses not only duties and how OCWD performs its duties, but why—motivations for its management practices and decisions—for better public understanding. The new website was crafted to reflect OCWD's core values that not only include transparency, but sound planning, investment and financial management, high-quality water, environmental stewardship, and a highly reliable water supply.

H₂O Learning Center

The H₂O Learning Center was developed and opened in August 2016 to educate and inform visitors about water quality and OCWD's international and local leadership, so they can understand and have confidence in our management and innovation and the purity, reliability and cost-efficiency of the water that OCWD provides.

The H₂O Learning Center Corridor, an interactive, museum-like exhibit, can be used as an extension of the GWRs tour or as a self-guided tour to learn the story of the District's complex water management process and guests' roles in keeping it safe for future generations.

The educational hallway features the following key messages that are found on the two sides of the 1,600 sq. ft. facility:

- Global and California views of water and how precious it is. This includes videos and interactive opportunities regarding the Board Members, basin recharge and management and Advanced Water Quality Assurance Lab testing. Some awards are displayed.
- The focused picture of OCWD & Orange County's water --where it comes from, a timeline of major OCWD events, the challenge of seawater intrusion and the success of our environmental projects. This too, features videos and interactive opportunities. The

final panel provides a mosaic of photos of those who have toured and ways to interact through social media.

Facility Tours, Speaker's Bureau

As a leader in water reuse and groundwater management, OCWD receives hundreds of requests annually to provide on-site tours and briefings for visitors from local colleges, water agencies, the surrounding community, and international organizations. Through its active speakers bureau program, OCWD also receives requests for representatives to go out to the community and speak to numerous organizations and schools, as well as at local, national and international conferences. In FY 2016-2017, staff and board members gave 92 offsite presentations to community organizations, city councils and conferences and 150 to 7,500 students at the District's Children's Water Education Festival. More than 200 onsite presentations were given to OCWD visitors.

OCWD is committed to proactive public outreach and education and will make every effort to accommodate requests for speakers and tours. Educating the public about advanced wastewater purification is important to garnering support for future GWRS-like projects that are being planned around the world.

Staff conducted more than 200 tours in 2016-17, and hosted about 4,000 guests.

SERVICE EFFORTS AND ACCOMPLISHMENTS

Many cities, towns and regions around the world are experiencing drought and water shortages, including the southwestern and southeastern United States, Singapore, the Middle East, and Australia. Government and water officials in these areas constantly seek new sources to provide a reliable, long-term water supply. As technology increases and public opinion shifts, treating wastewater at an advanced recycled water treatment facility is now a viable water source for many of these areas. Through the success of OCWD's Groundwater Replenishment System (GWRS), indirect potable reuse (IPR) projects have been implemented or are being planned. Nearly 34,000 visitors have toured GWRS since 2008, many of whom are international water experts and elected officials from six continents hoping to learn more about Indirect Potable Reuse (IPR) and ultimately replicate the project in their regions. As an example, guests have hailed from across the U.S., Mexico, Canada, Brazil, Israel, Spain, Greece, Kenya, Japan, China, Korea, Germany, Britain, Italy, Russia, Australia, Singapore, India, and Taiwan.

Some of the more notable visitors to the GWRS included Governor of California Jerry Brown; Senator Dianne Feinstein; Congresswomen Loretta Sanchez and Grace Napolitano; Congressmen Tom McClintock, Gary Miller, Dana Rohrabacher and Ed Royce; and Lt. Governor John Garamendi; dignitaries from the nations of Abu Dhabi, Australia, Brazil, Israel, Nairobi, Saudi Arabia, and Singapore; Lesley Stahl of 60 Minutes; and actor-comedian Paul Rodriguez.

In California alone, there are more than four other GWRS-like projects currently being developed by other agencies including the City of San Diego, Los Angeles Department of Water

and Power, Santa Clara Valley Water District, and the GRIP Project sponsored by four water agencies in Los Angeles County.

The GWRS has been featured in hundreds of print and broadcast stories, both mainstream and trade press, locally, nationally and internationally. In 2004, four years before it was constructed and operational, the project had already been in more than 40 balanced media reports including ABC Nightly News with Peter Jennings, National Public Radio, and the Wall Street Journal.

The District has received numerous awards for its service efforts and accomplishments in the recent years. The District is known globally for its leadership and innovation. Its work on water quality and reliability, the environment, and sound financial management has been recognized by local and international organizations.

The following list of awards is representative of the acclaim and recognition bestowed on the District and its GWRS from 2012 through June 2017.

2017

The OCWD H2O Learning Center received a *2017 Bronze Astrid Award* for Design Communications in the Miscellaneous/Other Permanent Museum-like Exhibit category. The Learning Center, located in the corridor of the Orange County Water District headquarters, is used as an extension of the Groundwater Replenishment System tour and as a self-guided tour (April 2017)

The Orange County Water District received two *John Muir Conservation Awards*, one for Environmental Education and another for Public Agency. The John Muir Awards help to encourage awareness, understanding and responsibility for wild places, encourage an environmental agenda—for individuals and organizations, and recognize and celebrate achievement of award recipients. Those honored have taken action for the environment, promoted a culture of environmental awareness and care and have encouraged behavior and action, attitudes and values-based learning for individuals. (April 2017)

The 2016 Children’s Water Education Festival received a *2017 Communitas Award* in the Corporate Social Responsibility category. Communitas Awards recognizes exceptional businesses, organizations and individuals that are unselfishly giving of themselves and their resources, and those that are changing how they do business to benefit their communities. (May 2017)

OCWD General Manager Mike Markus received the *Environmental & Water Resources Institute 2017 Pioneer in Groundwater Award* for his pioneering contributions in the practice of groundwater science and engineering. (May 2017)

The Orange County Water District’s Children’s Water Education Festival is a *PR World Awards® Gold Winner* in the “Training or Educational Event” category. The coveted annual PR World Awards program encompasses the world’s best in public relations, marketing, corporate

communications, investor relations, and business development professionals, teams, departments, and achievements from every major industry in the world. (June 2017)

2016

The Orange County Water District received the UV Engineering Project of the Year Award from the International Ultraviolet Association (IUVA). The presentation was made at the 2016 IUVA World Congress held in Vancouver, BC. This award recognizes an exemplary engineering project involving UV applications in operation. Each nominated engineering project was reviewed for development of UV research and technology and honored for innovation, excellence, and its impact on society. (February 2016)

The Groundwater Replenishment System was awarded the Electrical Excellence Award by the Orange County Chapter of the National Electrical Contractors Association (NECA). NECA advances the electrical contracting industry through advocacy, education, research, and standards development. (February 2016)

The Orange County Water District's Groundwater Replenishment System Initial Expansion was presented the "Membrane Facility of the Year" award by the American Membrane Technology Association and the American Water Works Association. The award recognizes an outstanding water/wastewater facility that uses any membrane technology with high efficiency in an environmentally friendly approach. (February 2016)

The Groundwater Replenishment System Initial Expansion received an Engineering Achievement Award from the Orange County Engineering Council (OCEC). The presentation was made February 27, 2016 at the OCEC Annual Honors and Awards Banquet, celebrated this year in Anaheim, Calif. OCEC is an umbrella organization of the American Society of Civil Engineers (ASCE). (February 2016)

The Groundwater Replenishment System Initial Expansion was awarded the American Society of Civil Engineers (ASCE) Orange County Branch's "Water/Wastewater Treatment Project of the Year" award. ASCE Orange County Branch (OCB) is part of a global civil engineering community. (March 2016)

The Orange County Water District (OCWD) was awarded the California Large Agency of the Year award by the WaterReuse Association for its collaboration with the Orange County Sanitation District (OCSD) on the Groundwater Replenishment System Initial Expansion. OCWD received the award for successfully advancing the development of alternative water supplies and developing a novel approach to meeting local water needs. (March 2016)

OCWD was awarded the Partners in Excellence Award from the Disneyland Resort at the 2016 Children's Water Education Festival. The award was presented by Disneyland Resort Environmental Affairs to recognize the District's 20-year partnership and commitment to engaging Orange County youth in environmental education. (March 2016)

The Orange County Water District was the recipient of the Global Water Intelligence Water Reuse Project of the Year Distinction Award for significant advancement in terms of water reuse for the Groundwater Replenishment System Initial Expansion. The award was presented at the 2016 Global Water Summit. (April 2016)

The American Academy of Environmental Engineers and Scientists (AAEES) honored the Groundwater Replenishment System Initial Expansion with an Honor Award in the Design category. (April 2016)

OCWD's Groundwater Replenishment System received the 2016 Outstanding Membrane Plant Award - Large Facility from the Southwest Membrane Operators Association. The award was presented in recognition of outstanding plant operations and maintenance, and exemplary membrane treatment plant performance. (June 2016)

APEX 2016 Award for Publication Excellence - The Orange County Water District's website received an APEX Award for Publication Excellence. The award recognizes excellence in publishing by professional communicators in a variety of mediums. OCWD launched its redesigned website in October 2015. (June 2016)

2015

The Orange County Water District received a \$500,000 Savings by Design grant award from Southern California Edison for energy-saving strategies that were incorporated into the design of the Groundwater Replenishment System Initial Expansion. (January 2015)

2014

Orange County Water and Sanitation Districts were honored with the U.S. Water Prize by the U.S. Water Alliance for their joint project, the Groundwater Replenishment System, and were lauded as global leaders in reclamation and reuse. (April 2014)

The Lee Kuan Yew Water Prize, an international water award, was presented to OCWD for its pioneering work in groundwater management and water reclamation using advanced water reuse technologies, as well as for its achievements in public policy and community outreach. (June 2014)

RELEVANT FINANCIAL POLICIES

Internal Control Structure

District management is responsible for the establishment and maintenance of the internal control structure that ensures that the assets of the District are protected from loss, theft, or misuse. The internal control structure also ensures that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The District's internal control structure is designed to provide reasonable assurance that these objectives are met.

The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived, and the valuation of costs and benefits requires estimates and judgments by management.

Accounting and Budgetary Policies

The District maintains its accounting records on an accrual basis. A great deal of consideration is given to the adequacy of internal accounting controls in developing and evaluating the District's accounting system. Internal accounting controls are designed to provide reasonable assurance regarding: (1) the safeguard of District assets against theft or unauthorized use; and (2) the reliability of financial records for preparing financial statements and maintaining accountability of assets.

The District's Board of Directors adopts an annual budget prior to June 30 each fiscal year. The budget includes proposed expenses by department (function) and the means of financing them. Budgetary controls and evaluation are affected by comparisons of actual revenue and expenses with planned revenues and expenses for the period. The Board approves total budgeted appropriations and any amendments to the appropriations throughout the year. The District has adopted a Uniform Purchasing Policy that identifies agreed-upon purchasing standards.

Cash Management Policies and Practices

The District regulated by California Government Code Section 53600, et seq. as to the type 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 investment while meeting required financial obligations.

Reserves Policy

The District has a reserve policy, which states the purpose, source, and funding limits for each of its designated reserves. The District has over one billion dollars invested in capital assets that require constant repair and refurbishment. The reserves are essential to eliminate fluctuations in water rates, maintain consistent supply of water and maintaining liquidity in the marketplace, which enables the District to access the lowest cost-of-capital borrowing opportunities.

Debt Management

The District's debt mainly consists of Certificates of Participation (COP), revenue refunding bonds, state loans and commercial paper. The District has executed 15 issuances since 1989. Only three COP and revenue refunding bond issuances are outstanding (2003A, 2013A, and 2017A&B) as of June 30, 2017. Other issuances are either advanced refunded, defeased, or refinanced with the help of the state loans and refunding bonds.

During FY 2016-17, the District advance refunded \$125.985 million of 2009A Certificate of Participation debt with series 2017 A&B debt that resulted in approximately over twenty million dollars in debt service savings.

During FY 2014-15, the District cash defeased \$26.8 million of 2005B Certificate of Participation debt. This resulted in a reduction of senior debt service by an average \$3.4 million per year between FY 2015-16 and FY 2024-25 and reduced the FY 2015-16 Replenishment Assessment (RA) by \$10 per acer-foot.

During fiscal year 2013-14 the District used \$28.4 million of commercial paper debt to purchase land for the creation of La Palma basin. The District has \$16.8 million commercial paper debt currently outstanding.

The District has a letter of credit and reimbursement agreement supporting a commercial paper program with Sumitomo Mitsui Banking Corporation. The District has credit capacity of \$70.0 million less any outstanding commercial paper debt to meet its future financing needs through the commercial paper program.

The District has an AAA rating from Fitch and Standard & Poor's and an Aa1 rating from Moody's based on the District's long-term credit quality. The ratings mean the District is one of the highest rated water agencies in the State of California. Maintaining a high rating saves the District and local water rate payers millions of dollars by allowing the District to borrow money more easily and at lower rates.

The high ratings reflect great confidence in the District's general and fiscal management and its leadership in the water industry. It bears truth to the District's competitive replenishment assessment rates, particularly in comparison to alternative water supply options, strong debt service coverage, and the District's ability to address Southern California's long-term water supply problems with new water projects like the GWRS.

OTHER INFORMATION

Independent Audit: The District's policy, as well as sound financial practice, requires an annual audit of financial records and transactions of all operations of the District by independent certified public accountants selected by the Board of Directors. The accounting firm of White Nelson Diehl Evans LLP was selected to perform the (FY 2016-17) audit. The auditor's opinion is included in this report.

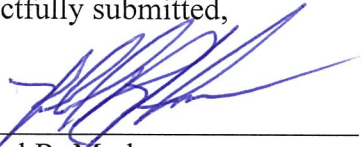
Awards: The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Orange County Water District for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2016. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR, whose contents conform to program standards. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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


Acknowledgements: The preparation of a comprehensive annual financial report on a timely basis is a large task, made possible only by the combined efforts of many persons. Employees of the Finance Department deserve special recognition. Without their efforts, the completion of this report would not have been possible.

We would also like to thank and recognize the members of the Board of Directors and especially the Administration and Finance Committee members for their continued support in the planning and implementation of the District's fiscal policies.

Respectfully submitted,

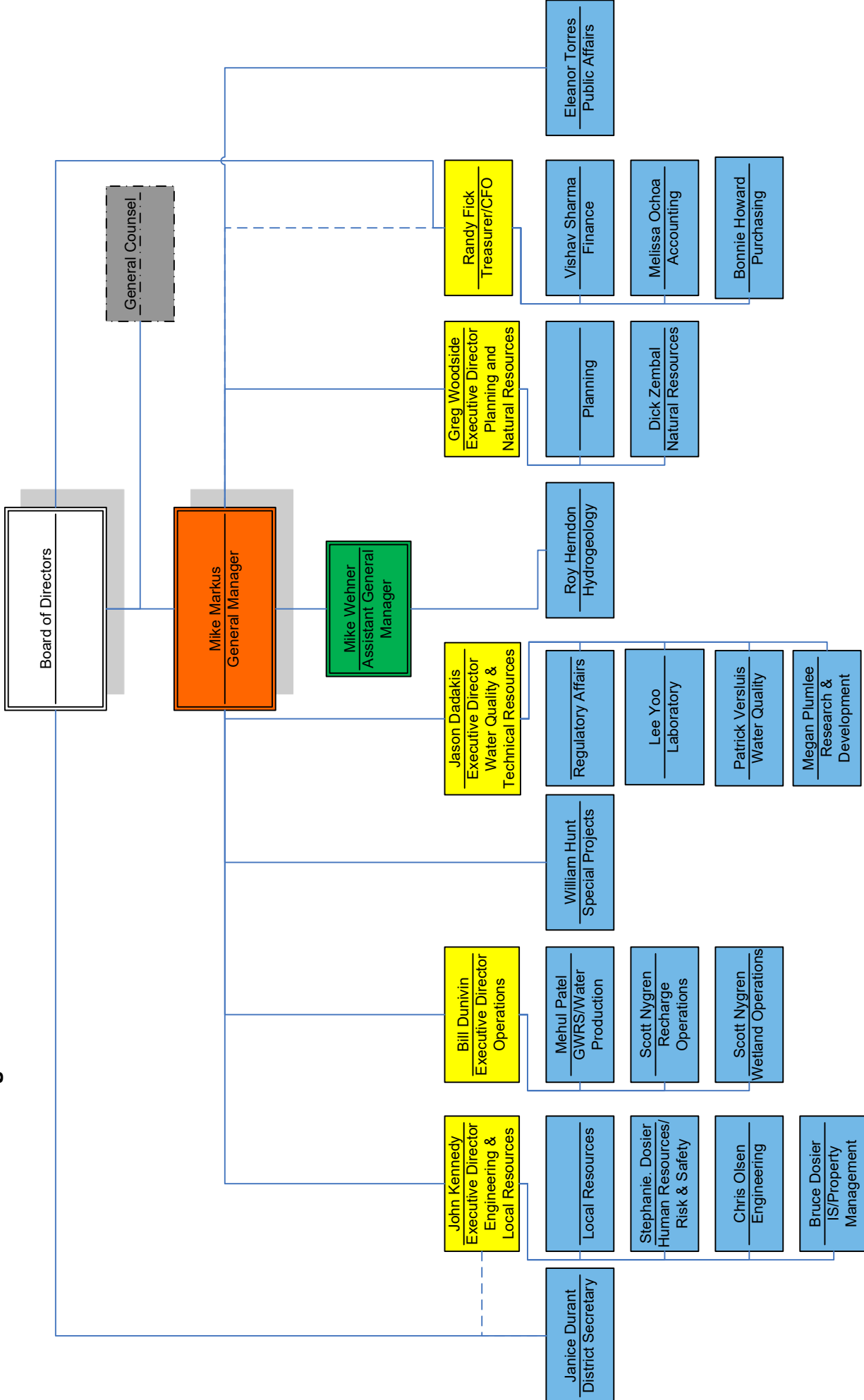


Michael R. Markus
General Manager



Randy Fick
Chief Financial Officer/Treasurer

OCWD Organizational Structure





**Orange County Water District
Comprehensive Annual Financial Report
Fiscal Year 2016-17**

Board of Directors

Dina Nguyen, Division 1

Denis Bilodeau, P.E., President, Division 2

Roger Yoh, P.E., Division 3

Philip Anthony, 1st Vice President, Division 4

Stephen Sheldon, Division 5

Cathy Green, Division 6

Shawn Dewane, 2nd Vice President, Division 7

Vicente Sarmiento, Division 8

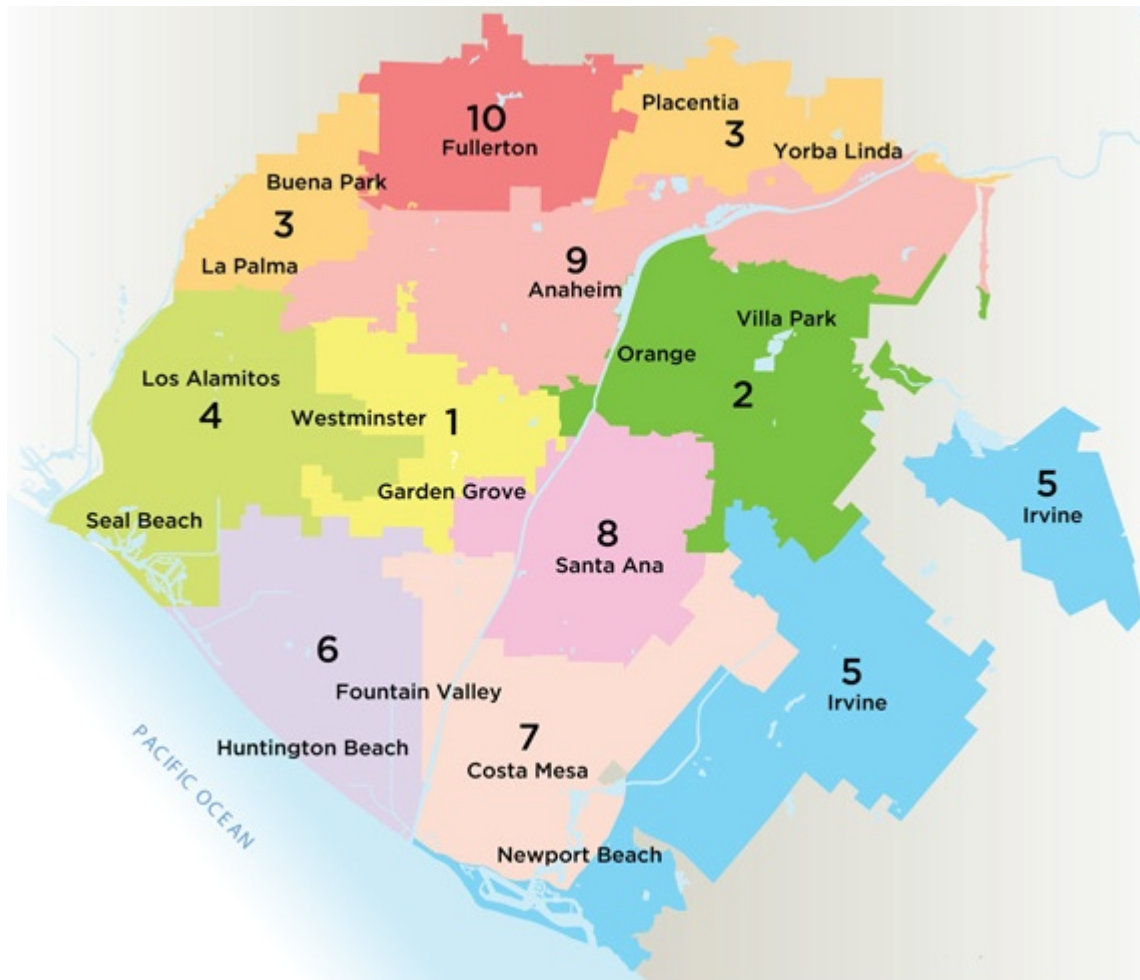
James Vanderbilt, Division 9

Bruce Whitaker, Division 10



Michael R. Markus, P.E., D.WRE
General Manager

ORANGE COUNTY WATER DISTRICT



DISTRICT VITAL STATISTICS

Date of Enactment: 1933
 Form of Government: Special District of the State of California
 Area (square miles): 381
 Employees (full-time): 218.5

Major Groundwater Producing Agencies:

- | | |
|--|--|
| <ul style="list-style-type: none"> Anaheim, City of Buena Park, City of East Orange County Water District Fountain Valley, City of Fullerton, City of Garden Grove, City of Golden State Water Company Huntington Beach, City of Irvine Ranch Water District La Palma, City of | <ul style="list-style-type: none"> Mesa Water District Newport Beach, City of Orange, City of Santa Ana, City of Seal Beach, City of Serrano Water District Tustin, City of Westminster, City of Yorba Linda Water District |
|--|--|



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**Orange County Water District
California**

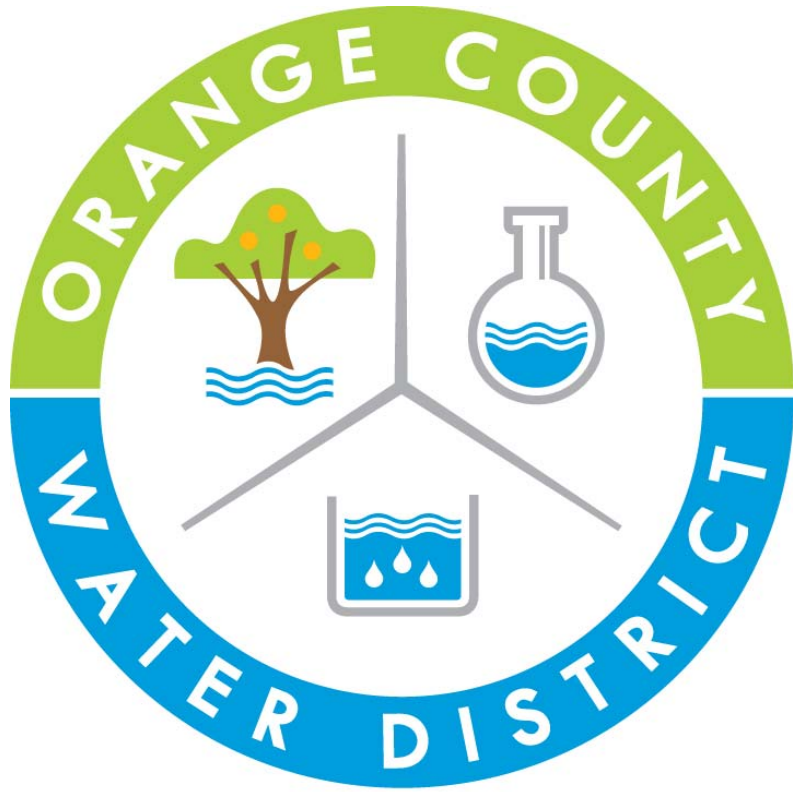
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2016

Executive Director/CEO

Financial Section

Independent Auditors' Report



SINCE 1933

INDEPENDENT AUDITORS' REPORT

Board of Directors
Orange County Water District
Fountain Valley, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Orange County Water District (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's Minimum Audit Requirements for California Special Districts. 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 auditors' 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 auditors consider internal control relevant to the District'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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Orange County Water District, as of June 30, 2017, and the respective changes in financial position and 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 discussed in Note 1f to the financial statements, the District adopted Governmental Accounting Standards Board's Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions*. The adoption of this standard required the addition of fiduciary fund financial statements and additional note disclosures and required supplementary information. Our opinion is not modified with respect to this matter.

