

# **East Orange County Water District**

Orange, California

## **Annual Financial Report**

*For the Year Ended June 30, 2018*



## Our Mission Statement

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

### Board of Directors as of June 30, 2018

<u>Name</u>	<u>Title</u>	<u>Elected / Appointed</u>	<u>Current Term</u>
Douglass S. Davert	President	Elected	12/16 - 12/20
Richard B. Bell	Vice President	Elected	12/14 - 12/18
John Dulebohn	Director	Elected	12/14 - 12/18
Seymour Everett III	Director	Elected	12/14 - 12/18
John L. Sears	Director	Elected	12/16 - 12/20

**Lisa Ohlund, General Manager**  
**East Orange County Water District**  
185 North McPherson Road  
Orange, California 92869  
(714) 538-5815  
**[www.eocwd.com](http://www.eocwd.com) ♦ [lohlund@eocwd.com](mailto:lohlund@eocwd.com)**

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**East Orange County Water District  
Annual Financial Report  
For the Year Ended June 30, 2018**

**Table of Contents**

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	<u>Page</u>
<b>Table of Contents</b> .....	i
 <b><u>FINANCIAL SECTION</u></b>	
<b>Independent Auditors' Report on the Financial Statements</b> .....	1
<b>Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i></b> .....	4
<b>Management's Discussion and Analysis Required Supplementary Information (Unaudited)</b> .....	6
 <b>Basic Financial Statements:</b>	
Balance Sheets.....	11
Statements of Revenues, Expenses and Change in Net Position.....	12
Statements of Cash Flows.....	13
Notes to the Basic Financial Statements .....	15
 <b>Required Supplementary Information (Unaudited):</b>	
Schedule of the District's Proportionate Share of the Plan's Net Pension Liability.....	31
Schedule of the District's Contributions to the Pension Plan .....	32
 <b>Supplementary Information:</b>	
Combining Schedules of Balance Sheets .....	33
Combining Schedules of Revenues, Expenses, and Change in Net Position .....	34

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## **FINANCIAL SECTION**

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## INDEPENDENT AUDITORS' REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the East Orange County Water District as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District, as of June 30, 2018 and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

***Report on Summarized Comparative Information***

The financial statements of East Orange County Water District for the year ended June 30, 2017 were previously audited by other auditors whose report dated January 23, 2018, in which they expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 6 through 10 and Schedule of the District's Proportionate Share of the Plan's Net Pension Liability and Schedule of the District's Contributions to the Pension Plan, on pages 32 and 33, respectfully, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Combining Schedules of Balance Sheets and Combining Schedules of Revenues, Expenses, and Change in Net Position are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Davis Fan UP". The signature is written in a cursive style.

Irvine, California  
December 10, 2018

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

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

**Independent Auditors' Report**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of East Orange County Water District as of and for year ended June 30, 2018, and the related notes to the financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated December 10, 2018.

**Internal Control Over Financial Reporting**

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

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

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

**Compliance and Other Matters**

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

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

**Purpose of this Report**

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

A handwritten signature in blue ink that reads "Davis Fan UP". The signature is written in a cursive style.

Irvine, California  
December 10, 2018

# East Orange County Water District

## Management's Discussion and Analysis

### For the Year Ended June 30, 2018

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The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the East Orange County Water District (District) provides an introduction to the financial statements of the District for the years ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with the transmittal letter in the Introductory Section and with the basic financial statements and related notes, which follow this section.

#### Financial Highlights

- In 2018, the District's net position increased \$4,227,880 due primarily to an increase in operating revenues of \$1,867,429, an increase in non-operating revenues of \$374,606 and an increase in overall expenses of \$1,062,754 from fiscal year 2017.
- In 2018, operating revenues increased by \$1,867,429 due primarily to an increase in water sales of \$1,198,032, sewer use fees of \$360,684, and other connection fees of \$296,593.
- In 2018, operating expenses increased by \$1,300,646 due primarily to an increase in source of supply of \$818,716, transmission and distribution of \$104,529, and general and administrative expenses of \$348,606.

#### Overview of the Financial Statements

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

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

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

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

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

**East Orange County Water District**  
**Management's Discussion and Analysis (Continued) (Unaudited)**  
**For the Year Ended June 30, 2018**