Other Matters

Prior Year Audited Financial Statements

The financial statements of the District as of and for the year ended June 30, 2016, were audited by other auditors whose report dated October 13, 2016 expressed an unmodified opinion on those statements.

As part of our audit of the 2017 financial statements, we also audited the adjustment to reclassify the 2016 balance for derivative instruments from an asset and deferred inflows of resources to a liability and deferred outflows of resources. There was no impact on the resulting net position. In our opinion, such an adjustment is appropriate and has been properly applied. We were not engaged to audit, review, or apply any procedures to the 2016 financial statements of the District other than with respect to the adjustment and, accordingly, we do not express an opinion or any other form of assurance on the 2016 financial statements as a whole.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the other post-employment benefits plan - schedule of funding progress and annual money-weighted rate of return on investments, identified as Required Supplementary Information (RSI) in the accompanying table of contents, 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 RSI 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 the audit of the basic financial statements. We do not express an opinion or provide any assurance on the RSI because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Matters (Continued)

Other Information

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

The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2017, 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 the 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.

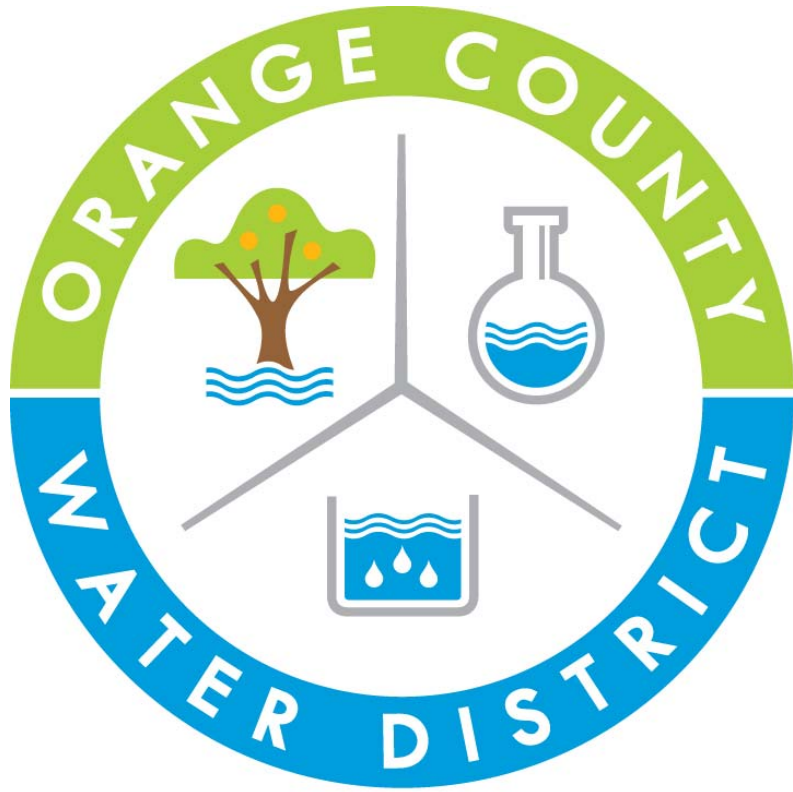
White Nelson Dick Evans LLP

Irvine, California
October 12, 2017

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Management's Discussion and Analysis

Financial Highlights for the Years Ended June 30, 2017 and 2016



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**ORANGE COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Years Ended June 30, 2017 and 2016**

The following summary analysis is a brief discussion of the Orange County Water District's (District) performance that provides an overview of the District's financial activities for the years ended June 30, 2017 and 2016. This section should be read in conjunction with the financial statements and the notes to the financial statements, which follow this analysis.

FINANCIAL HIGHLIGHTS

- Total assets and deferred outflows of resources exceed total liabilities by \$343.13 million (net position), representing \$150.96 million in net investment in capital assets, \$5.37 million restricted for custodial costs and \$186.80 million unrestricted for operations. This represents an increase of \$13.08 million or 3.96%, in 2017 over the prior year net position of \$330.05 million.
- In 2017, the District's operating revenues from all sources increased 29.11% or \$30.57 million from the prior year, primarily due to an increase in replenishment assessments of \$31.66 million. The increase is attributable to the Board approved rate increase of replenishment assessments from \$322 to \$402 and pumping increased 8.92% from 276,934 acre-feet to 301,637 acre-feet. In 2016, operating revenues increased 1.64% or \$1.70 million due to the net effect of higher basin equity assessments of \$2.58 million, lower replenishment assessments of \$0.67 million and lower conjunctive use program revenues of \$0.26 million.
- The District's non-operating revenues increased 5.14% or \$1.52 million in 2017, primarily due to an increase in property tax revenues of \$1.23 million. In 2016, non-operating revenues increased 1.48% or \$0.43 million, due to an increase in property tax revenues of \$1.27 million that was offset with lower investment revenues of \$0.57 million and \$0.23 million less rental income.
- Operating expenses before depreciation and amortization and water purchase expenses increased 4.66% or \$2.99 million in 2017, mainly due to an increase in general and administrative costs. In 2016, operating expenses before depreciation and amortization and water purchase expenses increased 10.36% or \$6.02 million, due to increased costs of electricity and chemicals as the District's GWRS Initial Expansion project came online and was able to produce 25,372 acre feet more water.
- The District's water purchases in 2017 increased 11.89% or \$3.66 million due to the District's purchases of increased quantities of supplemental water from Metropolitan Water District (MWD) as it became available. In 2016, water purchases decreased 18.81% or \$7.14 million, primarily due to MWD being in allocation the first ten months of the fiscal year 2016-17.
- In 2017, total expenses increased 8.13% or \$11.69 million, primarily due to the net effect of higher water purchase expense of \$3.66 million, an increase in general and administrative costs of \$3.15 million and non-operating expenses increased \$2.53 million. In 2016, total expenses increased 3.04% or \$4.23 million, primarily due to the net effect of higher water production costs of \$5.10 million that was offset with lower water purchase expense of \$7.14 million.
- Total long-term debt was \$570.21 million, in 2017 as compared to the \$580.60 million in the prior year. The decrease of \$10.39 million or 1.79% is primarily due to net effect of regular debt service payments and an advance refunding of the 2009A Certificate of Participation. In 2016, debt increased \$6.04 million or 1.05% primarily due to the GWRS Initial Expansion project loan.

**ORANGE COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
For the Years Ended June 30, 2017 and 2016**

OVERVIEW OF THE FINANCIAL STATEMENTS

The District operates as a utility enterprise and presents its financial statements using the full accrual basis of accounting. The basic financial statements of the District consist of the Statements of Net Position, the Statements of Revenues, Expenses and Changes in Net Position, and the Statements of Cash Flows.

The Statements of Net Position include all of the District's assets, deferred outflows of resources and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing the rate of return, evaluating the capital structure of the District, and assessing the liquidity and financial flexibility of the District.

The Statements of Revenues, Expenses, and Changes in Net Position provide information on the District's operations and can be used to determine whether the District has recovered all of its costs through its rates and other charges. This statement can also be used to determine the District credit worthiness and profitability.

The Statements of Cash Flows provide information regarding the District's cash receipts and cash payments and changes in cash resulting from operations, investments and financing activities. Additionally, the Statements of Cash Flows provide answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

The Fiduciary Fund is used to account for resources held for the benefit of parties outside the government. The fiduciary fund is not reported in the District's financial statements because the resources of those funds are not available to support the District's activities. The District's fiduciary fund is used to report resources held in trust for retirees and beneficiaries covered by the Other Post-Employment Benefit Plan.

The fiduciary fund financial statements can be found on pages 20 and 21 of this report.

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

Other information includes *required supplementary information* concerning the District's progress in funding its obligations to provide other post-employment benefits to its employees. Required supplementary information can be found on page 65 and 66 of this report.

FINANCIAL ANALYSIS OF THE DISTRICT

The following Condensed Statements of Net Position and Condensed Statements of Revenues, Expenses and Changes in Net Position provide summary financial information which was extracted from the basic financial statements to assist readers in evaluating the District's overall financial position and results of operations as described in this analysis.

Over time, increases or decreases in the District's net position is one indicator of whether its financial health is improving or deteriorating. However, other external factors should be considered in this analysis such as changes in economic conditions, new or changed government legislation or accounting standards, population growth, and zoning.

**ORANGE COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
For the Years Ended June 30, 2017 and 2016**

STATEMENTS OF NET POSITION

Condensed Statements of Net Position

	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>2015</u>	<u>Change</u>
Assets:					
Current assets	\$ 226,441,939	\$ 225,462,966	\$ 978,973	\$ 237,459,858	\$ (11,996,892)
Capital assets	709,428,786	714,049,754	(4,620,968)	694,614,127	19,435,627
Other non-current assets	774,433	1,310,799	(536,366)	2,228,645	(917,846)
Total assets	<u>936,645,158</u>	<u>940,823,519</u>	<u>(4,178,361)</u>	<u>934,302,630</u>	<u>6,520,889</u>
Deferred outflows of resources	<u>29,511,122</u>	<u>27,065,590</u>	<u>2,445,532</u>	<u>19,929,545</u>	<u>7,136,045</u>
Liabilities:					
Current liabilities	60,397,261	60,781,480	(384,219)	55,994,076	4,787,404
Long-term debt	539,916,451	546,360,837	(6,444,386)	542,546,260	3,814,577
Other long-term liabilities	22,713,485	30,695,998	(7,982,513)	22,638,589	8,057,409
Total liabilities	<u>623,027,197</u>	<u>637,838,315</u>	<u>(14,811,118)</u>	<u>621,178,925</u>	<u>16,659,390</u>
Net position:					
Net investment in capital assets	150,961,053	135,271,635	15,689,418	122,056,713	13,214,922
Restricted for debt services	-	11,415,463	(11,415,463)	11,242,052	173,411
Restricted for custodial costs	5,370,190	9,989,114	(4,618,924)	11,518,861	(1,529,747)
Unrestricted	186,797,840	173,374,582	13,423,258	188,235,624	(14,861,042)
Total net position	<u>\$ 343,129,083</u>	<u>\$ 330,050,794</u>	<u>\$ 13,078,289</u>	<u>\$ 333,053,250</u>	<u>\$ (3,002,456)</u>

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, total assets and deferred outflows of resources exceeded liabilities by \$343.13 million at June 30, 2017 compared with \$330.05 million at June 30, 2016.

A portion of the District's net position (44.00% and 40.99% as of June 30, 2017 and 2016, respectively) reflects the District's net investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending.

The District's balance in its restricted net position for debt service was zero at the end of the fiscal year 2017. In 2016, the District reflects a balance in its restricted net position of \$11.42 million, which was restricted for debt service payments.

An additional portion of the District's net position \$5.37 million and \$9.99 million as of June 30, 2017 and 2016, respectively, are for custodial costs, which represents resources that are subject to external restrictions on how they may be used.

At the end of fiscal years 2017 and 2016, the District reflects a positive balance in its unrestricted net position of \$186.80 million and \$173.37 million, respectively, which may be utilized in future years.

**ORANGE COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
For the Years Ended June 30, 2017 and 2016**

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Condensed Statements of Revenues, Expenses and Changes in Net Position

	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>2015</u>	<u>Change</u>
Revenues:					
Operating revenues	\$ 135,590,233	\$ 105,016,764	\$ 30,573,469	\$ 103,318,416	\$ 1,698,348
Non-operating revenues	31,060,052	29,541,132	1,518,920	29,110,969	430,163
Total revenues	<u>166,650,285</u>	<u>134,557,896</u>	<u>32,092,389</u>	<u>132,429,385</u>	<u>2,128,511</u>
Expenses:					
Operating expenses	67,121,520	64,133,573	2,987,947	58,111,798	6,021,775
Water purchases	34,495,767	30,831,126	3,664,641	37,973,313	(7,142,187)
Depreciation and amortization	35,862,620	33,362,509	2,500,111	29,760,297	3,602,212
Non-operating expenses	17,874,254	15,340,907	2,533,347	13,589,732	1,751,175
Total expenses	<u>155,354,161</u>	<u>143,668,115</u>	<u>11,686,046</u>	<u>139,435,140</u>	<u>4,232,975</u>
Net income (loss) before capital contributions	11,296,124	(9,110,219)	20,406,343	(7,005,755)	(2,104,464)
Capital contributions	<u>1,782,165</u>	<u>6,107,763</u>	<u>(4,325,598)</u>	<u>668,928</u>	<u>5,438,835</u>
Changes in net position	13,078,289	(3,002,456)	16,080,745	(6,336,827)	3,334,371
Net position - beginning of year	330,050,794	333,053,250	(3,002,456)	339,390,077	(6,336,827)
Net position - end of year	<u>\$ 343,129,083</u>	<u>\$ 330,050,794</u>	<u>\$ 13,078,289</u>	<u>\$ 333,053,250</u>	<u>\$ (3,002,456)</u>

Fiscal Year 2017

The statements of revenues, expenses and changes in net position indicate how the District's net position changed during the fiscal year. The District reported an increase in net position of \$13.08 million for the fiscal year ended June 30, 2017. Total revenues of \$166.65 million were offset with total expenses of \$155.35 million, and capital contributions of \$1.78 million, which were the main sources of the change in net position for the year.

Operating revenues from all sources increased by \$30.57 million or 29.11% from the prior year primarily due to an increase in replenishment assessments of \$31.66 million. The increase is attributable to the Board approved rate increase of replenishment assessments from \$322 to \$402 and pumping increased 8.92% from 276,934 acre-feet to 301,637 acre feet. The District maintained its basin pumping percentage at 75%.

The District's non-operating revenues, such as property taxes are pledged to pay down the District's debt service expenses. Non-operating revenues from all sources increased 5.14% or \$1.52 million in this fiscal year, primarily due to an increase in property tax revenues of \$1.23 million.

Operating expenses before depreciation and amortization and water purchase expenses increased 4.66% or \$2.99 million in 2017, mainly due to an increase in general and administrative expense.

The District's water purchases in 2017 increased 11.89% or \$3.66 million due to the availability of supplemental water from Metropolitan Water District (MWD), therefore the District purchased greater quantities of MWD supplemental water.

**ORANGE COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
For the Years Ended June 30, 2017 and 2016**

Fiscal Year 2016

The statements of revenues, expenses and changes in net position indicates how the District's net position changed during the fiscal year. The District reported a decrease in net position of \$3.00 million for the fiscal year ended June 30, 2016. Total revenues of \$134.56 million were offset with total expenses of \$143.67 million, and capital contributions of \$6.11 million, which were the main sources of the change in net position for the year.

Operating revenues from all sources increased by \$1.70 million or 1.64% from the prior year primarily due to the net effect of higher basin equity assessments of \$2.58 million, lower replenishment assessments of \$0.67 million and lower conjunctive use program revenues of \$0.26 million. The District increased its basin pumping percentage to 75% from 72% and increased the replenishment assessment rate from \$294 to \$322 per acre-foot but water conservation efforts due to the drought resulted in lower water demand and decreased replenishment assessment revenues of \$0.67 million or 0.76% for the year.

The District's non-operating revenues, such as property taxes are pledged to pay down the District's debt service expenses. Non-operating revenues from all sources increased 1.48% or \$0.43 million in this fiscal year, primarily due to an increase in property tax revenues of \$1.27 million that was offset with lower investment revenues of \$0.57 million and \$0.23 million less rental income received.

Operating expenses before depreciation and amortization and water purchases increased 10.36% or \$6.02 million as compared to the prior year. This increase is primarily due to increased costs of electricity and chemicals related to water production with the completion of GWRSE and increased production. The District was able to produce 25,372 acre feet more water in 2016.

The District's water purchases in 2016 decreased 18.81% or \$7.14 million primarily due to Metropolitan Water District (MWD) being in allocation the first ten months of the fiscal year 2015-16.

**ORANGE COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
For the Years Ended June 30, 2017 and 2016**

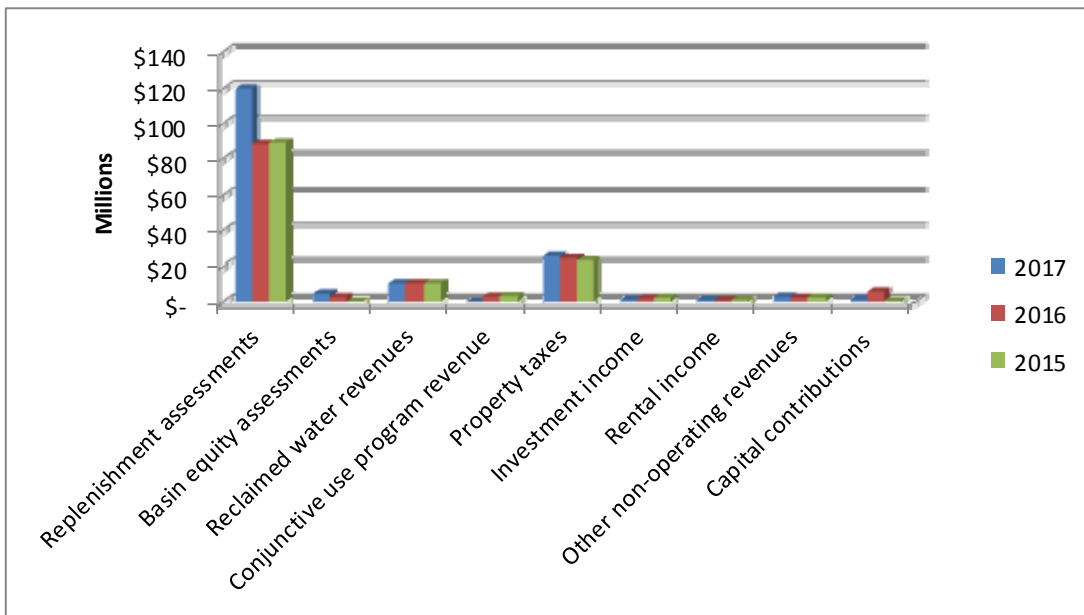
Total Revenues

	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>2015</u>	<u>Change</u>
Operating revenues:					
Replenishment assessments	\$ 120,120,803	\$ 88,464,251	\$ 31,656,552	\$ 89,137,337	\$ (673,086)
Basin equity assessments	4,821,924	2,767,818	2,054,106	184,679	2,583,139
Reclaimed water revenues	10,606,006	10,699,469	(93,463)	10,656,130	43,339
Conjunctive use program revenue	41,500	3,085,226	(3,043,726)	3,340,270	(255,044)
Total operating revenues	<u>135,590,233</u>	<u>105,016,764</u>	<u>30,573,469</u>	<u>103,318,416</u>	<u>1,698,348</u>
Non-operating revenues:					
Property taxes	25,432,802	24,198,690	1,234,112	22,924,595	1,274,095
Investment income	1,402,268	1,864,297	(462,029)	2,430,152	(565,855)
Rental income, net of expenses	1,153,434	985,797	167,637	1,214,631	(228,834)
Other non-operating revenues	3,071,548	2,492,348	579,200	2,541,591	(49,243)
Total non-operating revenues	<u>31,060,052</u>	<u>29,541,132</u>	<u>1,518,920</u>	<u>29,110,969</u>	<u>430,163</u>
Capital contributions	<u>1,782,165</u>	<u>6,107,763</u>	<u>(4,325,598)</u>	<u>668,928</u>	<u>5,438,835</u>
Total revenues	<u>\$ 168,432,450</u>	<u>\$ 140,665,659</u>	<u>\$ 27,766,791</u>	<u>\$ 133,098,313</u>	<u>\$ 7,567,346</u>

In 2017, the District's total revenues increased 19.74% or \$27.77 million, primarily due to an increase of replenishment assessments of \$31.66 million, which is offset with a decrease of \$4.33 million of capital contributions received from various federal, state and local agencies used towards the District's capital programs.

In 2016, the District's total revenues increased 5.69% or \$7.57 million, primarily due to an increase of \$5.44 million of capital contributions received from various federal, state and local agencies towards the District's capital programs

**Total Revenues
(2017, 2016 and 2015)**



**ORANGE COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
For the Years Ended June 30, 2017 and 2016**

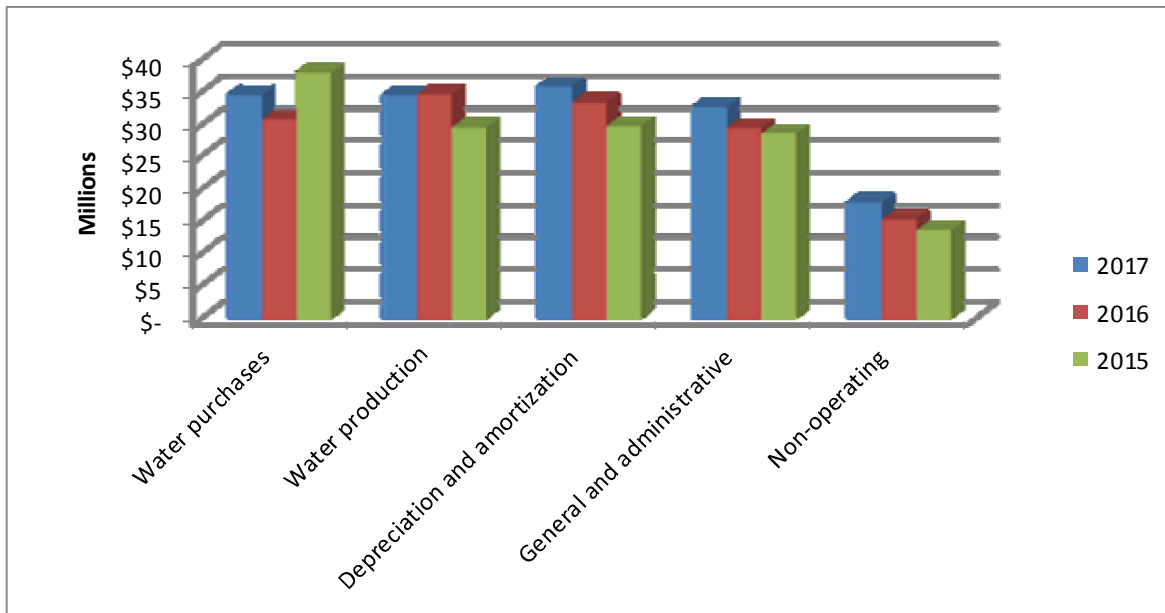
Total Expenses

	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>2015</u>	<u>Change</u>
Operating expenses:					
Water purchases	\$ 34,495,767	\$ 30,831,126	\$ 3,664,641	\$ 37,973,313	\$ (7,142,187)
Water production	34,464,392	34,630,579	(166,187)	29,532,369	5,098,210
Depreciation and amortization	35,862,620	33,362,509	2,500,111	29,760,297	3,602,212
General and administrative	32,657,128	29,502,994	3,154,134	28,579,429	923,565
Total operating expenses	<u>137,479,907</u>	<u>128,327,208</u>	<u>9,152,699</u>	<u>125,845,408</u>	<u>2,481,800</u>
Non-operating expenses	<u>17,874,254</u>	<u>15,340,907</u>	<u>2,533,347</u>	<u>13,589,732</u>	<u>1,751,175</u>
Total expenses	<u>\$ 155,354,161</u>	<u>\$ 143,668,115</u>	<u>\$ 11,686,046</u>	<u>\$ 139,435,140</u>	<u>\$ 4,232,975</u>

In 2017, the District's total expenses increased 8.13% or \$11.69 million, primarily due to the net effect of higher water purchase expense of \$3.66 million, an increase in general and administrative costs of \$3.15 million and non-operating expenses increased \$2.53 million.

In 2016, the District's total expenses increased 3.04% or \$4.23 million primarily due to the increase of water production costs of \$5.10 million, which was offset with lower water purchases of \$7.14 million.

**Total Expenses
(2017, 2016 and 2015)**



**ORANGE COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
For the Years Ended June 30, 2017 and 2016**

CAPITAL ASSETS

As of the fiscal year ended June 30, 2017, the District had invested \$1,175.14 million in capital assets, including land, water rights, structures and improvements, infrastructure, equipment and construction-in-progress. Capital additions, net of transfers and retirements totaled \$31.31 million and \$52.82 million made during the fiscal years ended June 30, 2017 and 2016, respectively.

The main reasons for these capital additions were construction in progress, equipment, structure and infrastructure improvements on various water basin/water recycling projects in fiscal year ended 2017.

Net capital assets worth \$73,906 and \$24,426 were retired during the years ended June 30, 2017 and 2016, respectively.

The following is a summary of the capital assets at June 30, 2017, June 30, 2016, and June 30, 2015 respectively:

	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>2015</u>	<u>Change</u>
Land	\$ 74,146,641	\$ 74,146,641	\$ -	\$ 74,165,902	\$ (19,261)
Water Rights	6,823,570	6,823,570	-	6,823,570	-
Structures and improvements	675,882,210	666,382,825	9,499,385	658,459,139	7,923,686
Infrastructure	68,297,651	67,991,086	306,565	65,743,403	2,247,683
Equipment	275,897,048	261,102,162	14,794,886	104,086,281	157,015,881
Construction in progress	74,097,612	67,641,474	6,456,138	182,374,056	(114,732,582)
Subtotal	1,175,144,732	1,144,087,758	31,056,974	1,091,652,351	52,435,407
Less: accumulated depreciation	<u>(465,715,946)</u>	<u>(430,038,004)</u>	<u>(35,677,942)</u>	<u>(397,038,224)</u>	<u>(32,999,780)</u>
Total capital assets	<u>\$ 709,428,786</u>	<u>\$ 714,049,754</u>	<u>\$ (4,620,968)</u>	<u>\$ 694,614,127</u>	<u>\$ 19,435,627</u>

Additional information can be found in Note 4 of the notes to financial statements.

DEBT ADMINISTRATION

At June 30, 2017 the District had \$570.21 million in total debt outstanding compared to \$580.60 million at the fiscal year ended June 30, 2016. It includes loans from the State of California, commercial paper, revenue refunding bonds and installment purchase agreements associated with the certificates of participation. This amount represents a net decrease of \$10.39 million from the prior year, which is due to the net effect of regular principal payments and an advance refunding of the 2009A Certificates of Participation.

In 2016, the District had \$580.60 million in total debt outstanding compared to \$574.57 million at the fiscal year ended June 30, 2015. This amount represents a net increase of \$6.04 million from the prior year. This increase is the net effect of \$5.09 million in paying down the debt and \$11.13 million of additional debt with the State Water Resources Control Board for the construction of the Groundwater Replenishment System Initial Expansion project, Fletcher Basin, La Palma Basin and Alamitos Barrier.

**ORANGE COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
For the Years Ended June 30, 2017 and 2016**

The following is a summary of the long-term debt at June 30, 2017, June 30, 2016 and June 30, 2015 respectively:

	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>2015</u>	<u>Change</u>
Certificates-of-Participation	\$ 129,815,000	\$ 257,565,381	\$ (127,750,381)	\$ 258,197,127	\$ (631,746)
Revenue refunding bonds	188,418,466	62,715,309	125,703,157	63,281,250	(565,941)
State of California loans	235,163,138	239,600,805	(4,437,667)	228,473,759	11,127,046
Commercial paper	16,813,000	20,723,000	(3,910,000)	24,613,000	(3,890,000)
Total	<u>\$ 570,209,604</u>	<u>\$ 580,604,495</u>	<u>\$ (10,394,891)</u>	<u>\$ 574,565,136</u>	<u>\$ 6,039,359</u>

The District has received the following ratings from the three major credit rating agencies:

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

Additional information can be found in Note 6 of the notes to financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Board of Directors approved the budget for the fiscal year 2017-18. The budget included \$66.1 million for operations, \$0.2 million for new equipment, \$49.7 million for water purchase, \$36.0 million for debt service, \$1.3 million for retiree health expenditures and \$13.7 million for R&R fund expenditure.

The Board increased the Replenishment Assessment from \$402 per acre-foot to \$445 per acre-foot and the basin pumping remains at 75%.

A multi-year construction-in-progress (CIP) budget of \$33.2 million was adopted. These CIP projects will be funded by the District's restricted funds, State loans, project reimbursements and \$7 million pay-as-you-go from the general fund.

The financial markets continue to do better and the United States economy is improving at a slower rate. Orange County's economy is also improving and it is expected to grow slowly in the next year. Orange County's unemployment rate in June 2017 is 3.8% versus 4.7% for California and 4.4 % for the nation.

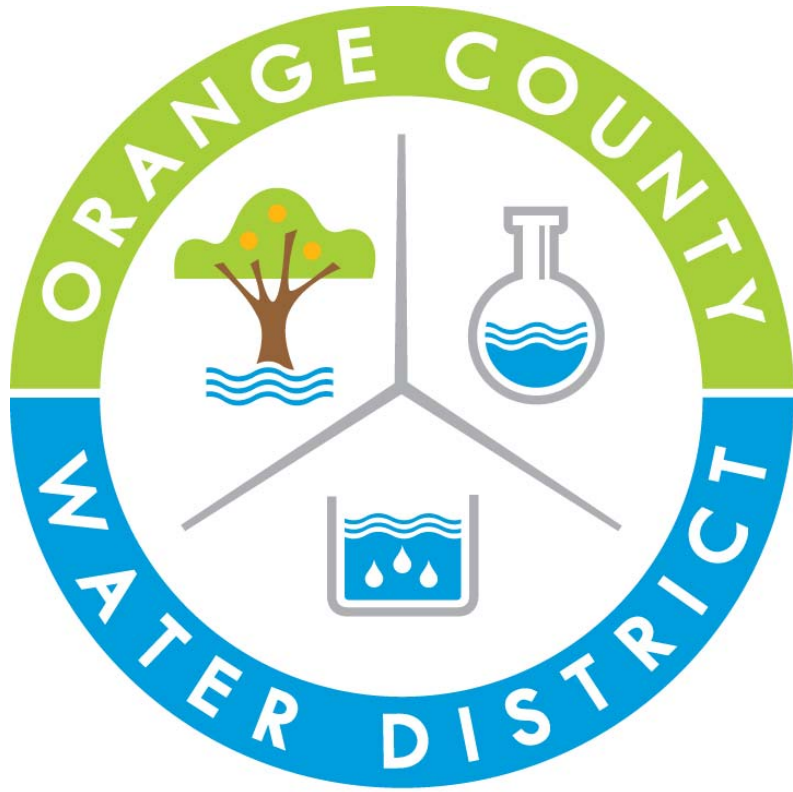
CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance department, at the Orange County Water District, 18700 Ward Street, Fountain Valley, CA, 92708.

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Basic Financial Statements

Statement of Net Position
Statement of Revenues, Expense and Changes in Net Position
Statement of Cash Flows
Statement of Changes in Fiduciary Net Position
Notes to Basic Financial Statements



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ORANGE COUNTY WATER DISTRICT

STATEMENTS OF NET POSITION

June 30, 2017 and 2016

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2017	2016
CURRENT ASSETS:		
UNRESTRICTED ASSETS:		
Cash and cash equivalents	\$ 55,214,256	\$ 55,763,167
Investments	90,332,914	78,866,443
Accounts receivables	65,397,178	58,531,725
Accrued interest receivable	411,597	242,891
Inventory	4,593,502	4,389,987
Prepaid expenses	886,036	1,343,497
Due from other governments	957,326	2,174,012
Current portion of notes receivable	180,116	270,517
TOTAL UNRESTRICTED ASSETS	217,972,925	201,582,239
RESTRICTED ASSETS:		
Cash and cash equivalents	3,786,944	2,437,858
Investments	-	11,415,463
Accrued interest and other receivable	-	24,216
Custodial receivables	6,042	-
Custodial cash and investments	3,873,214	8,523,752
Custodial escrow retention	802,814	1,479,438
TOTAL RESTRICTED ASSETS	8,469,014	23,880,727
TOTAL CURRENT ASSETS	226,441,939	225,462,966
NONCURRENT ASSETS:		
CAPITAL ASSETS:		
Capital assets, not depreciated	155,067,823	148,611,685
Capital assets, depreciated, net	554,360,963	565,438,069
TOTAL CAPITAL ASSETS	709,428,786	714,049,754
OTHER NONCURRENT ASSETS:		
Notes receivable, less current portion above	542,778	1,079,144
Other post-employment benefits (OPEB) asset	231,655	231,655
TOTAL OTHER NONCURRENT ASSETS	774,433	1,310,799
TOTAL NONCURRENT ASSETS	710,203,219	715,360,553
TOTAL ASSETS	936,645,158	940,823,519
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred charges on refunding	11,741,871	1,826,376
Derivative instruments	17,769,251	25,239,214
TOTAL DEFERRED OUTFLOWS OF RESOURCES	29,511,122	27,065,590

See accompanying notes to basic financial statements.

(Continued)

ORANGE COUNTY WATER DISTRICT

STATEMENTS OF NET POSITION
(CONTINUED)

June 30, 2017 and 2016

LIABILITIES AND NET POSITION	<u>2017</u>	<u>2016</u>
LIABILITIES:		
CURRENT LIABILITIES:		
PAYABLE FROM UNRESTRICTED CURRENT ASSETS:		
Accounts payable and accrued expenses	\$ 21,471,746	\$ 16,441,038
Accrued interest payable	5,175,835	5,786,159
Deposits	800	700
Current portion of compensated absences	356,903	401,293
Current portion of long-term debt	30,293,153	34,243,658
TOTAL PAYABLE FROM UNRESTRICTED CURRENT ASSETS	<u>57,298,437</u>	<u>56,872,848</u>
PAYABLE FROM RESTRICTED ASSETS:		
Accounts payable and accrued expenses	1,750,718	2,173,139
Retentions payable	1,342,008	1,721,417
Custodial liability	6,098	14,076
TOTAL PAYABLE FROM RESTRICTED ASSETS	<u>3,098,824</u>	<u>3,908,632</u>
TOTAL CURRENT LIABILITIES	<u>60,397,261</u>	<u>60,781,480</u>
NONCURRENT LIABILITIES:		
LONG-TERM DEBT:		
Certificates of participation	129,815,000	267,280,690
Revenue refunding bonds	188,418,466	53,000,000
State of California loans payable	235,163,138	239,600,805
Commercial paper	16,813,000	20,723,000
Subtotal	570,209,604	580,604,495
Less: current portion above	(30,293,153)	(34,243,658)
TOTAL LONG-TERM DEBT	<u>539,916,451</u>	<u>546,360,837</u>
OTHER NONCURRENT LIABILITIES:		
Accrued compensated absences	4,944,234	5,456,784
Derivative instruments	17,769,251	25,239,214
TOTAL OTHER NONCURRENT LIABILITIES	<u>22,713,485</u>	<u>30,695,998</u>
TOTAL NONCURRENT LIABILITIES	<u>562,629,936</u>	<u>577,056,835</u>
TOTAL LIABILITIES	<u>623,027,197</u>	<u>637,838,315</u>
NET POSITION:		
Net investment in capital assets	150,961,053	135,271,635
Restricted for debt service	-	11,415,463
Restricted for custodial costs	5,370,190	9,989,114
Unrestricted	186,797,840	173,374,582
TOTAL NET POSITION	<u>\$ 343,129,083</u>	<u>\$ 330,050,794</u>

See accompanying notes to basic financial statements.

ORANGE COUNTY WATER DISTRICT
 STATEMENTS OF REVENUES, EXPENSES
 AND CHANGES IN NET POSITION

For the years ended June 30, 2017 and 2016

	2017	2016
OPERATING REVENUES:		
Replenishment assessments	\$ 120,120,803	\$ 88,464,251
Basin equity assessments	4,821,924	2,767,818
Reclaimed water revenue	10,606,006	10,699,469
Conjunctive use program revenue	41,500	3,085,226
TOTAL OPERATING REVENUES	135,590,233	105,016,764
OPERATING EXPENSES:		
Water purchases	34,495,767	30,831,126
Water production	34,464,392	34,630,579
Depreciation and amortization	35,862,620	33,362,509
General and administrative	32,657,128	29,502,994
TOTAL OPERATING EXPENSES	137,479,907	128,327,208
OPERATING LOSS	(1,889,674)	(23,310,444)
NONOPERATING REVENUES (EXPENSES):		
Property taxes	25,432,802	24,198,690
Investment income	1,402,268	1,524,347
Net increase (decrease) in the fair value of investments	(507,807)	339,950
Rental income, net of expenses	1,153,434	985,797
Legal settlements, net of expenses	(859,728)	(978,153)
Other nonoperating revenues, net of expenses	2,978,288	2,448,557
Interest expense	(16,506,719)	(14,362,754)
Gain on disposal of capital assets	93,260	43,791
TOTAL NONOPERATING REVENUES (EXPENSES)	13,185,798	14,200,225
NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	11,296,124	(9,110,219)
CAPITAL CONTRIBUTIONS FROM OTHER PARTIES	1,782,165	6,107,763
CHANGES IN NET POSITION	13,078,289	(3,002,456)
NET POSITION - BEGINNING OF YEAR	330,050,794	333,053,250
NET POSITION - END OF YEAR	\$ 343,129,083	\$ 330,050,794

See accompanying notes to basic financial statements.

ORANGE COUNTY WATER DISTRICT

STATEMENTS OF CASH FLOWS

For the years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 135,181,273	\$ 98,989,897
Cash payments to suppliers for goods and services	(71,569,397)	(67,935,795)
Cash payments to employees for services	(26,696,971)	(26,249,024)
Rental income, net of expenses	1,153,434	985,797
Legal settlements, net of expenses	(859,728)	(978,153)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>37,208,611</u>	<u>4,812,722</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Cash received for property taxes	25,432,802	24,198,690
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>25,432,802</u>	<u>24,198,690</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Payments received from notes receivable	626,767	704,349
Acquisition and construction of capital assets	(30,644,672)	(52,822,561)
Proceeds from sale of capital assets	167,166	68,216
Principal paid on commercial paper	(3,910,000)	(3,890,000)
Proceeds from loans payable	6,085,837	17,942,921
Proceeds from refunding bonds	126,444,264	-
Principal paid on long-term debt	(13,535,676)	(7,405,875)
Payment made to refunding escrow agent	(137,259,364)	-
Interest paid on long-term debt	(17,617,807)	(13,224,370)
Payments received from capital contributions	1,782,165	6,107,763
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(67,861,320)</u>	<u>(52,519,557)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment purchases	(89,975,911)	-
Proceeds from maturity of investments	94,067,633	40,747,626
Interest on investments	1,251,736	1,672,607
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>5,343,458</u>	<u>42,420,233</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	123,551	18,912,088
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>59,680,463</u>	<u>40,768,375</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 59,804,014</u>	<u>\$ 59,680,463</u>

See accompanying notes to basic financial statements.

(Continued)

ORANGE COUNTY WATER DISTRICT

STATEMENTS OF CASH FLOWS
(CONTINUED)

For the years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	\$ (1,889,674)	\$ (23,310,444)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	35,862,620	33,362,509
Other nonoperating revenues, net of expenses	2,978,288	2,448,557
Rental income, net of expenses	1,153,434	985,797
Legal settlements, net of expenses	(859,728)	(978,153)
Receivable for loan proceeds	2,292,173	-
Capitalized labor	(597,741)	-
Change in assets and liabilities:		
(Increase) decrease in accounts receivables	(6,865,453)	(8,475,424)
(Increase) decrease in inventory	(203,515)	(442,438)
(Increase) decrease in prepaid expenses	457,461	(507,098)
(Increase) decrease in due from other governments	1,216,686	-
Increase (decrease) in accounts payable and accrued expenses	4,608,287	5,770,503
Increase (decrease) in custodial liability	(7,978)	-
Increase (decrease) in retentions payable	(379,409)	(4,775,361)
Increase (decrease) in deposits payable	100	(39,447)
Increase (decrease) in accrued compensated absences	(556,940)	773,721
Total Adjustments	<u>39,098,285</u>	<u>28,123,166</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u>\$ 37,208,611</u>	 <u>\$ 4,812,722</u>
 CASH AND CASH EQUIVALENTS - FINANCIAL STATEMENT CLASSIFICATION:		
Unrestricted assets - cash and cash equivalents	\$ 55,214,256	\$ 55,763,167
Restricted assets:		
Cash and cash equivalents	3,786,944	2,437,858
Custodial escrow retention	802,814	1,479,438
	<u>4,589,758</u>	<u>3,917,296</u>
 TOTAL CASH AND CASH EQUIVALENTS - FINANCIAL STATEMENT CLASSIFICATION	 <u>\$ 59,804,014</u>	 <u>\$ 59,680,463</u>
 NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Amortization of premiums and deferred amounts on refunding	\$ 427,620	\$ 426,341
Net increase (decrease) in the fair value of investments	\$ (507,807)	\$ 339,950
Gain (loss) on disposal of capital assets	\$ 73,906	\$ 16,508

See accompanying notes to basic financial statements.

ORANGE COUNTY WATER DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN

June 30, 2017

ASSETS:

Cash and investments held by trust	<u>\$ 9,772,275</u>
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TOTAL ASSETS	<u>9,772,275</u>
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NET POSITION:

Net position restricted for OPEB benefits	<u>9,772,275</u>
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TOTAL NET POSITION	<u><u>\$ 9,772,275</u></u>
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See accompanying notes to basic financial statements.

ORANGE COUNTY WATER DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN

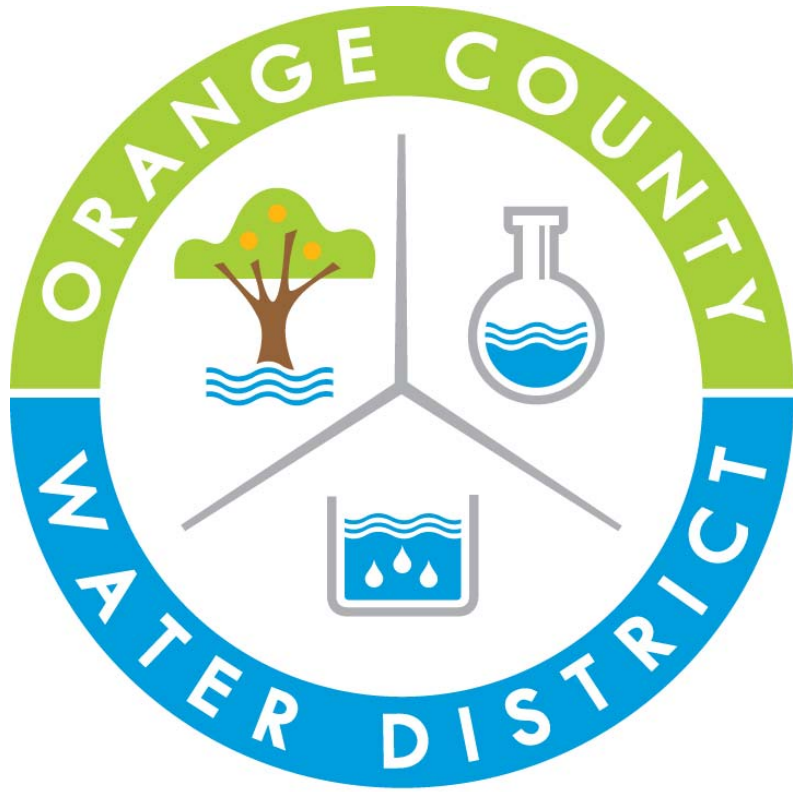
For the year ended June 30, 2017

ADDITIONS:	
Employer contributions	\$ 1,303,932
Investment income	<u>598,310</u>
TOTAL ADDITIONS	<u>1,902,242</u>
DEDUCTIONS:	
Benefits	540,629
Administrative expense	<u>45,685</u>
TOTAL DEDUCTIONS	<u>586,314</u>
CHANGE IN NET POSITION	1,315,928
NET POSITION - BEGINNING OF YEAR	<u>8,456,347</u>
NET POSITION - END OF YEAR	<u><u>\$ 9,772,275</u></u>

See accompanying notes to basic financial statements.

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Notes to Basic Financial Statements



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ORANGE COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

a. Organization and Description of the District:

The Orange County Water District (the District) was formed by a special act of the California State Legislature in 1933. The District was formed because of the heavy overdraft of the Orange County groundwater supply and excessive diversion of the Santa Ana River by users upstream from the County of Orange. The major functions of the District are the management of the Orange County groundwater basin, the conservation of the basin groundwater and the protection of Orange County's water rights in the natural flows of the Santa Ana River. The legal boundaries of the District lie wholly within the County of Orange, California. Administration and operation of the District is conducted through a Board of Directors representing ten divisions, with seven being duly elected at large and three appointed.

The District is the primary government unit. Component units are those entities which are financially accountable to the primary government, either because the District appoints a voting majority or the component unit's board, or because the component unit will provide a financial benefit or impose a financial burden on the District.

The District's reporting entity includes the Orange County Water District Public Facilities Corporation (the Public Facilities Corporation). Although the District and the Public Facilities Corporation are legally separate entities, the District's Board of Directors is financially responsible for the Public Facilities Corporation and, therefore, the accompanying financial statements include the accounts and records of the Public Facilities Corporation using the blending method as required by accounting principles generally accepted in the United States of America. There are no separate financial statements for the Public Facilities Corporation.

b. Basic Financial Statements:

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

ORANGE COUNTY WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

c. Measurement Focus and Basis of Accounting:

Proprietary Fund

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied. The proprietary fund financial statements are reported using the *economic resources measurement focus*, and the *accrual basis of accounting*. Under the *economic resources measurement focus* all assets, deferred outflows of resources, liabilities, and deferred inflows of resources (whether current or noncurrent) associated with these activities are included on the Statements of Net Position. The Statements of Revenues, Expenses and Changes in Net Position present increases (revenues) and decreases (expenses) in total net position. Under the *accrual basis of accounting*, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

An enterprise fund distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District’s principal ongoing operations. The principal operating revenues of the District are charges to producers for replenishment assessments, basin equity assessments, and water sales. Operating expenses for the District include water purchases, water production, general and administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. Nonoperating revenues consist of property taxes, rental income, investment income, and other miscellaneous revenues.

Fiduciary Fund

The fiduciary fund financial statements include the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position. The District’s fiduciary other post-employment benefits (OPEB) trust fund is accounted for using the *economic resources measurement focus* and *accrual basis of accounting*. The OPEB trust fund accounts for the activities of the District’s plan for post-retirement medical benefits.

ORANGE COUNTY WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

d. Net Position:

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

- Net investment in capital assets - This amount is the District's net investment in its various capital assets and includes capital assets net of accumulated depreciation and capital-related deferred outflows of resources and reduced by capital-related borrowings and deferred inflows of resources.
- Restricted for debt service - This amount is restricted for various bond issues and is not available for the general needs of the District. These funds must be maintained at specific levels, and are restricted by certain bond covenants.
- Restricted for custodial costs - This amount is restricted for custodial costs due to third parties.
- Unrestricted - This amount is all net position that does not meet the definition of "net investment in capital assets" or "restricted".

e. Net Position Flow Assumption:

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the District's financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

f. New Accounting Pronouncements:

Current Year Standards:

Governmental Accounting Standards Board (GASB) 74 - *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, effective for periods beginning after June 15, 2016 and was implemented by the District, resulting in the addition of fiduciary fund financial statement and additional note disclosures and required supplementary information.

GASB 77 - *Tax Abatement Disclosure*, effective for periods beginning after December 15, 2015 and did not impact the District.