**Notes to the Basic Financial Statements**

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

**Financial Analysis of the District**

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

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

**Condensed Balance Sheets**

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>Change</u>
<b>Assets:</b>			
Current assets	\$ 55,542,131	\$ 52,830,887	\$ 2,711,244
Capital assets, net	13,146,834	12,002,823	1,144,011
<b>Total assets</b>	<u>68,688,965</u>	<u>64,833,710</u>	<u>3,855,255</u>
<b>Deferred outflows of resources</b>	<u>230,077</u>	<u>149,301</u>	<u>80,776</u>
<b>Total assets and deferred outflows of resources</b>	<u>\$ 68,919,042</u>	<u>\$ 64,983,011</u>	<u>\$ 3,936,031</u>
<b>Liabilities:</b>			
Current liabilities	\$ 929,534	\$ 1,296,631	\$ (367,097)
Noncurrent liabilities	600,628	499,435	101,193
<b>Total liabilities</b>	<u>1,530,162</u>	<u>1,796,066</u>	<u>(265,904)</u>
<b>Deferred inflows of resources</b>	<u>109,306</u>	<u>135,251</u>	<u>(25,945)</u>
<b>Net position:</b>			
Investment in capital assets	13,146,834	12,002,823	1,144,011
Restricted for sewer operations	42,136,457	40,789,893	1,346,564
Unrestricted	11,996,283	10,258,978	1,737,305
<b>Total net pension</b>	<u>67,279,574</u>	<u>63,051,694</u>	<u>4,227,880</u>
<b>Total liabilities, deferred inflows and net position</b>	<u>\$ 68,919,042</u>	<u>\$ 64,983,011</u>	<u>\$ 3,936,031</u>

**East Orange County Water District**  
**Management's Discussion and Analysis (Continued) (Unaudited)**  
**For the Year Ended June 30, 2018**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources of the District exceeded liabilities and deferred inflows of resources by \$67,279,574 as of June 30, 2018.

The District's investment in capital assets over net position of 19% at June 30, 2018 reflects its investment in capital assets net of accumulated depreciation. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are *not* available for future spending.

The District's Improvement District No. 1 restricted net position of \$42,136,457 as of June 30, 2018 is restricted for future sewer system capital replacement and maintenance costs.

At the end of fiscal year 2018, the District shows a positive balance in its unrestricted net position of \$11,996,283 that may be utilized in future years. The Board of Directors has taken action to reserve aspects of the unrestricted net position for specified purposes such as asset replacement, rate stabilization, growth accommodation and emergency reserves. The District has committed to the following internal funds and objectives:

1. Operating Fund – Funds are maintained to capture all operating and maintenance revenues and expenditures separately for the Wholesale and Retail Zone operations. Excess revenues over expenditures are routinely transferred to the Replacement and Capital Improvements funds.
2. Replacement and Capital Improvement Funds – Separate replacement and capital improvement funds are maintained for the Wholesale District and Retail Zone.
3. Emergency Reserve Fund – This fund is earmarked by the Board of Directors for unforeseen Wholesale District emergencies or contingency expenditures.

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

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>Change</u>
<b>Revenues:</b>			
Operating Revenues	\$ 9,382,595	\$ 7,515,166	\$ 1,867,429
Non-operating revenues	2,148,708	1,774,102	374,606
<b>Total revenues</b>	<u>11,531,303</u>	<u>9,289,268</u>	<u>2,242,035</u>
<b>Expenses:</b>			
Operating expenses	7,007,559	5,706,913	1,300,646
Depreciation	623,514	553,469	70,045
Non-operating expenses	5,757	313,694	(307,937)
<b>Total expenses</b>	<u>7,636,830</u>	<u>6,574,076</u>	<u>1,062,754</u>
<b>Change in net position before capital contributions</b>	3,894,473	2,715,192	1,179,281
<b>Capital Contributions</b>	<u>333,407</u>	<u>40,830,193</u>	<u>(40,496,786)</u>
<b>Change in net position</b>	4,227,880	43,545,385	(39,317,505)
<b>Net position:</b>			
Beginning of year	\$ 63,051,694	19,506,309	43,545,385
End of year	<u>\$ 67,279,574</u>	<u>\$ 63,051,694</u>	<u>\$ 4,227,880</u>



**East Orange County Water District**  
**Management's Discussion and Analysis (Continued) (Unaudited)**  
**For the Year Ended June 30, 2018**

The Statement of Revenues, Expenses, and Changes in Net Position show how the District's net position changes during the fiscal year. In the case of the District, net position increased by \$4,227,880 as of June 30, 2018.

**Revenues**

<b>Operating Revenues:</b>	<u><b>June 30, 2018</b></u>	<u><b>June 30, 2017</b></u>	<u><b>Change</b></u>
Water use sales:			
Wholesale	\$ 3,104,481	\$ 2,199,352	\$ 905,129
Retail	1,468,514	1,175,611	292,903
Meter and standby service charges	588,407	566,538	21,869
Capacity and connection fees	852,305	883,758	(31,453)
Sewer use fees	2,980,537	2,619,853	360,684
Other connection fees	341,912	45,319	296,593
Other service charges	46,439	24,735	21,704
<b>Total operating revenue</b>	<u>9,382,595</u>	<u>7,515,166</u>	<u>1,867,429</u>
<b>Non-operating revenues:</b>			
Property taxes	1,633,665	1,525,655	108,010
Rental income - cellular antennas	103,230	104,740	(1,510)
Investment earnings	391,002	140,689	250,313
Other, net	20,811	3,018	17,793
<b>Total non-operating revenues</b>	<u>2,148,708</u>	<u>1,774,102</u>	<u>374,606</u>
<b>Total revenue</b>	<u>\$ 11,531,303</u>	<u>\$ 9,289,268</u>	<u>\$ 2,242,035</u>

In 2018, operating revenues increased by \$1,867,429 due primarily to an increase in water sales of \$1,198,032, sewer use fees of \$360,684, and other connection fees of \$296,593.