ORANGE COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

f. New Accounting Pronouncements (Continued):

Current Year Standards (Continued):

GASB 79 - *Certain External Investment Pools and Pool Participants*, contains certain provisions on portfolio quality, custodial credit risk, and shadow pricing, effective for periods beginning after December 15, 2015 and did not impact the District.

GASB 80 - *Blending Requirements for Certain Component Units*, effective for periods beginning after June 15, 2016 and did not impact the District.

Pending Accounting Standards:

GASB has issued the following statements, which may impact the District's financial reporting requirements in the future:

- GASB 75 - *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for periods beginning after June 15, 2017.
- GASB 82 - *Pension Issues*, effective for periods beginning after June 15, 2016, except for certain provisions on selection of assumptions, which are effective in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.
- GASB 84 - *Fiduciary Activities*, effective for periods beginning after December 15, 2018.
- GASB 85 - *Omnibus 2017*, effective for periods beginning after June 15, 2017.
- GASB 86 - *Certain Debt Extinguishment Issues*, effective for periods beginning after June 15, 2017.
- GASB 87 - *Leases*, effective for periods beginning after December 15, 2019.

ORANGE COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

g. Property Taxes and Assessments:

Property taxes and assessments are billed by the County of Orange to property owners. The amount apportioned to the District each year is based upon the District's tax receipts for the three-year period ended June 30, 1978 in relation to total County tax receipts and is adjusted annually for area growth. The District's property tax calendar for the fiscal years ended June 30, 2017 and 2016 were 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 County collects the taxes from the property owners and remits the funds to the District periodically during the year. There were no taxes receivable at June 30, 2017 and 2016.

h. Inventory:

Inventory consists primarily of supplies and parts and is valued at weighted average cost.

i. Investments:

Investments are stated at their fair value which represents the quoted or stated market value. Investments that are not traded on a market, such as investments in external pools, are valued based on the stated fair value as represented by the external pool.

j. Capital Assets:

Capital assets purchased or acquired are reported at historical cost. Contributed assets are reported at the acquisition value as of the date received. During the fiscal years ended June 30, 2017 and 2016, the District received capital contributions of \$1,782,165 and \$6,107,763, respectively. Capital outlays that cost \$5,000 or more and that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

ORANGE COUNTY WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

j. Capital Assets (Continued):

Depreciation is calculated on the straight-line method over the following estimated useful lives:

	<u>Useful Life</u>
Structures and improvements	3 - 50 years
Infrastructure	3 - 75 years
Equipment	3 - 30 years

Depreciation totaled \$35,862,620 and \$33,362,509 for the years ended June 30, 2017 and 2016, respectively.

k. Deferred Outflows/Inflows of Resources:

In addition to assets, the Statements 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 future periods and so will not be recognized as an outflow of resources (expense) until that time. The District has two items that qualify for reporting in this category. The first item is the deferred charge on refunding. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The second item is related to the derivative instruments interest rate swap agreements reported at fair value.

In addition to liabilities, the Statements 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 future periods and so will not be recognized as an inflow of resources (revenue) until that time. The District does not have any items that qualify for reporting in this category.

l. Capitalized Interest:

The District incurs interest charges on the Certificates of Participation, Commercial Paper, Revenue Refunding Bonds, and the State of California loans payable. Capitalized interest for the years ended June 30, 2017 and 2016, totaled \$73,144 and \$8,365,910, respectively.

ORANGE COUNTY WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

m. Classification of Liabilities:

Certain liabilities which are currently payable have been classified as “payable from restricted assets” because they will be funded from restricted assets.

n. Compensated Absences:

Vested or accumulated vacation and sick leave are expensed as benefits accrue to employees. The following is a summary of the changes in compensated absences for the years ended June 30, 2017 and 2016:

June 30, 2017

	<u>Balance at</u> <u>July 1 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at</u> <u>June 30, 2017</u>	<u>Due Within</u> <u>One Year</u>
Compensated absences	\$ 5,858,077	\$ 2,091,966	\$ 2,648,906	\$ 5,301,137	\$ 356,903

June 30, 2016

	<u>Balance at</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at</u> <u>June 30, 2016</u>	<u>Due Within</u> <u>One Year</u>
Compensated absences	\$ 5,084,356	\$ 1,594,803	\$ 821,082	\$ 5,858,077	\$ 401,293

o. Cash and Cash Equivalents:

For purposes of the Statements of Cash Flows, the District considers all investment instruments purchased with a maturity of three months or less to be cash equivalents.

p. Reclassifications:

Certain reclassifications have been made to the prior year amounts to conform to the current year’s presentation. There is no effect on the change in net position.

q. Use of Estimates:

The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and, accordingly, include amounts that are based on management’s best estimates and judgments. Accordingly, actual results could differ from the estimates.

ORANGE COUNTY WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2017 and 2016

2. CASH AND INVESTMENTS:

Cash and Investments:

Cash and investments held by the District were comprised of the following at June 30, 2017 and 2016:

Financial Statements Classification:	<u>2017</u>	<u>2016</u>
Current:		
Cash and cash equivalents	\$ 55,214,256	\$ 55,763,167
Investments:		
U.S. Government Sponsored Agency Securities	82,250,221	73,842,992
Collateralized certificates of deposit	8,082,693	5,023,451
Restricted:		
Cash and cash equivalents	3,786,944	2,437,858
Investments	-	11,415,463
Custodial cash and investments	3,873,214	8,523,752
Custodial escrow retention	<u>802,814</u>	<u>1,479,438</u>
Total for proprietary fund	154,010,142	158,486,121
Cash and investments - fiduciary fund	<u>9,772,275</u>	<u>8,456,347</u>
Total for proprietary and fiduciary funds	<u>\$ 163,782,417</u>	<u>\$ 166,942,468</u>

Cash and investments as of June 30, 2017 and 2016, consisted of the following:

	<u>2017</u>	<u>2016</u>
Cash on hand	\$ 2,700	\$ 2,700
Deposits with financial institutions	2,408,900	3,327,674
Collateralized certificates of deposit	8,082,693	5,023,451
Investments - proprietary fund	143,515,849	150,132,296
Investments - fiduciary fund	<u>9,772,275</u>	<u>8,456,347</u>
Total cash and investments	<u>\$ 163,782,417</u>	<u>\$ 166,942,468</u>

ORANGE COUNTY WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2017 and 2016

2. CASH AND INVESTMENTS (CONTINUED):

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

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

This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the District or the investment of the funds within the OPEB Trust that are governed by the agreement between the District and the trustee, rather than the general provisions of the California Government Code or the District's investment policy.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
United States Treasury Obligations	5 years	No Limitation	No Limitation
United States Government			
Sponsored Agency Securities	5 years	No Limitation	No Limitation
Bankers Acceptances	180 days	15%	5%
Commercial Paper	180 days	15%	None
Collateralized Certificates of Deposit	5 years	15%	No Limitation
Negotiable Certificates of Deposit	5 years	15%	No Limitation
Fully Insured Deposits	5 years	15%	No Limitation
Repurchase Agreements	30 days	10%	No Limitation
Medium Term Notes	5 years	15%	5%
Mutual Funds	N/A	15%	None
Asset-Backed Securities	5 years	15%	No Limitation
Local Agency Investment Fund	N/A	No Limitation	\$ 65 Million
County Pooled Investment Fund	N/A	No Limitation	\$ 20 Million
High Grade State Municipal Bonds	N/A	15%	5%

N/A - Not Applicable

ORANGE COUNTY WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2017 and 2016

2. CASH AND INVESTMENTS (CONTINUED):

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 close to maturity as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the District's investments (including investments held by bond trustee) to market interest rate fluctuations are provided by the following tables that show the distribution of the District's investments by maturity as of June 30, 2017 and 2016.

June 30, 2017

<u>Investment Type</u>	<u>Remaining Maturity</u>			<u>Total</u>
	<u>12 Months or Less</u>	<u>13 - 24 Months</u>	<u>25 - 60 Months</u>	
United States Government Sponsored				
Agency Securities	\$ 12,777,524	\$ -	\$ 69,472,697	\$ 82,250,221
Local Agency Investment Fund	37,470,316	-	-	37,470,316
Orange County Pooled Investment Fund	19,912,642	-	-	19,912,642
Held by Bond Trustee:				
Money Market Mutual Funds	9,512	-	-	9,512
Held by SWAP Provider:				
United States Government Sponsored				
Agency Securities	2,197,096	-	1,676,062	3,873,158
Held by OPEB Trust:				
Money Market Mutual Funds	<u>9,772,275</u>	<u>-</u>	<u>-</u>	<u>9,772,275</u>
	<u>\$ 82,139,365</u>	<u>\$ -</u>	<u>\$ 71,148,759</u>	<u>\$ 153,288,124</u>

ORANGE COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2017 and 2016

2. CASH AND INVESTMENTS (CONTINUED):

Disclosures Relating to Interest Rate Risk (Continued):

June 30, 2016

<u>Investment Type</u>	<u>Remaining Maturity</u>			<u>Total</u>
	<u>12 Months or Less</u>	<u>13 - 24 Months</u>	<u>25 - 60 Months</u>	
United States Government Sponsored				
Agency Securities	\$ 3,000,060	\$ 43,529,822	\$ 27,313,110	\$ 73,842,992
Local Agency Investment Fund	36,559,865	-	-	36,559,865
Orange County Pooled Investment Fund	19,792,936	-	-	19,792,936
Held by Bond Trustee:				
Money Market Mutual Funds	150,850	-	-	150,850
United States Government Sponsored				
Agency Securities	-	-	11,264,614	11,264,614
Held by SWAP Provider:				
United States Government Sponsored				
Agency Securities	-	8,521,039	-	8,521,039
Held by OPEB Trust:				
Money Market Mutual Funds	<u>8,456,347</u>	<u>-</u>	<u>-</u>	<u>8,456,347</u>
	<u>\$ 67,960,058</u>	<u>\$ 52,050,861</u>	<u>\$ 38,577,724</u>	<u>\$ 158,588,643</u>

ORANGE COUNTY WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2017 and 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 in the following tables are the Standard and Poor's credit ratings for the District's investments as of June 30, 2017 and 2016.

June 30, 2017

Investment Type	Minimum Legal Requirement	Total as of June 30, 2017	AAA	AA+	Unrated
United States Government					
Sponsored Agency Securities	N/A	\$ 82,250,221	\$ -	\$ 82,250,221	\$ -
Local Agency Investment Fund	N/A	37,470,316	-	-	37,470,316
Orange County Pooled Investment Fund	N/A	19,912,642	-	-	19,912,642
Held by Bond Trustee:					
Money Market Mutual Funds	AAA	9,512	9,512	-	-
Held by SWAP Provider:					
United States Government					
Sponsored Agency Securities	N/A	3,873,158	-	3,873,158	-
Held by OPEB Trust:					
Money Market Mutual Funds	N/A	<u>9,772,275</u>	<u>-</u>	<u>-</u>	<u>9,772,275</u>
		<u>\$ 153,288,124</u>	<u>\$ 9,512</u>	<u>\$ 86,123,379</u>	<u>\$ 67,155,233</u>

June 30, 2016

Investment Type	Minimum Legal Requirement	Total as of June 30, 2016	AAA	AA+	Unrated
United States Government					
Sponsored Agency Securities	N/A	\$ 73,842,992	\$ -	\$ 73,842,992	\$ -
Local Agency Investment Fund	N/A	36,559,865	-	-	36,559,865
Orange County Pooled Investment Fund	N/A	19,792,936	-	-	19,792,936
Held by Bond Trustee:					
Money Market Mutual Funds	AAA	150,850	150,850	-	-
United States Government					
Sponsored Agency Securities	N/A	11,264,614	-	11,264,614	-
Held by SWAP Provider:					
United States Government					
Sponsored Agency Securities	N/A	8,521,039	-	8,521,039	-
Held by OPEB Trust:					
Money Market Mutual Funds	N/A	<u>8,456,347</u>	<u>-</u>	<u>-</u>	<u>8,456,347</u>
		<u>\$ 158,588,643</u>	<u>\$ 150,850</u>	<u>\$ 93,628,645</u>	<u>\$ 64,809,148</u>

ORANGE COUNTY WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2017 and 2016

2. CASH AND INVESTMENTS (CONTINUED):

Concentration of Credit Risk:

Investments in any one issuer that represents 5% or more of total District's investments as of June 30, 2017 and 2016 are as follows:

June 30, 2017

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>	<u>Percent of Investments</u>
Federal National Mortgage Association	United States Government Sponsored Agency Securities	\$ 26,265,634	17.13%
Federal Home Loan Mortgage Corporation	United States Government Sponsored Agency Securities	37,868,660	24.70%
Federal Farm Credit Bank	United States Government Sponsored Agency Securities	17,915,250	11.69%

June 30, 2016

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>	<u>Percent of Investments</u>
Federal Home Loan Bank	United States Government Sponsored Agency Securities	\$ 9,050,891	5.71%
Federal National Mortgage Association	United States Government Sponsored Agency Securities	22,000,490	13.87%
Federal Home Loan Mortgage Corporation	United States Government Sponsored Agency Securities	43,579,194	27.48%
Federal Farm Credit Bank	United States Government Sponsored Agency Securities	18,998,070	11.98%

ORANGE COUNTY WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2017 and 2016

2. CASH AND INVESTMENTS (CONTINUED):

Custodial Credit Risk:

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the District 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, the District will not be able to recover the value of its investment or collateral securities that are in the possession of another party. 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 and Orange County Treasurer).

The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2017 and 2016, all of the District's deposits with financial institutions were covered by federal depository insurance limits or were held in collateralized accounts.

Investment in State Investment Pool and County Investment Pool:

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The District is also a voluntary participant in the Orange County Pooled Investment Fund (OCPIF) that is a pooled investment fund program governed by the Orange County Board of Supervisors, and is administered by the Orange County Treasurer and Tax Collector. Investments in OCPIF are highly liquid as deposits and withdrawals can be made at any time without penalty. The fair value of the District's investment in these pools are reported in the accompanying financial statements at amounts based upon the District's pro rata share of the fair value provided by LAIF and OCPIF for the each respective portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF and OCPIF, which are recorded on an amortized cost basis.

ORANGE COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2017 and 2016

2. CASH AND INVESTMENTS (CONTINUED):

Cash and Investments - Pension and Other Post-Employment Benefit (OPEB) Trust:

Investment Policy

The District established a trust account with Public Agency Retirement Services (PARS) to hold assets that are legally restricted for use in administering the District's OPEB health plan. The OPEB Trust Fund's specific cash and investments are managed by a third-party portfolio manager under guidelines approved by the District.

Those guidelines are as follows:

Risk Tolerance:	Moderately Conservative
Risk Management:	The portfolio is constructed to control risk through four layers of diversification - asset classes (cash, fixed income, equity), investment styles (large cap, small cap, international, value, growth), managers and securities. Disciplined mutual fund selection and monitoring process help to drive return potential while reducing portfolio risk.
Investment Objective:	To provide current income and moderate capital appreciation. The major portion of the assets is committed to income-producing securities. Market fluctuations should be expected.
Strategic Ranges:	0% - 20% Cash 50% - 80% Fixed Income 20% - 40% Equity

Rate of Return

For the year ended June 30, 2017, the annual money-weighted rate of return on investments, net of investment expense, was 6.75%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

ORANGE COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2017 and 2016

2. CASH AND INVESTMENTS (CONTINUED):

Fair Value Measurements:

The District categorizes its fair value measurement within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The District has the following recurring fair value measurements as of June 30, 2017 and June 30, 2016:

June 30, 2017

<u>Investment Type</u>	<u>Quoted Prices Level 1</u>	<u>Observable Inputs Level 2</u>	<u>Unobservable Inputs Level 3</u>	<u>Total</u>
United States Government Sponsored Agency Securities	\$ -	\$ 82,250,221	\$ -	\$ 82,250,221
Held by SWAP Provider: United States Government Sponsored Agency Securities	-	3,873,158	-	3,873,158
Total Leveled Investments	<u>\$ -</u>	<u>\$ 86,123,379</u>	<u>\$ -</u>	86,123,379
Local Agency Investment Fund*				37,470,316
Orange County Pooled Investment Fund*				19,912,642
Money Market Mutual Funds: Held by Bond Trustee*				9,512
OPEB Trust*				<u>9,772,275</u>
Total Investment Portfolio				<u>\$ 153,288,124</u>

* Not subject to fair value hierarchy.

ORANGE COUNTY WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2017 and 2016

2. CASH AND INVESTMENTS (CONTINUED):

Fair Value Measurements (Continued):

June 30, 2016

<u>Investment Type</u>	<u>Quoted Prices Level 1</u>	<u>Observable Inputs Level 2</u>	<u>Unobservable Inputs Level 3</u>	<u>Total</u>
United States Government Sponsored Agency Securities	\$ -	\$ 73,842,992	\$ -	\$ 73,842,992
Held by Bond Trustee:				
United States Government Sponsored Agency Securities	-	11,264,614	-	11,264,614
Held by SWAP Provider:				
United States Government Sponsored Agency Securities	-	<u>8,521,039</u>	-	<u>8,521,039</u>
 Total Leveled Investments	<u>\$ -</u>	<u>\$ 93,628,645</u>	<u>\$ -</u>	93,628,645
 Local Agency Investment Fund*				36,559,865
Orange County Pooled Investment Fund*				19,792,936
Money Market Mutual Funds:				
Held by Bond Trustee*				150,850
OPEB Trust*				<u>8,456,347</u>
 Total Investment Portfolio				<u>\$ 158,588,643</u>

* Not subject to fair value hierarchy.

3. RESTRICTED ASSETS:

Restricted assets were provided by, and are to be used for, the following at June 30, 2017:

<u>Funding Source</u>	<u>Use</u>	<u>Amount</u>
Reimbursement and contribution from various agencies and interest earned	Construction of capital assets	\$ 3,777,432
Certificates of Participation		
Proceeds and interest earned	Debt service	9,512
Custodial receipts	Custodial costs	<u>4,682,070</u>
		<u>\$ 8,469,014</u>

ORANGE COUNTY WATER DISTRICT
 NOTES TO BASIC FINANCIAL STATEMENTS
 (CONTINUED)

June 30, 2017 and 2016

3. RESTRICTED ASSETS (CONTINUED):

Restricted assets were provided by, and are to be used for, the following at June 30, 2016:

Funding Source	Use	Amount
Reimbursement and contribution from various agencies and interest earned	Construction of capital assets	\$ 2,462,074
Certificates of Participation Proceeds and interest earned	Debt service	11,415,463
Custodial receipts	Custodial costs	<u>10,003,190</u>
		<u>\$ 23,880,727</u>

When both restricted and unrestricted resources are available for capital projects, the District's policy is to use restricted resources first and then unrestricted resources as necessary.

ORANGE COUNTY WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2017 and 2016

4. CAPITAL ASSETS:

A summary of the changes in capital assets for the year ended June 30, 2017 is as follows:

	Beginning Balance <u>July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	Ending Balance <u>June 30, 2017</u>
Capital assets, not being depreciated:				
Land	\$ 74,146,641	\$ -	\$ -	\$ 74,146,641
Water rights	6,823,570	-	-	6,823,570
Construction in progress	<u>67,641,474</u>	<u>31,315,558</u>	<u>(24,859,420)</u>	<u>74,097,612</u>
Total capital assets, not being depreciated	<u>148,611,685</u>	<u>31,315,558</u>	<u>(24,859,420)</u>	<u>155,067,823</u>
Capital assets, being depreciated:				
Structures and improvements	666,382,825	9,499,385	-	675,882,210
Infrastructure	67,991,086	306,565	-	68,297,651
Equipment	<u>261,102,162</u>	<u>15,053,470</u>	<u>(258,584)</u>	<u>275,897,048</u>
Total capital assets, being depreciated	<u>995,476,073</u>	<u>24,859,420</u>	<u>(258,584)</u>	<u>1,020,076,909</u>
Less accumulated depreciation for:				
Structures and improvements	(341,948,134)	(15,640,730)	-	(357,588,864)
Infrastructure	(13,627,063)	(1,805,380)	-	(15,432,443)
Equipment	<u>(74,462,807)</u>	<u>(18,416,510)</u>	<u>184,678</u>	<u>(92,694,639)</u>
Total accumulated depreciation	<u>(430,038,004)</u>	<u>(35,862,620)</u>	<u>184,678</u>	<u>(465,715,946)</u>
Total capital assets being depreciated, net	<u>565,438,069</u>	<u>(11,003,200)</u>	<u>(73,906)</u>	<u>554,360,963</u>
Total capital assets, net	<u>\$ 714,049,754</u>	<u>\$ 20,312,358</u>	<u>\$ (24,933,326)</u>	<u>\$ 709,428,786</u>

ORANGE COUNTY WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2017 and 2016

4. CAPITAL ASSETS (CONTINUED):

A summary of the changes in capital assets for the year ended June 30, 2016 is as follows:

	Beginning Balance <u>July 1, 2015</u>	Additions	Deletions	Ending Balance <u>June 30, 2016</u>
Capital assets, not being depreciated:				
Land	\$ 74,165,902	\$ -	\$ (19,261)	\$ 74,146,641
Water rights	6,823,570	-	-	6,823,570
Construction in progress	<u>182,374,056</u>	<u>52,822,562</u>	<u>(167,555,144)</u>	<u>67,641,474</u>
Total capital assets, not being depreciated	<u>263,363,528</u>	<u>52,822,562</u>	<u>(167,574,405)</u>	<u>148,611,685</u>
Capital assets, being depreciated:				
Structures and improvements	658,459,139	7,923,686	-	666,382,825
Infrastructure	65,743,403	2,247,683	-	67,991,086
Equipment	<u>104,086,281</u>	<u>157,403,036</u>	<u>(387,155)</u>	<u>261,102,162</u>
Total capital assets, being depreciated	<u>828,288,823</u>	<u>167,574,405</u>	<u>(387,155)</u>	<u>995,476,073</u>
Less accumulated depreciation for:				
Structures and improvements	(326,666,997)	(15,281,137)	-	(341,948,134)
Infrastructure	(11,686,126)	(1,940,937)	-	(13,627,063)
Equipment	<u>(58,685,101)</u>	<u>(16,140,435)</u>	<u>362,729</u>	<u>(74,462,807)</u>
Total accumulated depreciation	<u>(397,038,224)</u>	<u>(33,362,509)</u>	<u>362,729</u>	<u>(430,038,004)</u>
Total capital assets being depreciated, net	<u>431,250,599</u>	<u>134,211,896</u>	<u>(24,426)</u>	<u>565,438,069</u>
Total capital assets, net	<u>\$ 694,614,127</u>	<u>\$ 187,034,458</u>	<u>\$ (167,598,831)</u>	<u>\$ 714,049,754</u>

ORANGE COUNTY WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2017 and 2016

5. NOTES RECEIVABLE:

The District contracts with other local agencies to provide long-term, low-interest financing for the construction of conjunctive use wells and other facilities projects owned by the District. Costs incurred for construction of these facilities are recorded as capital assets. Notes receivable are recorded for the project costs with the offsetting amount to contributed capital. The capital assets are depreciated over the life of the corresponding note receivable. Notes receivable consist of the following at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Balance at June 30,	\$ 1,349,661	\$ 2,054,010
Less: Payments received	<u>(626,767)</u>	<u>(704,349)</u>
Subtotal	722,894	1,349,661
Less: Current portion	<u>(180,116)</u>	<u>(270,517)</u>
 Total noncurrent notes receivable	 <u>\$ 542,778</u>	 <u>\$ 1,079,144</u>

Payment requirements on the notes receivable subsequent to June 30, 2017 are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 180,116	\$ 10,893	\$ 191,009
2019	441,024	6,300	447,324
2020	87,750	3,325	91,075
2021	<u>14,004</u>	<u>245</u>	<u>14,249</u>
 Total	 <u>\$ 722,894</u>	 <u>\$ 20,763</u>	 <u>\$ 743,657</u>

6. LONG-TERM DEBT:

Certificates of Participation and Refunding Revenue Bonds:

2003A Certificates of Participation

In June 2003, the Public Facilities Corporation issued \$129,815,000 of Certificates of Participation, Series A, to assist the District in refunding the remaining portion of the 1993 Fixed Rate Revenue Certificates of Participation and to finance the cost of certain capital improvements. A portion of the issuance proceeds used to refund the 1993 Certificates of Participation were placed in an irrevocable trust with an escrow agent. As a result, \$113,500,000 of the 1993 Certificates of Participation are considered to be in substance defeased, and the related liabilities have been removed from the District's financial statements. The defeased Certificates have been redeemed.