**Expenses**

<b>Operating Expenses:</b>	<u><b>June 30, 2018</b></u>	<u><b>June 30, 2017</b></u>	<u><b>Change</b></u>
Source of Supply	\$ 4,027,201	\$ 3,208,485	\$ 818,716
Pumping	53,267	84,283	(31,016)
Transmission and distribution	867,910	763,381	104,529
Sewer system maintenance	484,153	424,342	59,811
General and administrative	1,575,028	1,226,422	348,606
<b>Total operating expenses</b>	<u>7,007,559</u>	<u>5,706,913</u>	<u>1,300,646</u>
Depreciation	623,514	553,469	70,045
<b>Non-operating expenses:</b>			
Other expenses	5,757	313,694	(307,937)
<b>Total expenses</b>	<u>\$ 7,636,830</u>	<u>\$ 6,574,076</u>	<u>\$ 1,062,754</u>

**East Orange County Water District  
Management's Discussion and Analysis (Continued) (Unaudited)  
For the Year Ended June 30, 2018**

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In 2018, operating expenses increased by \$1,059,851 due primarily to an increase in source of supply of \$818,716, transmission and distribution of \$104,529, and general and administrative expenses of \$348,606.

**Capital Asset Administration**

Capital assets as of June 30<sup>th</sup> are as follows:

<u>Description</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Non-depreciable assets	\$ 1,933,804	\$ 2,299,778
Depreciable assets	24,377,723	22,244,223
Accumulated depreciation	<u>(13,164,693)</u>	<u>(12,541,178)</u>
Total capital assets, net	<u>\$ 13,146,834</u>	<u>\$ 12,002,823</u>

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

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

The District has adopted its Fiscal Year 2018-2019 Budget with expected revenues of \$9,621,925 over expected expenses of \$9,621,925.

**Contacting the District's Financial Management Team**

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

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## **BASIC FINANCIAL STATEMENTS**

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**East Orange County Water District**  
**Balance Sheet**  
**June 30, 2018**  
(with comparative information as of June 30, 2017)

<u>ASSETS</u>	<u>2018</u>	<u>2017</u>
<b>Current assets:</b>		
Cash and investments (Note 2)	\$ 54,296,349	\$ 51,602,625
Accrued interest receivable	146,630	66,167
Accounts receivable – services, net (Note 3)	941,009	850,971
Accounts receivable – other	1,710	117,576
Property taxes receivable	29,539	29,919
Prepaid expenses	101,376	64,997
Water-in-storage inventory	25,518	23,440
Materials and supplies inventory	-	75,192
<b>Total current assets</b>	<b>55,542,131</b>	<b>52,830,887</b>
<b>Noncurrent assets:</b>		
Capital assets – not being depreciated (Note 4)	1,933,804	2,299,778
Capital assets – being depreciated, net (Note 4)	11,213,030	9,703,045
<b>Total noncurrent assets</b>	<b>13,146,834</b>	<b>12,002,823</b>
<b>Total assets</b>	<b>68,688,965</b>	<b>64,833,710</b>
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>		
Pension related deferred outflows of resources (Note 6)	230,077	149,301
<b>Total deferred outflows of resources</b>	<b>230,077</b>	<b>149,301</b>
<b>Total assets and deferred outflows of resources</b>	<b>\$ 68,919,042</b>	<b>\$ 64,983,011</b>
<b><u>LIABILITIES</u></b>		
<b>Current liabilities:</b>		
Accounts payable and accrued expenses	\$ 656,874	\$ 1,035,092
Accrued salaries and benefits	40,786	33,865
Compensated absences (Note 5)	75,466	103,451
Deposits and unearned revenue	156,408	124,223
<b>Total current liabilities</b>	<b>929,534</b>	<b>1,296,631</b>
<b>Noncurrent liabilities:</b>		
Net pension liability (Note 6)	600,628	499,435
<b>Total noncurrent liabilities</b>	<b>600,628</b>	<b>499,435</b>
<b>Total liabilities</b>	<b>1,530,162</b>	<b>1,796,066</b>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>		
Pension related deferred inflows of resources (Note 6)	109,306	135,251
<b>Total deferred inflows of resources</b>	<b>109,306</b>	<b>135,251</b>
<b><u>NET POSITION</u></b>		
Investment in capital assets	13,146,834	12,002,823
Restricted for sewer operations	42,136,457	40,789,893
Unrestricted	11,996,283	10,258,978
<b>Total net position</b>	<b>67,279,574</b>	<b>63,051,694</b>
<b>Total liabilities, deferred inflows of resources and net position</b>	<b>\$ 68,919,042</b>	<b>\$ 64,983,011</b>

See accompanying Notes to the Basic Financial Statements.