ORANGE COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2017 and 2016

6. LONG-TERM DEBT (CONTINUED):

Certificates of Participation and Refunding Revenue Bonds (Continued):

2003A Certificates of Participation (Continued)

The Certificates are obligations of the Public Facilities Corporation payable solely from payments received from the District pursuant to the Installment Purchase Agreement, by and between the District and the Public Facilities Corporation. The Installment Purchase Agreement requires the District to prescribe, assess and collect replenishment assessments and additional replenishment assessments which, together with other revenues of the District are reasonably expected to be at least sufficient to yield Net Revenues during such fiscal year equal to 125% of debt service payable in such fiscal year.

The 2003 Series A Certificates of Participation are due in annual installments of \$13,755,000 to \$18,535,000 from August 2035 to August 2042 with interest at an adjustable rate calculated weekly and payable monthly. The 2003A Certificates of Participation outstanding totaled \$129,815,000 as of June 30, 2017 and 2016. The interest rate at June 30, 2017 and 2016 was 0.86% and 0.40%, respectively.

2009A Certificates of Participation

In August 2009, the Public Facilities Corporation issued \$130,080,000 Revenue Refunding Certificates of Participation, Series A, to assist the District in refunding the remaining portion of the 2008A Certificates of Participation, the funding of a reserve fund for the Certificates, and to pay certain costs of executing and delivering the Certificates. The proceeds were placed in an irrevocable trust with an escrow agent. As a result, the 2008A Certificates are considered to be in substance defeased, and the related liabilities were removed from the District's financial statements. The defeased Certificates have been redeemed.

The 2009A Certificates of Participation were defeased as of June 30, 2017 by the issuance of the 2017A & B Refunding Revenue Bonds that advance refunded these bonds.

2013A Refunding Revenue Bonds

In June 2013, the District issued \$53,000,000 of Refunding Revenue Bonds to defease the remaining \$63,170,000 of 2003B Certificates of Participation.

The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$1,534,199.

ORANGE COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2017 and 2016

6. LONG-TERM DEBT (CONTINUED):

Certificates of Participation and Refunding Revenue Bonds (Continued):

2013A Refunding Revenue Bonds (Continued)

The 2013 Series A Refunding Revenue Bonds consist of \$53,000,000 of serial bonds. The bonds accrue interest at rates between 4.00% and 5.00% and mature between August 2025 and August 2033, in amounts ranging from \$675,000 to \$13,900,000. The 2013A Refunding Revenue Bonds outstanding totaled \$53,000,000 as of June 30, 2017 and 2016.

The Installment Purchase Agreement requires the District to prescribe, assess and collect replenishment assessments and additional replenishment assessments which, together with other revenues of the District are reasonably expected to be at least sufficient to yield Net Revenues during such fiscal year equal to 125% of debt service payable in such fiscal year.

2017A & B Refunding Revenue Bonds

In February 2017, the District issued \$115,000,000 of Refunding Revenue Bonds to defease the remaining \$125,985,000 of 2009A Certificates of Participation. The issuance proceeds were used to refund the 2009A Certificates of Participation and were placed in an irrevocable trust with an escrow agent. As a result, the 2009A Certificates of Participation are considered to be in substance defeased, and the related liabilities have been removed from the District's financial statements. The District's refunding of the 2009A Certificates of Participation resulted in an economic gain (difference between the present value of the old and new debt) of \$16,653,609 and an aggregate savings in debt service between the refunding debt and the refunded debt of \$20,200,183.

The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$10,515,560.

The 2017A & B Refunding Revenue Bonds consist of \$89,735,000 non-taxable and \$25,265,000 taxable, respectively, of serial bonds. The bonds accrue interest at rates between 0.82% and 5.00%, payable semiannually on August 15 and February 15, commencing August 15, 2017 and maturing on August 15, 2041 in amounts ranging from \$595,000 to \$17,845,000.

The 2017A & B Refunding Revenue Bonds outstanding totaled \$115,000,000 as of June 30, 2017.

The Installment Purchase Agreement requires the District to prescribe, assess and collect replenishment assessments and additional replenishment assessments which, together with other revenues of the District are reasonably expected to be at least sufficient to yield Net Revenues during such fiscal year equal to 125% of debt service payable in such fiscal year.

ORANGE COUNTY WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2017 and 2016

6. LONG-TERM DEBT (CONTINUED):

Certificates of Participation and Refunding Revenue Bonds (Continued):

Other Defeased Certificates of Participation

In prior years, the District defeased certain certificates of participation, including the 1999A, 2003B, 2005B, 2007A, and 2009A certificates, by placing the proceeds of the new bonds with an escrow agent to provide for all future debt service payments on the old bonds. Accordingly, the escrow account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2017 and 2016, \$211,490,000 and \$89,500,000 of bonds outstanding to be paid by the escrow agent, respectively, are considered defeased.

Summary of Changes

The following is a summary of the changes in Certificates of Participation and Refunding Revenue Bonds for the year ended June 30, 2017:

	<u>Balance at July 1, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2017</u>	<u>Due Within One Year</u>
Certificates of Participation (COP) and Refunding Revenue Bonds:					
2003A COP	\$ 129,815,000	\$ -	\$ -	\$ 129,815,000	\$ -
2009A COP	126,705,000	-	(126,705,000)	-	-
2013A Refunding Revenue Bonds	53,000,000	-	-	53,000,000	-
2017AB Refunding Revenue Bonds	<u>-</u>	<u>115,000,000</u>	<u>-</u>	<u>115,000,000</u>	<u>620,000</u>
	309,520,000	115,000,000	(126,705,000)	297,815,000	<u>\$ 620,000</u>
Add:					
Unamortized (discount) premium	<u>10,760,690</u>	<u>11,444,264</u>	<u>(1,786,488)</u>	<u>20,418,466</u>	
TOTAL	<u>\$ 320,280,690</u>	<u>\$ 126,444,264</u>	<u>\$(128,491,488)</u>	<u>\$ 318,233,466</u>	

ORANGE COUNTY WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2017 and 2016

6. LONG-TERM DEBT (CONTINUED):

Certificates of Participation and Refunding Revenue Bonds (Continued):

Summary of Changes (Continued)

The following is a summary of the changes in Certificates of Participation and Refunding Revenue Bonds for the year ended June 30, 2016:

	<u>Balance at July 1, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2016</u>	<u>Due Within One Year</u>
Certificates of Participation (COP) and Refunding Revenue Bonds:					
2003A COP	\$ 129,815,000	\$ -	\$ -	\$ 129,815,000	\$ -
2009A COP	127,295,000	-	(590,000)	126,705,000	720,000
2013A Refunding Revenue Bonds	<u>53,000,000</u>	<u>-</u>	<u>-</u>	<u>53,000,000</u>	<u>-</u>
	310,110,000	-	(590,000)	309,520,000	<u>\$ 720,000</u>
Add:					
Unamortized (discount) premium	<u>11,368,377</u>	<u>-</u>	<u>(607,687)</u>	<u>10,760,690</u>	
TOTAL	<u>\$ 321,478,377</u>	<u>\$ -</u>	<u>\$ (1,197,687)</u>	<u>\$ 320,280,690</u>	

Aggregate maturities of the Certificates of Participation, Refunding Revenue Bonds, and interest payments (using 0.86% on the 2003A variable rate debt) subsequent to June 30, 2017, are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 620,000	\$ 8,659,969	\$ 9,279,969
2019	600,000	8,658,324	9,258,324
2020	595,000	8,638,811	9,233,811
2021	635,000	8,616,114	9,251,114
2022	670,000	8,591,082	9,261,082
2023 - 2027	10,095,000	42,186,572	52,281,572
2028 - 2032	58,750,000	34,443,614	93,193,614
2033 - 2037	86,450,000	18,097,107	104,547,107
2038 - 2042	120,865,000	7,802,965	128,667,965
2043	<u>18,535,000</u>	<u>159,401</u>	<u>18,694,401</u>
Total	<u>\$ 297,815,000</u>	<u>\$ 145,853,959</u>	<u>\$ 443,668,959</u>

ORANGE COUNTY WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2017 and 2016

6. LONG-TERM DEBT (CONTINUED):

State of California Loans Payable:

Green Acres Phase II

In July 1997, the District entered into a loan contract with the State Water Resources Control Board for the construction of an extension of pipeline into Newport Beach including appurtenances and service meters. The District may borrow up to \$4,380,132 or the eligible costs of the project, whichever is less. At June 30, 2017, the State Water Resources Control Board had disbursed \$4,292,529 under the loan contract. The loan has an interest rate of 2.8% with maturities through 2017. The outstanding balance totaled \$0 and \$378,876 as of June 30, 2017 and 2016, respectively.

Ground Water Replenishment System (GWRS)

In May 2006, the District entered into an agreement with the State Water Resources Control Board for the construction of Groundwater Replenishment System project. The District may borrow up to \$8,659,470 or the eligible costs of the project, whichever is less. At June 30, 2017, the State Water Resources Control Board had disbursed \$7,216,196 under the loan contract. The loan has an interest rate of 1.8% with maturities through 2024. The outstanding balance totaled \$3,112,696 and \$3,523,063 as of June 30, 2017 and 2016, respectively.

GWRS Barrier Facilities

In May 2006, the District entered into an agreement with the State Water Resources Control Board for construction of the new injection wells. The District may borrow up to \$4,491,018 or the eligible costs of the project, whichever is less. At June 30, 2017, the State Water Resources Control Board had disbursed \$3,479,837 under the loan contract. The loan has an interest rate of 1.8% with maturities through 2026. The outstanding balance totaled \$1,802,485 and \$1,984,557 as of June 30, 2017 and 2016, respectively.

GWRS Pipeline Unit 1

In May 2006, the District entered into an agreement with the State Water Resources Control Board for construction of the first portion of the Groundwater Replenishment System pipeline. The District may borrow up to \$5,310,891 or the eligible costs of the project, whichever is less. At June 30, 2017, the State Water Resources Control Board had disbursed \$4,425,725 under the loan contract. The loan has an interest rate of 1.8% with maturities through 2026. The outstanding balance totaled \$2,291,930 and \$2,523,389 as of June 30, 2017 and 2016, respectively.

ORANGE COUNTY WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2017 and 2016

6. LONG-TERM DEBT (CONTINUED):

State of California Loans Payable (Continued):

GWRS Pipeline Unit 2

In May 2006, the District entered into an agreement with the State Water Resources Control Board for construction of the second portion of the Groundwater Replenishment System pipeline. The District may borrow up to \$3,452,552 or the eligible costs of the project, whichever is less. At June 30, 2017, the State Water Resources Control Board had disbursed \$2,877,115 under the loan contract. The loan has an interest rate of 1.8% with maturities through 2026. The outstanding balance totaled \$1,489,273 and \$1,639,600 as of June 30, 2017 and 2016, respectively.

GWRS Pipeline Unit 3

In May 2006, the District entered into an agreement with the State Water Resources Control Board for construction of the third portion of the Groundwater Replenishment System pipeline. The District may borrow up to \$4,137,559 or the eligible costs of the project, whichever is less. At June 30, 2017, the State Water Resources Control Board had disbursed \$3,429,338 under the loan contract. The loan has an interest rate of 1.8% with maturities through 2026. The outstanding balance totaled \$1,681,755 and \$1,851,023 as of June 30, 2017 and 2016, respectively.

GWRS Advanced Water Treatment Facility

In June 2006, the District entered into an agreement with the State Water Resources Control Board for construction of the new advanced wastewater treatment facility for the District's Groundwater Replenishment System. The District may borrow up to \$136,802,193 or the eligible costs of the project, whichever is less. At June 30, 2017, the State Water Resources Control Board had disbursed \$114,000,776 under the loan contract. The loan has an interest rate of 1.8% with maturities through 2028. The outstanding balance totaled \$67,699,147 and \$73,219,081 as of June 30, 2017 and 2016, respectively.

Groundwater Replenishment System Initial Expansion

In August 2011, the District entered into an agreement with the State Water Resources Control Board for construction of the Groundwater Replenishment System Initial Expansion project. The District may borrow up to \$137,442,775 or the eligible costs of the project, whichever is less. At June 30, 2017, the State Water Resources Control Board had disbursed \$137,442,775. The loan has an interest rate of 2.6% with maturities through 2036. The outstanding balance totaled \$140,134,900 and \$145,784,734 as of June 30, 2017 and 2016, respectively.

ORANGE COUNTY WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2017 and 2016

6. LONG-TERM DEBT (CONTINUED):

State of California Loans Payable (Continued):

Fletcher Basin

In November 2013, the District entered into an agreement with the State Water Resources Control Board for the construction of the Fletcher Basin Improvement project. The District may borrow up to \$2,879,342 or the eligible costs of the project, whichever is less. At June 30, 2017, the State Water Resources Control Board had disbursed \$2,879,342. The loan has an interest rate of 1.9% with a repayment period of 20 years after project completion. The outstanding balance totaled \$2,779,753 and \$2,885,284 as of June 30, 2017 and 2016, respectively.

Alamitos Barrier

In November 2013, the District entered into an agreement with the State Water Resources Control Board for expansion of the Alamitos Seawater Intrusion Barrier. The District may borrow up to \$10,623,910 or the eligible costs of the project, whichever is less. At June 30, 2017, the State Water Resources Control Board had disbursed \$6,573,007. In addition, accrued interest of \$68,097 and loan receivable of \$2,292,173 has been added to the principal. The loan has an interest rate of 1.9% with a repayment period of 20 years after project completion. The outstanding balance totaled \$8,933,277 and \$2,494,709 as of June 30, 2017 and 2016, respectively.

La Palma Basin

In February 2016, the District entered into an agreement with the State Water Resources Control Board for construction of a groundwater recharge basin. The District may borrow up to \$8,570,970 or the eligible costs of the project, whichever is less. At June 30, 2017, the State Water Resources Control Board had disbursed \$5,232,876. In addition accrued interest of \$5,046 has been added to the principal balance as of June 30, 2017. The loan has an interest rate of 1.0% with a repayment period of 30 years after project completion. The outstanding balance totaled \$5,237,922 and \$3,316,489 as of June 30, 2017 and 2016, respectively.

ORANGE COUNTY WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2017 and 2016

6. LONG-TERM DEBT (CONTINUED):

State of California Loans Payable (Continued):

Summary of Changes

The following is a summary of the changes in loans payable to the State of California for the year ended June 30, 2017:

	Balance at <u>July 1, 2016</u>	<u>Additions</u>	<u>Reductions</u>	Balance at <u>June 30, 2017</u>	Due Within <u>One Year</u>
Green Acres Phase II	\$ 378,876	\$ -	\$ (378,876)	\$ -	\$ -
GWRS	3,523,063	-	(410,367)	3,112,696	418,604
GWRS Barrier Facilities	1,984,557	-	(182,072)	1,802,485	185,532
GWRS Pipeline Unit 1	2,523,389	-	(231,459)	2,291,930	235,867
GWRS Pipeline Unit 2	1,639,600	-	(150,327)	1,489,273	153,204
GWRS Pipeline Unit 3	1,851,023	-	(169,268)	1,681,755	172,605
GWRS Advanced Water Treatment Facility	73,219,081	-	(5,519,934)	67,699,147	5,619,459
GWRS Initial Expansion	145,784,734	-	(5,649,834)	140,134,900	5,796,730
Fletcher Basin	2,885,284	18,008	(123,539)	2,779,753	122,851
Alamitos Barrier	2,494,709	6,438,568	-	8,933,277	-
La Palma Basin	3,316,489	1,921,433	-	5,237,922	155,301
Total	<u>\$ 239,600,805</u>	<u>\$ 8,378,009</u>	<u>\$ (12,815,676)</u>	<u>\$ 235,163,138</u>	<u>\$ 12,860,153</u>

ORANGE COUNTY WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2017 and 2016

6. LONG-TERM DEBT (CONTINUED):

State of California Loans Payable (Continued):

Summary of Changes (Continued)

The following is a summary of the changes in loans payable to the State of California for the year ended June 30, 2016:

	Balance at <u>July 1, 2015</u>	<u>Additions</u>	<u>Reductions</u>	Balance at <u>June 30, 2016</u>	Due Within <u>One Year</u>
Green Acres Phase II	\$ 650,979	\$ -	\$ (272,103)	\$ 378,876	\$ 378,876
GWRS	3,925,355	-	(402,292)	3,523,063	410,367
GWRS Barrier Facilities	2,163,234	-	(178,677)	1,984,557	182,072
GWRS Pipeline Unit 1	2,750,522	-	(227,133)	2,523,389	231,459
GWRS Pipeline Unit 2	1,787,102	-	(147,502)	1,639,600	150,327
GWRS Pipeline Unit 3	2,017,018	-	(165,995)	1,851,023	169,268
GWRS Advanced Water Treatment Facility	78,641,254	-	(5,422,173)	73,219,081	5,519,934
GWRS Initial Expansion	134,770,341	11,014,393	-	145,784,734	5,649,834
Fletcher Basin	1,233,146	1,652,138	-	2,885,284	108,521
Alamitos Barrier	534,808	1,959,901	-	2,494,709	-
La Palma Basin	-	3,316,489	-	3,316,489	-
Total	<u>\$ 228,473,759</u>	<u>\$ 17,942,921</u>	<u>\$ (6,815,875)</u>	<u>\$ 239,600,805</u>	<u>\$ 12,800,658</u>

ORANGE COUNTY WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2017 and 2016

6. LONG-TERM DEBT (CONTINUED):

State of California Loans Payable (Continued):

Debt service requirements on the loans payable to the State of California subsequent to June 30, 2017, are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 12,860,153	\$ 5,166,452	\$ 18,026,605
2019	13,409,979	5,018,866	18,428,845
2020	13,700,101	4,728,744	18,428,845
2021	13,996,717	4,432,128	18,428,845
2022	14,299,975	4,128,870	18,428,845
2023 - 2027	73,811,884	16,002,318	89,814,202
2028 - 2032	49,620,923	8,323,722	57,944,645
2033 - 2037	38,855,987	2,632,681	41,488,668
2038 - 2042	1,331,111	84,984	1,416,095
2043 - 2047	984,135	29,720	1,013,855
Alamitos Barrier Principal as of June 30, 2017*	<u>2,292,173</u>	<u>-</u>	<u>2,292,173</u>
Total	<u>\$ 235,163,138</u>	<u>\$ 50,548,485</u>	<u>\$ 285,711,623</u>

*As of June 30, 2017, the future debt service requirements have not been determined.

ORANGE COUNTY WATER DISTRICT
 NOTES TO BASIC FINANCIAL STATEMENTS
 (CONTINUED)

June 30, 2017 and 2016

6. LONG-TERM DEBT (CONTINUED):

Commercial Paper:

The Public Facilities Corporation issued commercial paper from which the proceeds were used to provide capital funds for the District to purchase land. The commercial paper has a maximum maturity of 270 days. The District issues, annually, Tax and Revenue Anticipation Notes (TRANs) which are additionally secured by revenue to service the commercial paper. On July 1, 2017, the District issued 2017-2018 TRANs amounting to \$65 million to the Public Facilities Corporation, \$25 million of this TRAN is tax exempt and \$40 million is taxable. The outstanding balance for the commercial paper totaled \$16,813,000 and \$20,723,000 as of June 30, 2017 and 2016, respectively.

The following is as summary of the changes in commercial paper for the year ended June 30, 2017:

	Balance at July 1, 2016	Additions	Reductions	Balance at June 30, 2017	Due Within One Year
Commercial Paper	\$ 20,723,000	\$ -	\$ (3,910,000)	\$ 16,813,000	\$ 16,813,000

The following is as summary of the changes in commercial paper for the year ended June 30, 2016:

	Balance at July 1, 2015	Additions	Reductions	Balance at June 30, 2016	Due Within One Year
Commercial Paper	\$ 24,613,000	\$ -	\$ (3,890,000)	\$ 20,723,000	\$ 20,723,000

7. DERIVATIVE INSTRUMENTS - INTEREST RATE SWAP AGREEMENTS:

Objective:

The District executed two interest rate swap agreements on February 5, 2007 (the swaps) with swap provider Citibank, N.A. (counterparty), which were subsequently amended and restated as of April 1, 2008, to hedge debt service cost on a portion of the District's 2003A Adjustable Rate Refunding Certificates of Participation by achieving a synthetic fixed rate.

ORANGE COUNTY WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2017 and 2016

7. DERIVATIVE INSTRUMENTS - INTEREST RATE SWAP AGREEMENTS (CONTINUED):

Details on the Swap Agreements:

Notional Amount	Fixed Rate	COP Issue	Termination Date	Initial Effective Date
\$ 58,800,000	3.314%	2003A	07/25/2037	02/07/2007
<u>23,750,000</u>	3.314%	2003A	08/01/2029	05/16/2007
<u>\$ 82,550,000</u>				

Terms:

Under the swap agreements, the District will make a fixed rate payment to the swap counterparty, at a rate of 3.314%, and then receive a variable rate payment of 56% of the monthly LIBOR rate plus 23 basis points from the swap counterparty that would effectively offset the payment on the underlying variable rate Certificates. The swaps are for a total notional amount of \$82,550,000 and terminate on various dates.

A portion of the 2003A Certificates maturity dates matches the maturity of the related swap agreements. The swaps notional amount is equal to a portion of the principal amounts of the 2003A Certificates issued and will decline as the principal amount of the associated proportion debt declines.

Summary of Activities in Cash Flow Hedging Derivative Instruments:

Notional Amount	Fair Value at July 1, 2015	Change in Fair Value	Fair Value at June 30, 2016	Change in Fair Value	Fair Value at June 30, 2017
\$ 58,800,000	\$ (13,275,442)	\$ (5,667,426)	\$ (18,942,868)	\$ 5,580,093	\$ (13,362,775)
<u>23,750,000</u>	<u>(4,646,381)</u>	<u>(1,649,965)</u>	<u>(6,296,346)</u>	<u>1,889,870</u>	<u>(4,406,476)</u>
<u>\$ 82,550,000</u>	<u>\$ (17,921,823)</u>	<u>\$ (7,317,391)</u>	<u>\$ (25,239,214)</u>	<u>\$ 7,469,963</u>	<u>\$ (17,769,251)</u>

As of June 30, 2017 and 2016, the fair value of \$(17,769,251) and \$(25,239,214), respectively, is reported as a deferred outflow of resources and other noncurrent liability in the Statements of Net Position.

ORANGE COUNTY WATER DISTRICT
 NOTES TO BASIC FINANCIAL STATEMENTS
 (CONTINUED)

June 30, 2017 and 2016

7. DERIVATIVE INSTRUMENTS - INTEREST RATE SWAP AGREEMENTS (CONTINUED):

Credit Risk:

As of June 30, 2017 and 2016, the District was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the District would be exposed to credit risk in the amount of the derivative's fair value.

The swaps counterparty, Citibank N.A., have the following credit ratings:

	<u>Standard & Poor's</u>	<u>Moody's</u>
Citibank N.A.	A+	A1

Basis Risk:

The swaps do expose the District to basis risk, which refers to a mismatch between the interest rate received from the swap contract and the interest paid on the variable rate payments to be made on the debt. The District pays the counterparty a fixed rate and receives a variable rate based on 56% of the 1 month UDS-LIBOR-BBA plus a spread of .23% which may be different than the variable rate payments to be made on the debt. The District is at risk that the variable interest rate payments received from the counterparty will be less than the variable rate payments owed on the debt.

Termination Risk:

The swaps may be terminated by the District or the counterparty if the other party fails to perform under the terms of the swap agreements. In addition, the District has the option to terminate the swaps upon proper notification to the counterparty. If the swaps are terminated, the District would prospectively pay the variable rates on the portion of 2003A Certificates related to the swap agreements rather than a fixed rate. The termination of the swap agreements could therefore increase the District's total debt service. Also, if at the time of the termination, the swaps have a negative fair value, the District would be liable to the counterparty for a payment equal to such negative fair value, or be paid an amount equal to a positive fair value. As of June 30, 2017 and 2016, and the swaps had a negative fair value of \$17,769,251 and \$25,239,214, respectively.

ORANGE COUNTY WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2017 and 2016

7. DERIVATIVE INSTRUMENTS - INTEREST RATE SWAP AGREEMENTS (CONTINUED):

Swap Payments and Associated Debt:

Using a variable rate of 0.86% for the 2003A COP as of June 30, 2017, debt service requirements of the Certificates and the swap payments, assuming current interest rates remain the same for their term are as follows. As rates vary, the variable rate interest payments and net swap payments will vary.

Year Ending June 30,	Variable Rate Debt			Interest Rate Swap, Net	Fixed Debt Service
	Principal	Interest	Total		
2018	\$ -	\$ 709,930	\$ 709,930	\$ 1,979,036	\$ 2,688,966
2019	-	709,930	709,930	1,979,036	2,688,966
2020	-	709,930	709,930	1,979,036	2,688,966
2021	-	709,930	709,930	1,979,036	2,688,966
2022	-	709,930	709,930	1,979,036	2,688,966
2023-2027	5,900,000	3,484,935	9,384,935	15,614,777	19,099,712
2028-2032	38,000,000	2,128,930	40,128,930	43,934,710	46,063,640
2033-2037	32,750,000	903,645	33,653,645	35,269,045	36,172,690
2038-2039	5,900,000	-	5,900,000	5,900,000	5,900,000
	<u>\$ 82,550,000</u>	<u>\$ 10,067,160</u>	<u>\$ 92,617,160</u>	<u>\$ 110,613,712</u>	<u>\$ 120,680,872</u>

Fair Value Measurement:

The model used to value the interest rate swaps is based upon well recognized financial principles, and interest rate yield curves can be validated through readily observable data by external sources. Although readily observable data is used in the valuation of the interest rate swaps, methodologies could have an effect on the estimated fair value. Accordingly, the interest rate swaps are categorized as Level 2.

8. JOINT VENTURES:

The District is a participant in the Santa Ana Watershed Project Authority (SAWPA). SAWPA is a joint venture of five water districts that provide for the construction, ownership, operation, and maintenance of facilities involved in the collection, transmission, treatment, disposal, and reclamation of sewage, wastewater, groundwater, and storm water in the Santa Ana River Watershed area. Each participating district appoints two commissioners to SAWPA to form a governing Board of Authority. Equal contributions are made by each member district for administration and contributions are based on capacity use rights for project agreements under which capital construction is accomplished. Special projects or studies are funded by equal contributions from each district.

ORANGE COUNTY WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2017 and 2016

8. JOINT VENTURES (CONTINUED):

As of June 30, 2017, the SAWPA has total assets of \$178,602,451 and total net position of \$70,388,239. As of June 30, 2016, the SAWPA has total assets of \$175,164,843 and total net position of \$67,167,745. The District does not have a measurable equity interest in SAWPA. The District is also a participant in other joint ventures in which the District does not have a material equity interest or material ongoing financial interest or responsibility. Separate financial statements of SAWPA can be obtained at 11615 Sterling Avenue, Riverside, California 92503.

9. DEFINED CONTRIBUTION PENSION PLAN:

The Money Purchase Plan for employees of Orange County Water District (Money Purchase Plan) is a defined contribution pension plan administered by a committee of the Board of Directors and District employees. The Money Purchase Plan covers all employees, except part-time or temporary employees, immediately upon date of hire. For the first layer, the Money Purchase Plan requires each employee, upon date of hire, to contribute monthly to a mandatory contributions account, by payroll deduction, an amount equal to the current FICA rate not limited to the FICA wage cap. For the first layer, the District may elect in any year to contribute any portion or all of the participant's first layer contribution and the participant's first layer contribution shall be reduced by the amount so contributed by the District. The District is required to make a contribution in an amount equal to the then current Social Security contribution requirement (7.65% for the years ended December 31, 2017 and 2016) for the employer contribution. In addition, the District may elect in any year to contribute any portion or all of the participant's first layer contribution and the participant's first layer contribution shall be reduced by the amount so contributed by the District. The District elected to contribute 3% for the years ended December 31, 2017 and 2016, of the participant's mandatory contribution.

Each eligible employee becomes a participant in the second layer of contribution as of the first day of the month following completion of twelve months of covered service. The District is required to contribute 6% of the participant's total monthly compensation each month.

Employees are required to make a mandatory contribution of 4.65% of compensation. Employees may elect to contribute to a voluntary contribution account in the Money Purchase Plan. Voluntary contributions may be an amount not less than 2% of compensation, nor more than an amount that would cause all contributions to exceed the lesser of \$54,000 or 25.00% of his or her paid compensation for the year. In addition, the District may elect in any year to contribute any portion or all of each employee's Money Purchase Plan contribution, thereby reducing the employee's Money Purchase Plan contribution by the amount contributed by the District.

ORANGE COUNTY WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2017 and 2016

9. DEFINED CONTRIBUTION PENSION PLAN (CONTINUED):

The Money Purchase Plan may be amended by resolution of the Board of Directors, subject to limitations obtained in the Money Purchase Plan document. Total contributions to the Money Purchase Plan for the years ended June 30, 2017 and 2016, were \$3,791,637 and \$3,600,218, respectively.

Separate audited financial statements of the Money Purchase Plan can be obtained from the District offices at 18700 Ward Street, Fountain Valley, California 92708.

10. OTHER POST-EMPLOYMENT BENEFITS:

Plan Description:

The District contributes to an agent multiple-employer defined benefit plan to provide post-employment health care benefits, which is administered by the District. Specifically, the District provides health insurance for its retired employees and eligible directors, their dependent spouses (if married and covered on the District's plan at time of retirement), or survivors in accordance with Board resolutions. The plan benefits are established and may be amended by the District, the District's Board of Directors, and/or the employee associations. Medical coverage is provided for retired employees who are age 55 or over and who have a minimum of 12 years of service with the District. The District pays a flat dollar cap towards the premium for the retiree and the dependent coverage. Medical coverage is provided for the surviving spouse of retired employees and the surviving spouse of active employees who upon death had attained age 55 and who had a minimum of 12 years of service with the District. The District will pay the flat dollar amount premium cap until the surviving spouse remarries, becomes enrolled under another group health plan, or cancels coverage. Employees who qualify for post-retirement health coverage must designate Medicare as their primary insurance coverage provider at the time they become eligible for Medicare (the District's coverage will then become secondary). Retiree and survivor medical coverage for employees hired on or after July 1, 2009 will terminate upon eligibility for Medicare. The plan does not provide a publicly available financial report.

Below is the plan participant data as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Inactive plan members currently receiving benefit payments	71	59
Inactive plan members entitled to but not yet receiving benefit payments	-	-
Active plan members	<u>216</u>	<u>214</u>
Total plan participants	<u><u>287</u></u>	<u><u>273</u></u>

ORANGE COUNTY WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2017 and 2016

10. OTHER POST-EMPLOYMENT BENEFITS (CONTINUED):

Accounting for the Plan:

The other post-employment benefit trust is prepared using the accrual basis of accounting. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of each plan.

Method Used to Value Investments:

Investments are reported at fair value, which is determined by the means of the most recent bid and asked prices as obtained from dealers that make markets in such securities. Securities for which market quotations are not readily available are valued at their fair value as determined by the custodian with the assistance of a valuation service.

Funding Policy:

The contribution requirements of plan members and the District are established and may be amended by the District, District's Board of Directors, and/or the employee associations. Currently, contributions are not required from plan members. During the fiscal years ended June 30, 2017 and 2016, the District elected to fund 100% of the annual required contribution (ARC) of the employer an amount actuarially determined. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The ARC totaled \$1,300,733 and \$1,300,733 for the years ended June 30, 2017 and 2016, respectively. Administrative costs of this plan are financed through investment earnings.

Annual OPEB Cost and Net OPEB Asset:

The following table shows the component of the District's annual OPEB costs for the year, the amount actually contributed to the plan, and changes in the District's net OPEB asset as of June 30, 2017 and 2016.

	<u>2017</u>	<u>2016</u>
Annual required contribution (ARC)	\$ 1,300,733	\$ 1,300,733
Interest on Net OPEB asset	(12,741)	(12,741)
Amortization of Net OPEB obligations	<u>15,939</u>	<u>15,939</u>
Annual OPEB cost	1,303,931	1,303,931
Contributions made	<u>(1,303,931)</u>	<u>(1,303,931)</u>
Increase in Net OPEB obligation (asset)	-	-
Beginning Net OPEB obligation (asset)	<u>(231,655)</u>	<u>(231,655)</u>
Ending Net OPEB obligation (asset)	<u>\$ (231,655)</u>	<u>\$ (231,655)</u>

The net OPEB asset is included as part of other noncurrent assets in the District's Statements of Net Position.

ORANGE COUNTY WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2017 and 2016

10. OTHER POST-EMPLOYMENT BENEFITS (CONTINUED):

Three Year Trend Information:

Information on the annual OPEB cost, percentage of annual OPEB cost contributed, and net OPEB obligation (asset) for the past three fiscal years is presented below.

Fiscal Year Ended	Annual OPEB Cost	Actual Contribution (Net of Adjustments)	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
6/30/2017	\$ 1,303,931	\$ 1,303,931	100.00%	\$ (231,655)
6/30/2016	1,303,931	1,303,931	100.00%	(231,655)
6/30/2015	1,322,758	1,322,758	100.00%	(231,655)

Funded Status and Funding Progress:

As of July 1, 2015, the most recent actuarial date, the actuarial accrued liability was \$16,230,918. The plan has an asset value of \$7,767,364 resulting in an unfunded accrued liability (UAL) of \$8,463,554 and a 47.86% funded ratio. The covered payroll (annual payroll of active employees covered by the plan) was \$22,098,609 and the ratio of the UAL to the covered payroll was 38.30%.

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

Actuarial Methods and Assumptions:

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

ORANGE COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2017 and 2016

10. OTHER POST-EMPLOYMENT BENEFITS (CONTINUED):

Actuarial Methods and Assumptions (Continued):

In the July 1, 2015, actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 5.50% investment rate of return (net of administrative expenses), 5% inflation rate and the District's share of premium cost will increase at a rate of 4% per year for all future years. The healthcare trend rates range from 8% in year one decreasing annually by 1% until holding constant at 5% for future years. The District's unfunded actuarial accrued liability will be amortized by level dollar contributions over an open thirty year period as a level dollar amount.

11. RISK MANAGEMENT:

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

At June 30, 2017 and 2016, the District participated in the self-insurance programs of the Insurance Authority as follows:

Property Loss - The Insurance Authority has pooled self-insurance up to \$100,000 per occurrence and has purchased excess insurance coverage up to \$150,000,000 (total insurable value of \$363,218,052). The District has a \$25,000 deductible for buildings, personal property and fixed equipment, and mobile equipment and licensed vehicles with the exception of turbine units and associated equipment and electrical generators driven by internal combustion engines for which the deductible is \$50,000.

General Liability - The Insurance Authority has pooled self-insurance up to \$5,000,000 per occurrence and has purchased excess insurance coverage up to \$60,000,000.

Auto Liability - The Insurance Authority has pooled self-insurance up to \$5,000,000 per occurrence and has purchased excess insurance coverage up to \$60,000,000.

Public Officials' Liability - The Insurance Authority has pooled self-insurance up to \$5,000,000 per occurrence and has purchased excess insurance coverage up to \$60,000,000.

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

ORANGE COUNTY WATER DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2017 and 2016

11. RISK MANAGEMENT (CONTINUED):

Workers' Compensation - Insured up to the statutory limit; the Insurance Authority is self-insured up to \$2,000,000 and excess insurance coverage has been purchased up to the statutory limit.

Fiduciary Liability - Purchased coverage up to \$1,000,000. The District has no deductible.

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

12. COMMITMENTS AND CONTINGENCIES:

The District has entered into various contracts for the purchase of material and construction of the utility plant. The amounts contracted for are based on the contractor's estimated cost of construction. At June 30, 2017 and 2016, the total unpaid amounts on these contracts are approximately \$1,147,989 and \$13,706,830, respectively. During fiscal years ended June 30, 2017 and 2016, the District has entered into various contracts for the construction and rehabilitation of various wells and basins throughout the region. At June 30, 2017 and 2016, the total unpaid amounts on these contracts are approximately \$16,997,921 and \$15,089,824, respectively. These commitments may be funded from restricted assets.

Legal claims and lawsuits arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the District's financial position.

13. LEASING ARRANGEMENTS:

The District leases land and unused pipelines to several commercial and government entities.

The following is a schedule of future minimum rentals under leases at June 30, 2017, not including renewal option increases.

<u>Year Ending</u>	<u>Amount</u>
2018	\$ 260,282
2019	180,313
2020	146,650
Total	<u>\$ 587,245</u>

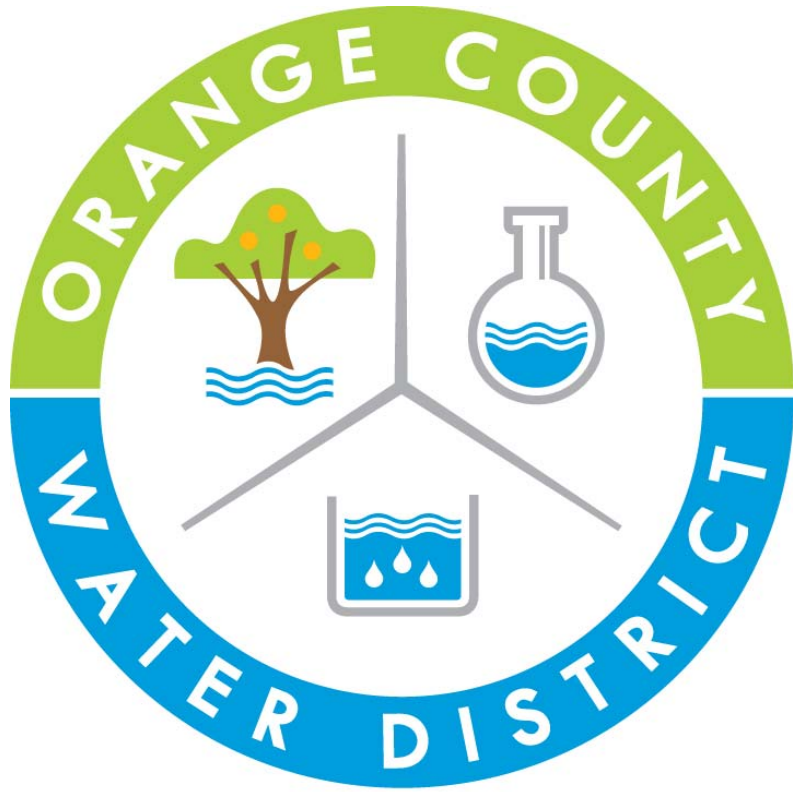
14. SUBSEQUENT EVENTS:

Events occurring after June 30, 2017, have been evaluated for possible adjustments to the financial statements or disclosure as of October 12, 2017, which is the date these financial statements were available to be issued.

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Required Supplementary Information

Other Post-Employment Benefits
Schedule of Funding Progress



SINCE 1933

ORANGE COUNTY WATER DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION -
OTHER POST-EMPLOYMENT BENEFITS PLAN
SCHEDULE OF FUNDING PROGRESS

For the years ended June 30, 2017 and 2016

Retiree Health Plan

Actuarial Valuation Date	Accrued Liability (a)	Actuarial Value of Assets (AVA) (b)	Unfunded Liability (UL) (a) - (b)	Funded Ratio (b)/(a)	Annual Covered Payroll (c)	UL as a Percentage of Covered Payroll [(a)-(b)]/(c)
01/01/07	\$ 11,206,023	\$ -	\$ 11,206,023	0.00%	\$ 15,880,684	70.56%
07/01/09	12,185,213	1,218,052	10,967,161	10.00%	17,292,114	63.42%
07/01/11	12,204,844	3,458,552	8,746,292	28.34%	20,113,287	43.49%
07/01/13	14,846,659	5,489,095	9,357,564	36.97%	20,711,758	45.18%
07/01/15	16,230,918	7,767,364	8,463,554	47.86%	22,098,609	38.30%

ORANGE COUNTY WATER DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION -
OTHER POST-EMPLOYMENT BENEFITS PLAN
ANNUAL MONEY-WEIGHTED RATE OF RETURN ON INVESTMENTS

For the year ended June 30, 2017

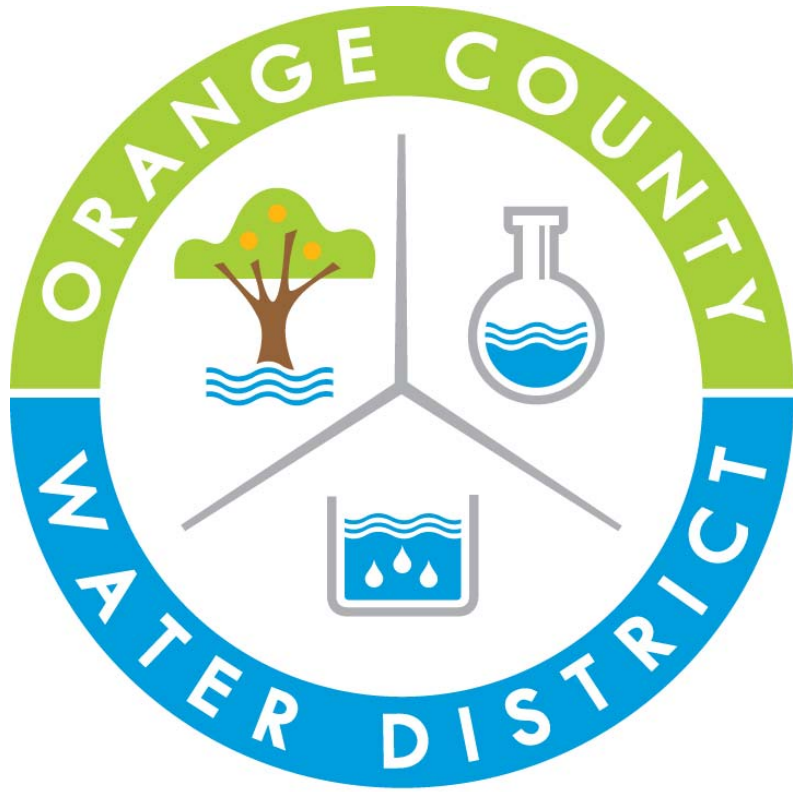
Retiree Health Plan

<u>Fiscal Year Ended</u>	<u>Annual Money-Weighted Rate of Return, Net of Investment Expense (1)</u>
6/30/17	6.75%

(1) Ten years of historical information is required by the Governmental Accounting Standards Board, Statement No. 74. Fiscal year ended June 30, 2017 was the first year of implementation; therefore, only one year is presented.

Statistical Section

Financial Trends
Revenue Capacity
Debt Capacity
Demographic and Economic Information
Operating Information



SINCE 1933

ORANGE COUNTY WATER DISTRICT

DESCRIPTION OF STATISTICAL SECTION CONTENTS

June 30, 2017

This part of the District's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements and the note disclosures say about the government's overall financial health.

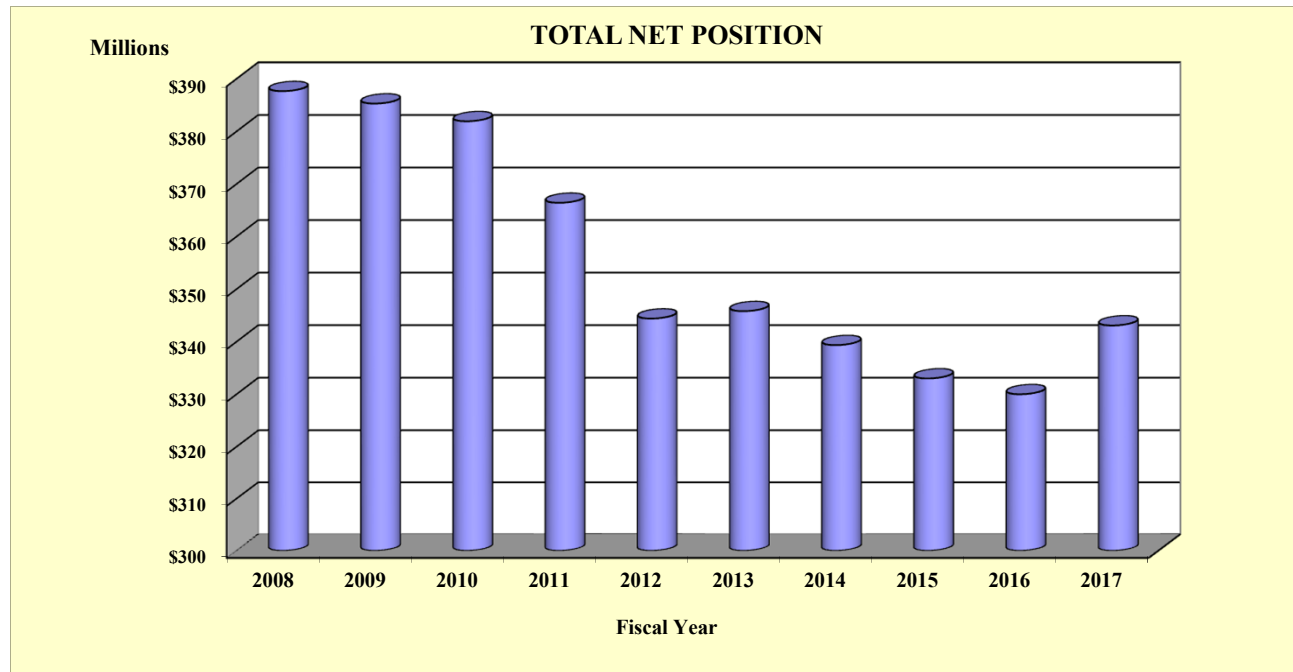
Contents:	<u>Pages</u>
<u>Financial Trends</u> these schedules contain trend information to help the reader understand how the District's financial performance and well-being have changed over time.	68
<u>Revenue Capacity</u> these schedules contain information to help the reader assess the District's most significant local revenue source, the property tax.	72
<u>Debt Capacity</u> 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.	75
<u>Demographic and Economic Information</u> these schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place.	79
<u>Operating Information</u> these schedules contain service and infrastructure data to help the reader understand how the information in the District's financial report relates to the services the District provides and the activities it performs.	81



Orange County Water District

Net Position by Component Last Ten Fiscal Years

Fiscal Year	Net Investment in Capital Assets	Restricted	Unrestricted	Total Net Position
2008	\$ 219,850,233	\$ 2,438,010	\$ 165,421,027	\$ 387,709,270
2009	147,140,291	466,011	237,737,869	385,344,171
2010	125,709,435	50,790,670	205,481,065	381,981,170
2011	116,111,449	43,270,828	207,082,254	366,464,531
2012	111,571,069	39,078,897	193,794,385	344,444,351
2013	99,650,065	21,514,322	224,686,841	345,851,228
2014	95,168,906	17,540,437	226,680,734	339,390,077
2015	122,056,713	22,760,913	188,235,624	333,053,250
2016	135,271,635	21,404,577	173,374,582	330,050,794
2017	150,961,053	5,370,190	186,797,840	343,129,083



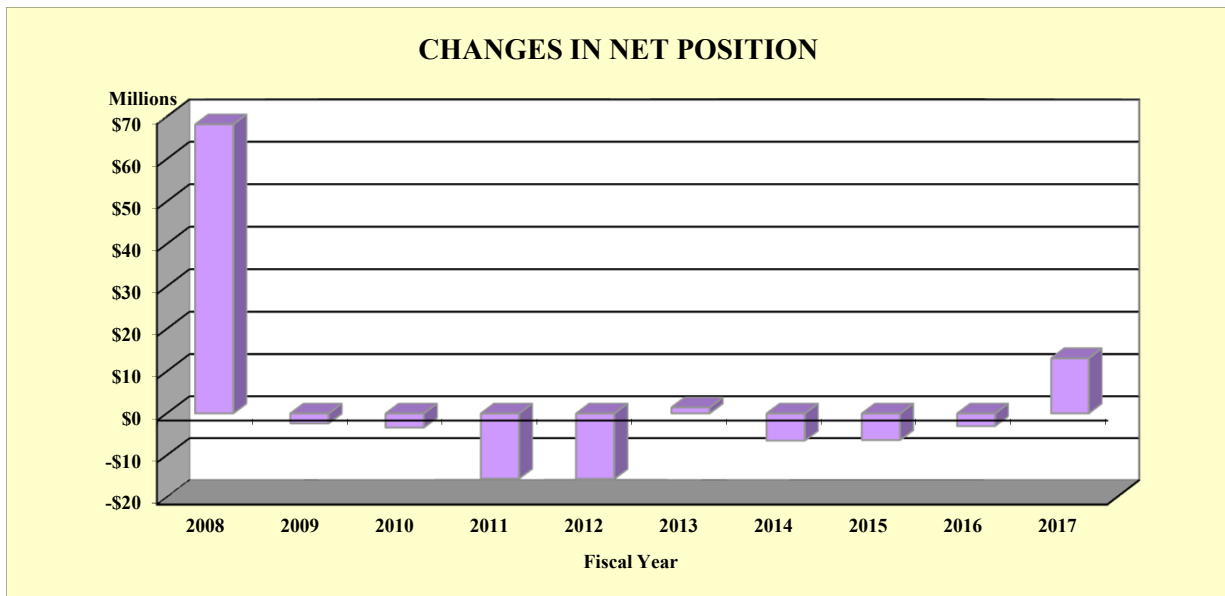
Source: OCWD Finance Department



Orange County Water District

Changes in Net Position Last Ten Fiscal Years

Fiscal Year	Operating Revenues	Operating Expenses	Operating Income (Loss)	Total Non-Operating Revenues (Expenses)	Net Income (Loss) Before Capital Contributions	Capital Contributions	Change in Net Position
2008	\$ 91,669,760	\$ 64,258,149	\$ 27,411,611	\$ 18,959,831	\$ 46,371,442	\$ 21,781,469	\$ 68,152,911
2009	87,831,679	95,052,735	(7,221,056)	(1,561,521)	(8,782,577)	6,417,475	(2,365,102)
2010	83,794,246	96,157,265	(12,363,019)	7,103,633	(5,259,386)	1,896,385	(3,363,001)
2011	78,110,405	98,315,531	(20,205,126)	3,522,527	(16,682,599)	1,165,960	(15,516,639)
2012	86,014,152	115,240,940	(29,226,788)	12,864,561	(16,362,227)	778,674	(15,583,553)
2013	93,756,691	98,781,253	(5,024,562)	6,372,002	1,347,440	59,437	1,406,877
2014	105,293,285	128,519,418	(23,226,133)	15,735,304	(7,490,829)	1,029,678	(6,461,151)
2015	103,318,416	125,845,408	(22,526,992)	15,521,237	(7,005,755)	668,928	(6,336,827)
2016	105,016,764	128,327,208	(23,310,444)	14,200,225	(9,110,219)	6,107,763	(3,002,456)
2017	135,590,233	137,479,907	(1,889,674)	13,185,798	11,296,124	1,782,165	13,078,289



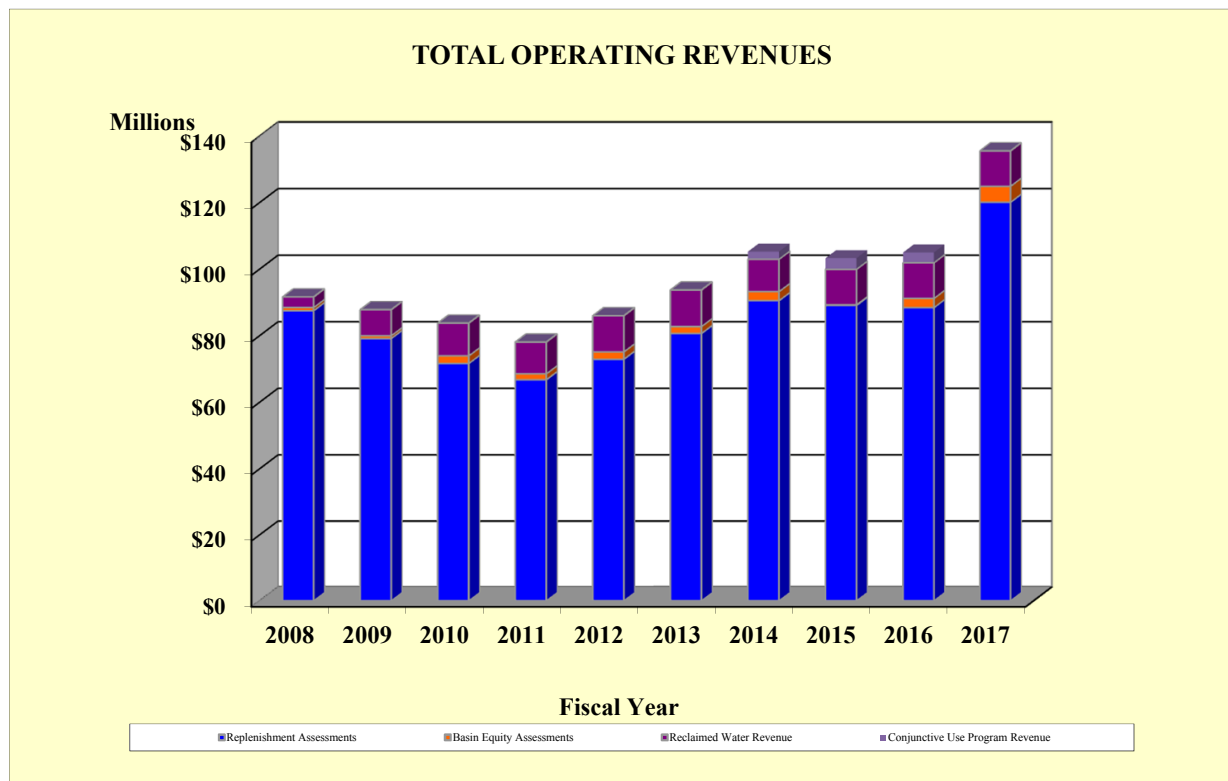
Source: OCWD Finance Department



Orange County Water District

Operating Revenues By Source Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Replenishment Assessments</u>	<u>Basin Equity Assessments</u>	<u>Reclaimed Water Revenue</u>	<u>Conjunctive Use Program Revenue</u>	<u>Total</u>	<u>Percent Change</u>
2008	\$ 87,541,655	\$ 961,516	\$ 3,166,589	\$ -	\$ 91,669,760	-
2009	79,167,471	852,787	7,811,421	-	87,831,679	-4.2%
2010	71,682,764	2,292,388	9,819,094	-	83,794,246	-4.6%
2011	66,799,060	1,771,328	9,540,017	-	78,110,405	-6.8%
2012	72,961,431	2,219,153	10,833,568	-	86,014,152	10.1%
2013	80,694,951	2,082,761	10,978,979	-	93,756,691	9.0%
2014	90,550,510	2,733,128	9,714,520	2,295,127	105,293,285	12.3%
2015	89,137,337	184,679	10,656,130	3,340,270	103,318,416	-1.9%
2016	88,464,251	2,767,818	10,699,469	3,085,226	105,016,764	1.6%
2017	120,120,803	4,821,924	10,606,006	41,500	135,590,233	29.1%



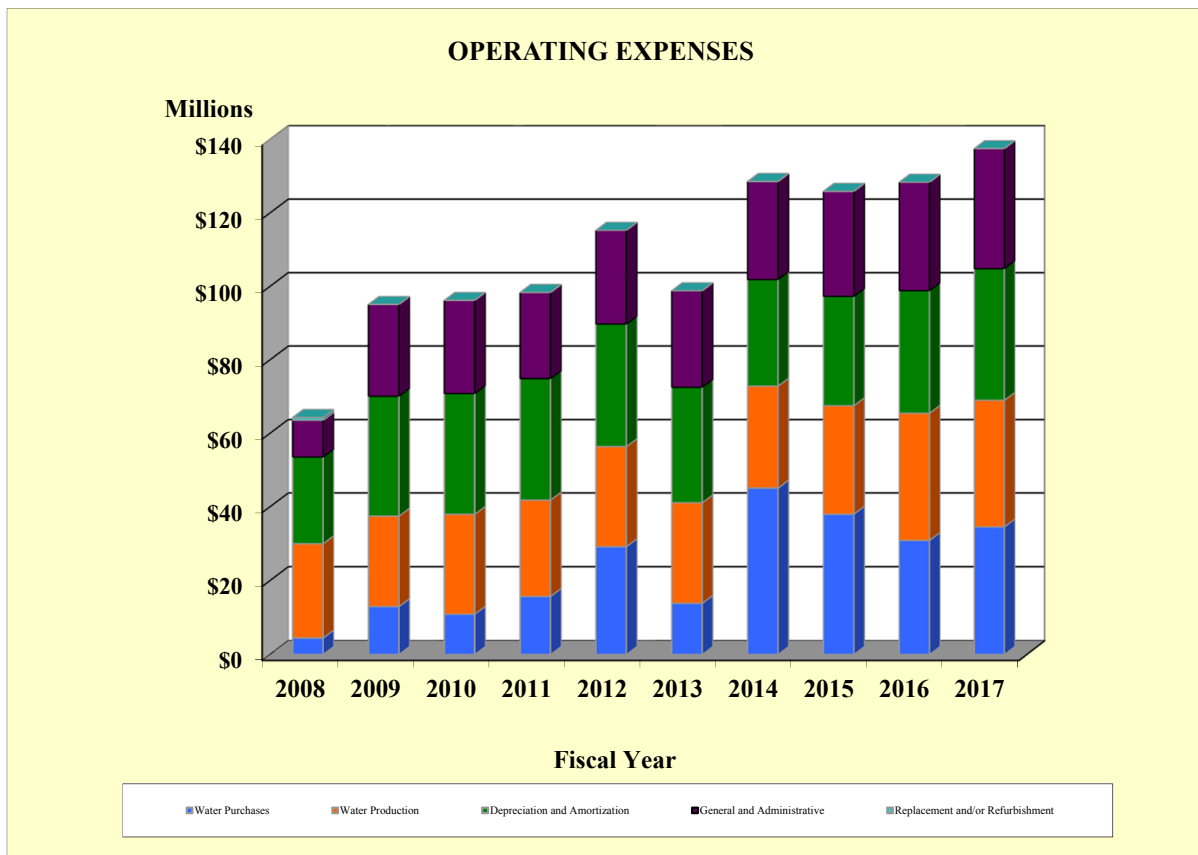
Source: OCWD Finance Department



Orange County Water District

Operating Expenses by Function Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Water Purchases</u>	<u>Water Production</u>	<u>Depreciation and Amortization</u>	<u>General and Administrative</u>	<u>Replacement and/or Refurbishment</u>	<u>Total</u>	<u>Percent Change</u>
2008	\$ 4,462,320	\$ 25,487,715	\$ 23,576,893	\$ 9,996,039	\$ 735,182	\$ 64,258,149	-
2009	12,945,102	24,497,498	32,651,566	24,958,569	-	95,052,735	47.9%
2010	10,892,330	27,041,080	32,878,812	25,345,043	-	96,157,265	1.2%
2011	15,708,425	26,116,735	33,069,585	23,420,786	-	98,315,531	2.2%
2012	29,139,553	27,222,877	33,346,141	25,532,369	-	115,240,940	17.2%
2013	13,825,244	27,242,617	31,453,784	26,259,608	-	98,781,253	-14.3%
2014	45,072,626	27,765,955	29,010,580	26,670,257	-	128,519,418	30.1%
2015	37,973,313	29,532,369	29,760,297	28,579,429	-	125,845,408	-2.1%
2016	30,831,126	34,630,579	33,362,509	29,502,994	-	128,327,208	2.0%
2017	34,495,767	34,464,392	35,862,620	32,657,128	-	137,479,907	7.1%

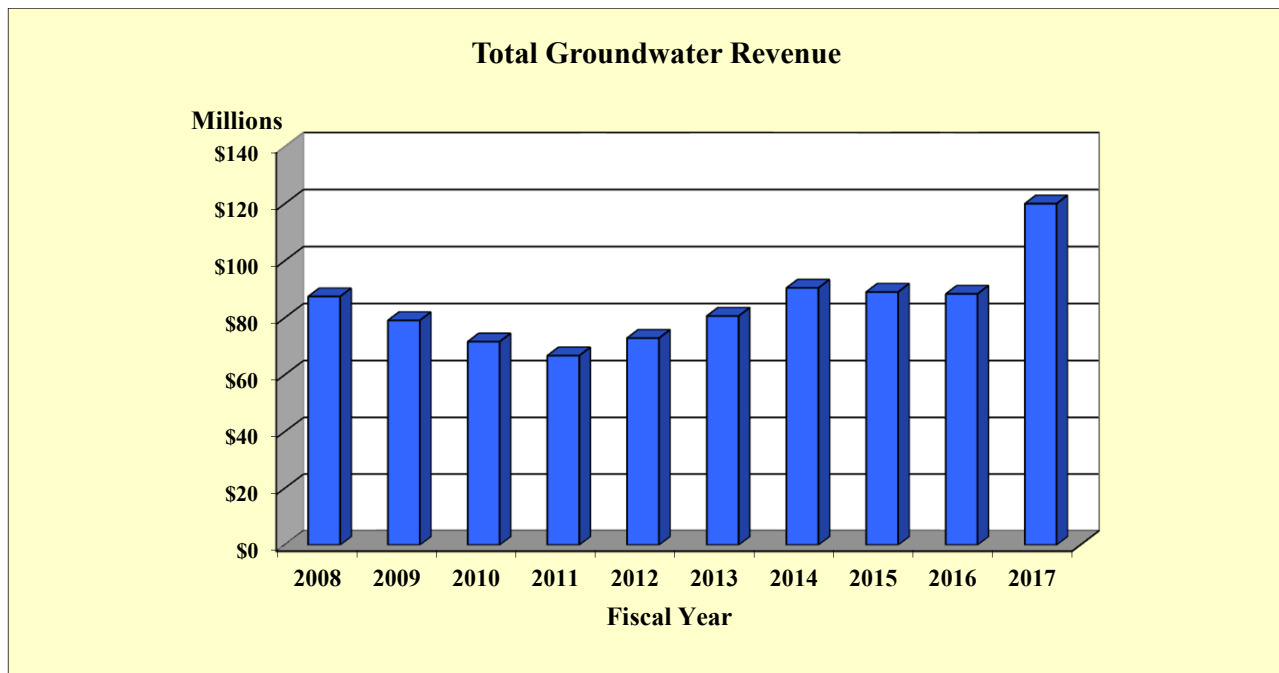




Orange County Water District

Total Sales Acre-Feet and Revenue by Water Type Last Ten Fiscal Years

Fiscal Year	Irrigation (Acre-Feet)	Domestic (Acre-Feet)	In-Lieu Delivery (Acre-Feet)	Replenishment Assessment Revenue
2008	1,992.8	364,192.1	0.0	\$ 87,541,655
2009	2,515.6	321,631.2	0.0	79,167,471
2010	1,222.6	284,352.3	0.0	71,682,764
2011	3,684.2	256,176.3	10,435.4	66,799,060
2012	4,455.5	236,626.1	40,563.5	72,961,431
2013	4,181.7	305,113.5	0.0	80,694,951
2014	3,066.9	327,715.4	0.0	90,550,510
2015	2,624.6	302,634.5	0.0	89,137,337
2016	2,047.8	275,042.2	0.0	88,464,251
2017	1,589.6	299,447.8	0.0	120,120,803

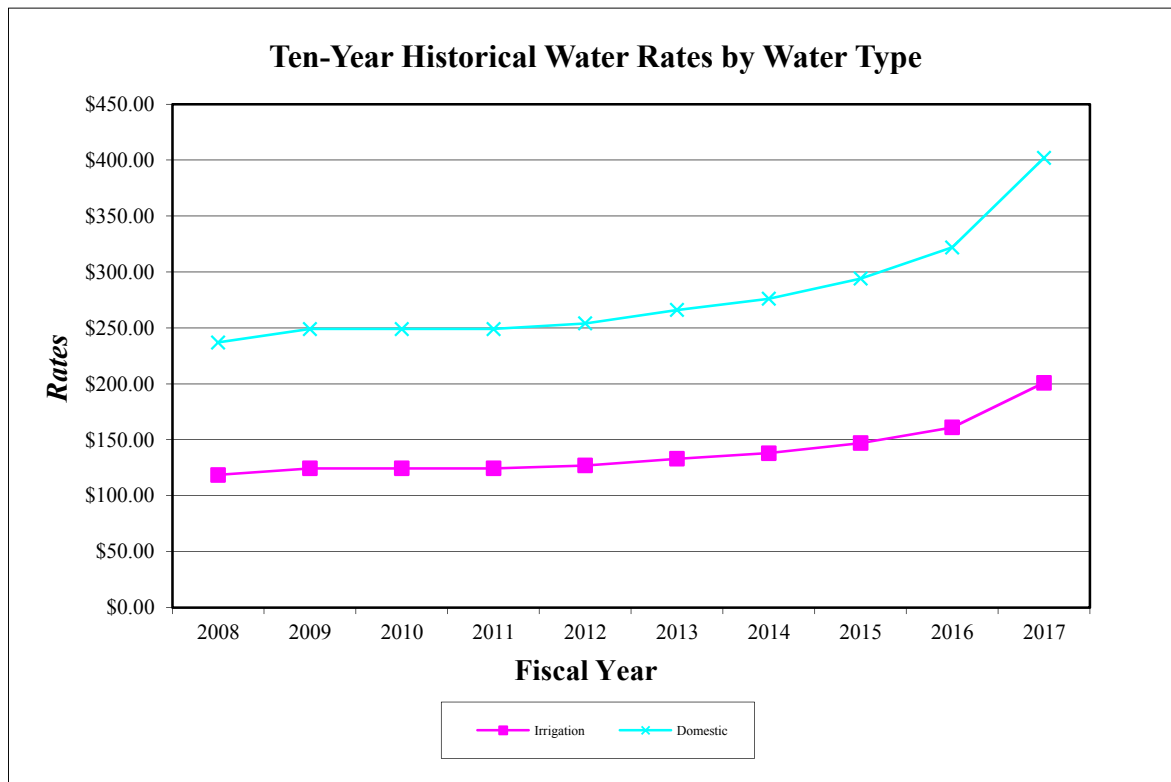




Orange County Water District

Water Rates by Water Type Last Ten Fiscal Years (\$ per Acre-Foot)

Fiscal Year	Irrigation	Domestic
2008	\$ 118.50	\$ 237.00
2009	124.50	249.00
2010	124.50	249.00
2011	124.50	249.00
2012	127.00	254.00
2013	133.00	266.00
2014	138.00	276.00
2015	147.00	294.00
2016	161.00	322.00
2017	201.00	402.00



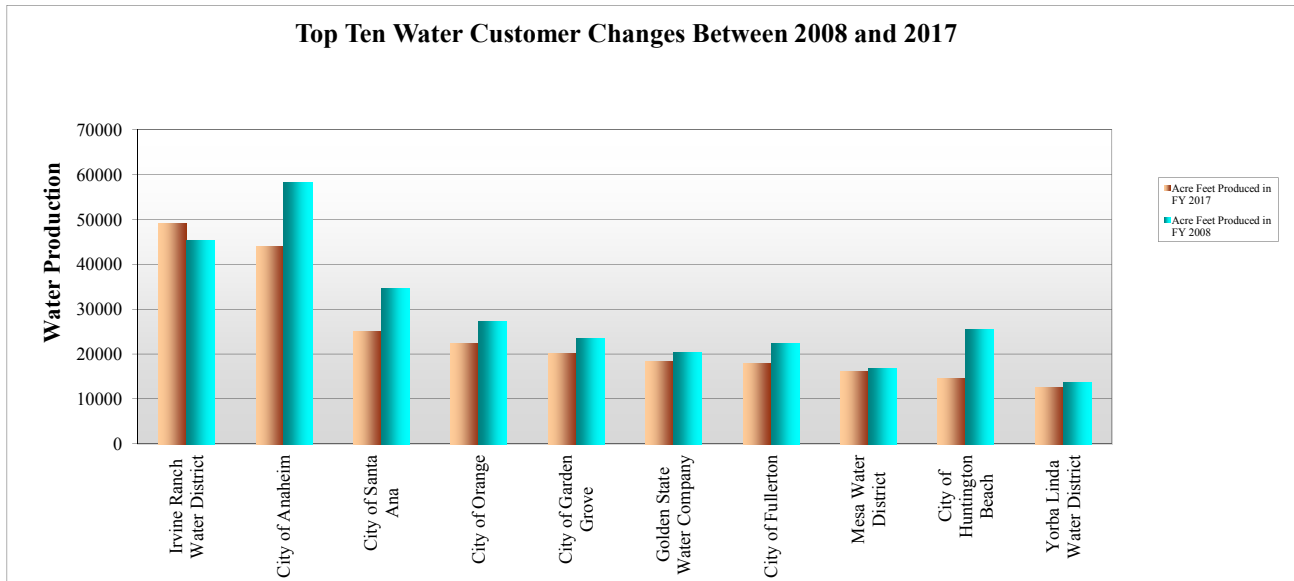
Source: OCWD Finance Department



Orange County Water District

Changes In Top Ten Customer's Groundwater Production Current Fiscal Year and Ten Years Ago

Member Cities & Agencies	Acre Feet Produced in FY 2017	% of Water Produced in FY 2017	Acre Feet Produced in FY 2008	% of Water Produced in FY 2008
Irvine Ranch Water District	49,039.9	20.44%	45,276.1	15.71%
City of Anaheim	44,067.3	18.36%	58,382.2	20.26%
City of Santa Ana	25,094.8	10.46%	34,572.3	12.00%
City of Orange	22,265.7	9.28%	27,389.6	9.50%
City of Garden Grove	20,074.4	8.36%	23,461.9	8.14%
Golden State Water Company	18,295.4	7.62%	20,455.2	7.10%
City of Fullerton	17,943.2	7.48%	22,524.7	7.82%
Mesa Water District	16,184.6	6.74%	16,895.8	5.86%
City of Huntington Beach	14,517.9	6.05%	25,572.6	8.87%
Yorba Linda Water District	12,510.0	5.21%	13,675.3	4.74%
Totals	239,993.2	100%	288,205.7	100%



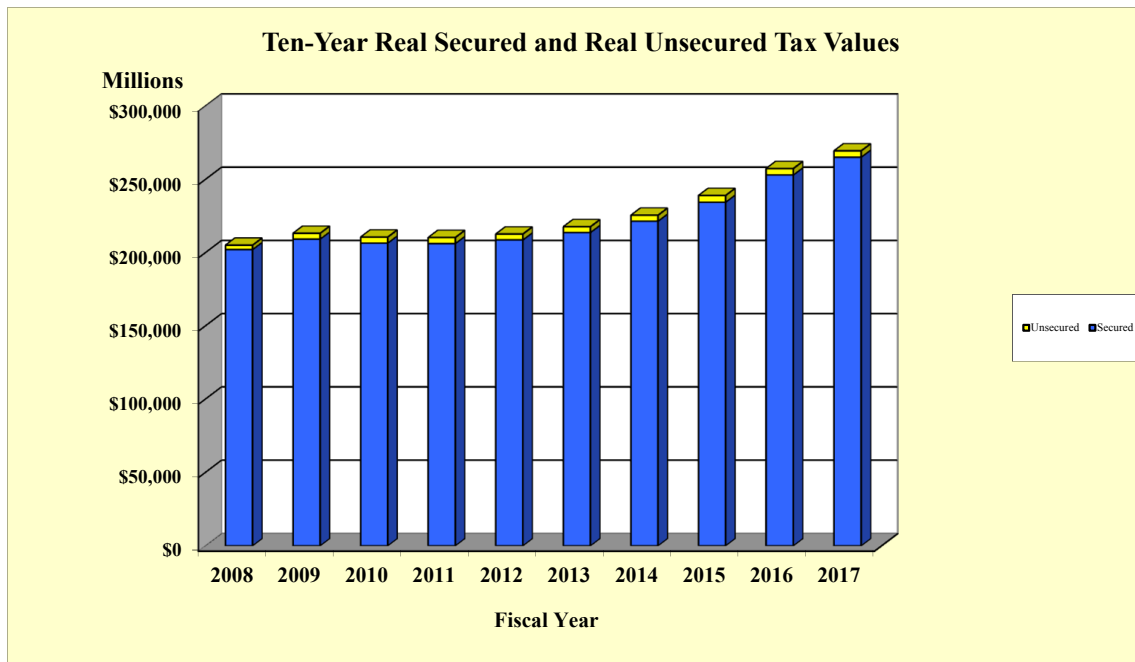
Source: OCWD Finance Department



Orange County Water District

Ten-Year Real Secured and Real Unsecured Assessed Tax Values Last Ten Fiscal Years

Fiscal Year	Real Secured	Real Unsecured	Total	Total Direct Tax Rate Percent (1)
2008	\$ 202,161,581,329	\$ 2,952,885,446	\$ 205,114,466,775	1.00
2009	209,272,754,630	3,946,106,787	213,218,861,417	1.00
2010	206,556,983,619	4,066,318,613	210,623,302,232	1.00
2011	206,226,283,216	4,108,102,919	210,334,386,135	1.00
2012	208,722,653,628	3,972,740,372	212,695,394,000	1.00
2013	213,779,477,681	3,899,614,817	217,679,092,498	1.00
2014	221,507,329,588	4,038,705,285	225,546,034,873	1.00
2015	234,453,148,467	4,557,572,558	239,010,721,025	1.00
2016	253,073,090,395	4,339,622,163	257,412,712,558	1.00
2017	265,209,156,713	4,287,352,070	269,496,508,783	1.00



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

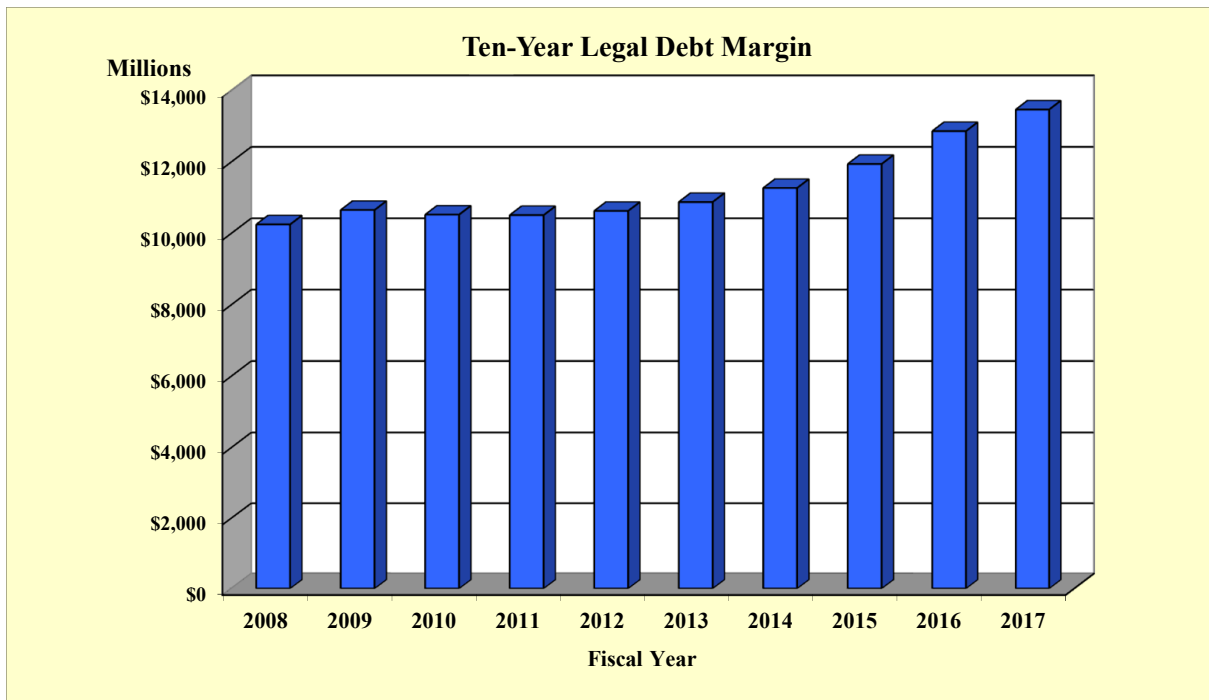
Source: County of Orange Office of Auditor/Controller-Property Tax Unit



Orange County Water District

Ten-Year Computation of Legal Debt Margin Fiscal Year 2008 Through 2017

Fiscal Year	Total Real Secured & Real Unsecured Assessed Value (1)	Legal Debt Limit (2)	Net Bonded Debt (3)	Legal Debt Margin (4)
2008	\$ 205,114,466,775	\$ 10,255,723,339	0	\$ 10,255,723,339
2009	213,218,861,417	10,660,943,071	0	10,660,943,071
2010	210,623,302,232	10,531,165,112	0	10,531,165,112
2011	210,334,386,135	10,516,719,307	0	10,516,719,307
2012	212,695,394,000	10,634,769,700	0	10,634,769,700
2013	217,679,092,498	10,883,954,625	0	10,883,954,625
2014	225,546,034,873	11,277,301,744	0	11,277,301,744
2015	239,010,721,025	11,950,536,051	0	11,950,536,051
2016	257,412,712,558	12,870,635,628	0	12,870,635,628
2017	269,496,508,783	13,474,825,439	0	13,474,825,439



- (1) Assessed Value is stated at taxable full cash value.
- (2) Legal Debt Limit is 5% of Assessed Value.
- (3) Net Bonded Debt is zero for the District.
- (4) Legal Debt Margin is computed by subtracting Net Bonded Debt from the Legal Debt Limit.

Source: County of Orange Office of Auditor/Controller-Property Tax Unit



Orange County Water District

Pledged-Revenue Coverage Last Two Fiscal Years Debt Service

Fiscal Year	Less		Net Revenue	Senior Debt		Junior Debt		Net Revenues Available for		Total Debt Service (3)	Total Coverage
	Revenue (1)	Operating & Maintenance Expenses (2)		Service	Coverage	Service	Coverage	Service	Coverage		
2016	132,106,337	65,811,725	66,294,612	12,422,316	5.34	8,207,931	6.56	53,872,296	8,207,931	20,630,247 (4)	3.21
2017	162,426,137	68,672,284	93,753,853	22,872,410	4.10	8,207,931	8.64	70,881,443	8,207,931	31,080,341 (4)(5)	3.02

(1) Revenues include replenishment assessment, reclaimed water revenues, conjunctive use program revenues, property tax revenue, investment income (excluding fair market value adjustment), rental income, and other revenues.

(2) Expenses exclude depreciation, amortization, water purchases, and interest expenses.

(3) The District has executed, in total, fifteen Certificates of Participation and Revenue Refunding Bonds issuances since 1989. Only three debt issuances are outstanding (2003A, 2013A, and 2017A&B) as of June 30, 2017. Other COP's are either advanced refunded, defeased, or refinanced with the help of the State loans, current COP's and Revenue Refunding Bonds.

(4) Commercial paper principal payments of \$3,890,000 and \$3,910,000 were made in March 2016 and March 2017 respectively.

These principal payments were not included in total principal payments because these were not scheduled District debt service payments.

(5) COP 2009A principal of \$125,985,000 was advance refunded in February 2017 but was not included in total principal payment because this was not a scheduled District debt service payment.

(6) The District has elected to show only two years of data for its pledged-revenue coverage.

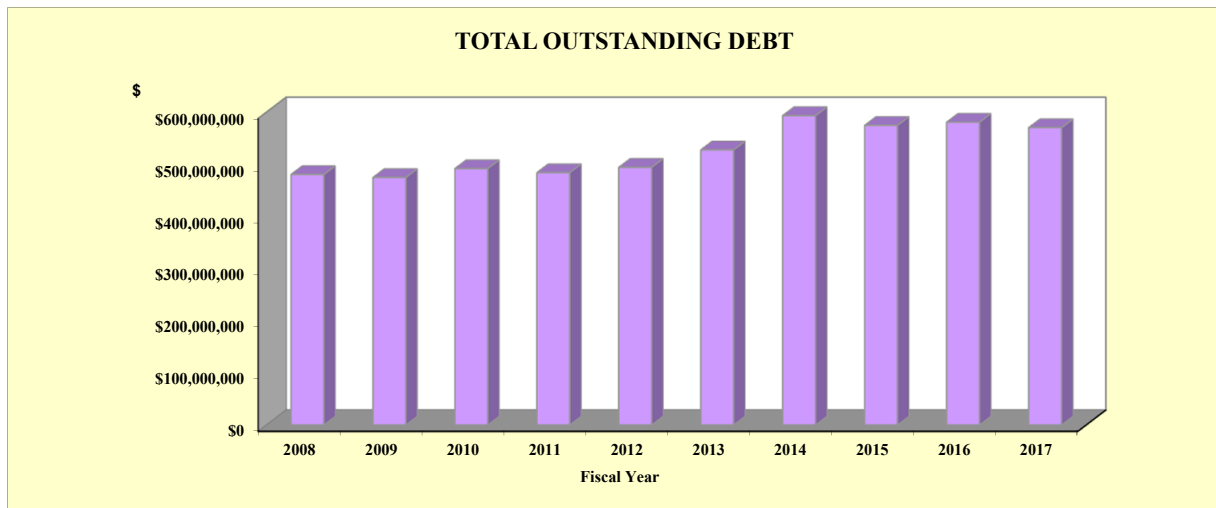
Source: OCWD Finance Department



Orange County Water District

Ratios of Outstanding Debt Last Ten Fiscal Years

Fiscal Year	COP Debt (2)	Revenue Refunding Bonds (2)	Commercial Paper (2)	State of California Loans (2)	Total Outstanding Debt (2)	Per Capita (1) (3)	Percentage of Personal Income (1) (3)
2008	\$ 344,702,736	\$ -	\$ 1,450,000	\$ 133,965,158	\$ 480,117,894	\$ 161	0.323%
2009	341,627,148	-	1,450,000	131,382,154	474,459,302	159	0.337%
2010	351,597,368	-	15,050,000	124,893,464	491,540,832	163	0.329%
2011	350,269,778	-	15,050,000	118,439,002	483,758,780	160	0.308%
2012	357,673,503	-	-	136,313,916	493,987,419	162	0.291%
2013	302,731,085	53,000,000	-	171,706,235	527,437,320	171	0.317%
2014	299,672,360	53,000,000	27,280,000	213,365,966	593,318,326	191	0.340%
2015	268,478,377	53,000,000	24,613,000	228,473,759	574,565,136	183	0.314%
2016	267,280,690	53,000,000	20,723,000	239,600,805	580,604,495	184	0.316%
2017	129,815,000	188,418,466	16,813,000	235,163,138	570,209,604	179	0.309%



- (1) Data Source: Demographic Research Unit, California Department of Finance. Data is for the entire County of Orange. The Orange County Water District services 381 square miles or 48% of the total 799 square miles that make up the boundaries of the County of Orange.
- (2) Data Source: Orange County Water District - Finance Department
- (3) Data Source: Refer to Orange County Water District, CAFR Schedule - Demographic Statistics

Source: OCWD Finance Department



Orange County Water District

Demographic Statistics Covering The Entire County of Orange (1) Last Ten Fiscal Years

Fiscal Year	Population Estimates (2)	Total Personal Income (in Thousands)	Per Capita Personal Income	Median Family Income (4)	Unemployment Rate (5)
2008	2,974,321	\$ 148,492,015 (3)	\$ 49,925	\$ 85,985	5.3%
2009	2,990,805	140,937,698 (3)	47,124	80,111	9.0%
2010	3,008,855	149,486,476 (3)	49,682	79,146	9.8%
2011	3,014,962	157,031,273 (3)	52,084	81,663	9.4%
2012	3,048,993	169,583,534 (3)	55,620	81,653	8.3%
2013	3,084,036	166,369,802 (3)	53,945	82,861	6.9%
2014	3,110,802	174,451,316 (3)	56,079	85,313	5.5%
2015	3,137,744	183,052,341 (3)	58,339	87,942	4.5%
2016	3,161,218	183,802,341 (6)	58,143	88,542 (6)	4.3%
2017	3,181,371	184,552,341 (6)	58,010	89,142 (6)	3.8%

Notes and Data Sources

- (1) The Orange County Water District services 381 square miles or 48% of the total 799 square miles that make up the boundaries of the County of Orange.
- (2) Data Source: Demographic Research Unit, California Department of Finance.
- (3) Data Source: Bureau of Economic Analysis, U.S. Department of Commerce.
- (4) Data Source: Center for Demographic Research, California State University, Fullerton.
- (5) Data Source: State of California, Employment Development Department as of June 30 of each fiscal year.
- (6) Forecasted number.

Source: OCWD Finance Department



Orange County Water District

Principal Employers Last Year and Nine Years Ago

2016

Employer	Number of Employees	Rank	Percentage of Total County Employment
Walt Disney Co.	29,000	1	1.89%
University of California, Irvine	23,605	2	1.54%
County of Orange	18,148	3	1.18%
St. Joseph Health	11,925	4	0.78%
Allied Universal	8,229	5	0.54%
Kaiser Permanente	7,694	6	0.50%
Boeing Co.	6,103	7	0.40%
Wal-Mart Stores Inc.	6,000	8	0.39%
California State University, Fullerton	5,781	9	0.38%
Bank of America Corp.	5,500	10	0.36%

2008

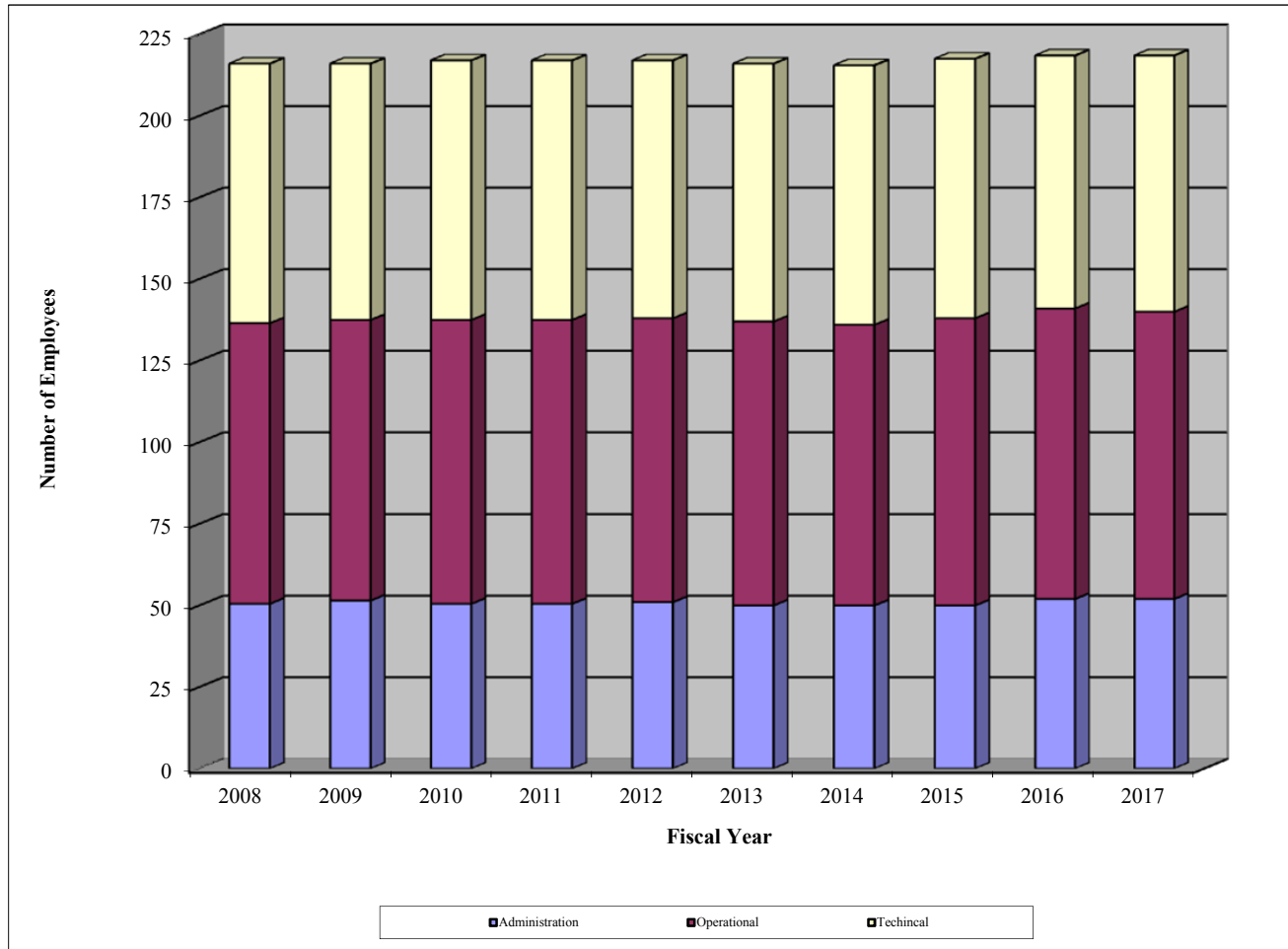
Employer	Number of Employees	Rank	Percentage of Total County Employment
Walt Disney Co.	20,000	1	1.31%
County of Orange	18,748	2	1.23%
University of California, Irvine	17,579	3	1.15%
St. Joseph Health System	10,047	4	0.66%
Boeing Co.	9,961	5	0.65%
Yum Brands Inc.	7,200	6	0.47%
AT&T Inc.	6,000	7	0.39%
California State University, Fullerton	5,634	8	0.37%
Home Depot Inc.	5,450	9	0.36%
Bank of America Corp.	5,000	10	0.33%



Orange County Water District

Personnel Trends Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>FUNCTIONS</u>			<u>Total</u>
	<u>Administration</u>	<u>Operations</u>	<u>Technical</u>	
2008	50.5	86.0	79.5	216.0
2009	51.5	86.0	78.5	216.0
2010	50.5	87.0	79.5	217.0
2011	50.5	87.0	79.5	217.0
2012	51.0	87.0	79.0	217.0
2013	50.0	87.0	79.0	216.0
2014	50.0	86.0	79.5	215.5
2015	50.0	88.0	79.5	217.5
2016	52.0	89.0	77.5	218.5
2017	52.0	88.0	78.5	218.5





Orange County Water District

Fiscal Year 2016-17 Groundwater Production By Agency (Acre-Feet)

City/Agency	Irrigation	Domestic	Total	% of water sold
Anaheim, City of		44,067.3	44,067.3	14.63%
Buena Park, City of		9,741.2	9,741.2	3.24%
County of Orange		132.6	132.6	0.04%
E.O.C.W.D.		548.0	548.0	0.18%
Fountain Valley, City of		7,860.0	7,860.0	2.61%
Fullerton, City of	8.3	17,934.9	17,943.2	5.96%
Garden Grove, City of		20,074.4	20,074.4	6.67%
Golden State Water Company		18,295.4	18,295.4	6.08%
Huntington Beach, City of		14,517.9	14,517.9	4.82%
Irvine Ranch Water District	748.6	48,291.3	49,039.9	16.28%
La Palma, City of		1,400.4	1,400.4	0.47%
Mesa Water District		16,184.6	16,184.6	5.38%
Newport Beach, City of		10,007.7	10,007.7	3.32%
Orange, City of		22,265.7	22,265.7	7.40%
Orange County Water District		145.8	145.8	0.05%
Santa Ana, City of		25,094.8	25,094.8	8.34%
Seal Beach, City of		2,244.2	2,244.2	0.75%
Serrano Water District		1,884.7	1,884.7	0.63%
Tustin, City of		9,031.3	9,031.3	3.00%
Westminster, City of		7,862.9	7,862.9	2.61%
Yorba Linda Water District	3.9	12,506.1	12,510.0	4.16%
All Operations Other Than Above	828.8	9,356.6	10,185.4	3.38%
Totals	1,589.6	299,447.8	301,037.4	100%

Source: OCWD Finance Department



Orange County Water District

Demographic and Production Indicators Last Ten Fiscal Years

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Demographics										
Service Area (Square Miles)	381	381	381	358	358	358	358	358	358	358
Population Estimate (1), (2)	3,181,371	3,161,218	3,137,744	3,110,802	3,084,036	3,048,993	3,014,962	3,008,855	2,990,805	2,974,321
Median Family Income (1), (3)	\$ 89,142 (6)	\$ 88,542	\$ 87,942	\$ 85,313	\$ 82,861	\$ 81,653	\$ 81,663	\$ 79,146	\$ 80,111	\$ 85,985
Production Data (A.F.) (4)										
Groundwater										
Non-Irrigation Pumping	299,447.8 (6)	275,042.2	302,634.5	327,715.4	305,113.5	236,626.1	256,176.3	284,352.3	321,631.2	364,192.1
In-lieu Delivery	-	-	-	-	-	40,563.5	10,435.4	-	-	-
Irrigation Pumping	1,589.6 (6)	2,047.8	2,624.6	3,066.9	4,181.7	4,455.5	3,684.2	1,222.6	2,515.6	1,992.8
Supplemental Water										
Non-Irrigation Delivery	69,271.3 (6)	70,624.9	98,501.9	103,907.4	111,097.8	119,864.6	123,854.9	127,535.0	118,770.1	96,627.4
Conservation Credit	1,791.6 (6)	2,007.1	1,731.8	1,448.9	1,401.5	1,386.8	1,372.0	1,383.4	1,191.8	1,271.7
Irrigation Delivery	-	-	-	-	-	-	-	-	19.3	6,391.9
Non-Local Water Purchased by OCWD (A.F.) (5)										
Western Municipal Water District	-	-	-	-	-	-	-	-	3,663.5	2,882.4
Alamitos Barrier	1,141.3 (6)	2,398.9	2,236.3	2,370.2	1,721.8	1,198.7	1,689.1	1,321.9	2,094.2	1,505.7
Talbert Barrier - Fountain Valley	-	-	-	-	-	-	-	-	-	-
Talbert Barrier - Mesa Water District	7.8 (6)	7.0	17.7	6.2	3.7	1.9	100.5	176.9	4,140.3	4,581.4
Forebay Recharge	50,474.5 (6)	45,118.0	48,616.8	50,700.5	39,926.9	48,940.4	27,538.6	20,535.7	18,100.0	-
In-lieu Program	-	-	-	-	-	40,563.5	10,435.4	-	-	-
Basin Water Supply Management Program	-	-	-	-	-	-	-	-	-	-
Arlington Desalter	-	-	-	-	-	-	-	106.2	428.2	1,266.6
San Bernardino Valley MWD	-	-	-	-	-	-	-	-	-	-

Notes and Data Sources:

- (1) The Orange County Water District services 381 square miles or 48% of the total 799 square miles that make up the boundaries of the County of Orange.
- (2) Data Source: Demographic Research Unit, California Department of Finance.
- (3) Data Source: Bureau of Economic Analysis, U.S. Department of Commerce.
- (4) Data Source: Appendix I, OCWD Engineer's Reports, from WY 2008 to WY 2016.
- (5) Data Source: Appendix 4, OCWD Engineer's Reports, from WY 2008 to WY 2016.
- (6) Preliminary data for WY 2017

Source: OCWD Finance Department



Orange County Water District

Capital Asset Statistics by Function Last Ten Fiscal Years

Function	2017	2016	2015	2014	2013
Water Treatment					
Facilities (million gallons per day)					
Groundwater Replenishment System (GWRS)	100	100	100	70	70
Pipeline (miles)					
Green Acre Project Pipeline	33	33	33	33	33
GWRS Pipeline	15	15	15	15	15
Recharge					
Recharge Facilities	28	26	26	26	26
Recharge System Storage (acre feet)	26,402	26,278	26,278	26,278	26,278
Basin Management					
Groundwater Monitoring Wells	430	424	397	395	391
Injection Wells	81	64	60	61	61
Soil Gas Monitoring Wells	10	10	10	10	10
Other Wells	16	16	16	16	16
Function	2012	2011	2010	2009	2008
Water Treatment					
Facility (million gallons per day)					
Groundwater Replenishment System (GWRS)	70	70	70	70	70
Pipeline (miles)					
Green Acre Project Pipeline	33	33	33	33	33
GWRS Pipeline	15	15	15	15	15
Recharge					
Recharge Facilities	26	25	25	25	25
Recharge System Storage (acre feet)	26,278	26,000	26,000	26,000	26,000
Basin Management					
Groundwater Monitoring Wells	401	398	398	393	378
Injection Wells	62	61	61	61	61
Soil Gas Monitoring Wells	10	21	21	21	21
Other Wells	4	4	4	3	3



Orange County Water District
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