**East Orange County Water District**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**For the Year Ended June 30, 2018**  
(with comparative information for the year ended June 30, 2017)

	<u>2018</u>	<u>2017</u>
<b>Operating revenues:</b>		
Water use sales	\$ 4,572,995	\$ 3,374,963
Meter and standby service charges	588,407	566,538
Capacity and connection fees	852,305	883,758
Sewer use fees	2,980,537	2,619,853
Other connection fees	341,912	45,319
Other service charges	46,439	24,735
<b>Total operating revenues</b>	<u>9,382,595</u>	<u>7,515,166</u>
<b>Operating expenses:</b>		
Source of supply	4,027,201	3,208,485
Pumping	53,267	84,283
Transmission and distribution	867,910	763,381
Sewer system maintenance	484,153	424,342
General and administrative	1,575,028	1,226,422
<b>Total operating expenses</b>	<u>7,007,559</u>	<u>5,706,913</u>
Operating income(loss) before depreciation	2,375,036	1,808,253
Depreciation expense	(623,514)	(553,469)
<b>Operating income(loss)</b>	<u>1,751,522</u>	<u>1,254,784</u>
<b>Non-operating revenues(expenses):</b>		
Property taxes	1,633,665	1,525,655
Rental income – cellular antennas	103,230	104,740
Investment earnings	391,002	140,689
Other revenues	20,811	3,018
Other expenses	(5,757)	(313,694)
<b>Total non-operating revenues, net</b>	<u>2,142,951</u>	<u>1,460,408</u>
<b>Change in net position before capital contributions</b>	<u>3,894,473</u>	<u>2,715,192</u>
<b>Capital contributions:</b>		
Capital contributions from developers	333,407	-
Sewer system capital transfer – ID No. 1 (Note 7)	-	40,830,193
<b>Total capital contributions</b>	<u>333,407</u>	<u>40,830,193</u>
<b>Change in net position</b>	4,227,880	43,545,385
<b>Net position:</b>		
Beginning of year	63,051,694	19,506,309
End of year	<u>\$ 67,279,574</u>	<u>\$ 63,051,694</u>

**East Orange County Water District**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2018**  
(with comparative data for the year ended June 30, 2017)

	<u>2018</u>	<u>2017</u>
<b>Cash flows from operating activities:</b>		
Cash receipts from customers for sales and services	\$ 9,786,215	\$ 7,922,772
Cash paid to employees for salaries and benefits	(938,864)	(649,471)
Cash paid to vendors and suppliers for materials and services	(6,664,093)	(4,913,853)
<b>Net cash provided by operating activities</b>	<u>2,183,258</u>	<u>2,359,448</u>
<b>Cash flows from non-capital financing activities:</b>		
Proceeds from property taxes	1,634,045	1,504,472
<b>Net cash provided by non-capital financing activities</b>	<u>1,634,045</u>	<u>1,504,472</u>
<b>Cash flows from capital and related financing activities:</b>		
Acquisition and construction of capital assets	(1,767,525)	(2,086,672)
Capital contributions from developers	333,407	-
Proceeds from sewer system capital transfer – ID No. 1	-	40,830,193
<b>Net cash provided by (used in) capital and related financing activities</b>	<u>(1,434,118)</u>	<u>38,743,521</u>
<b>Cash flows from investing activities:</b>		
Proceeds from investment earnings	612,467	83,348
Maturity of investments	2,653,082	-
Purchases of investments	(4,890,424)	(51,140,625)
<b>Net cash used in by investing activities</b>	<u>(1,624,875)</u>	<u>(51,057,277)</u>
<b>Net increase (decrease) in cash and investments</b>	758,310	(8,449,836)
<b>Cash and cash equivalents:</b>		
Beginning of year	462,000	8,911,836
End of year	<u>\$ 1,220,310</u>	<u>\$ 462,000</u>



**East Orange County Water District**  
**Statement of Cash Flows (Continued)**  
**For the Year Ended June 30, 2018**  
(with comparative data for the year ended June 30, 2017)

	<b>2018</b>	<b>2017</b>
Reconciliation of cash and cash equivalents to amounts reported on the Statement of Net Position:		
Cash and investments	\$ 54,296,349	\$ 51,602,625
Less long-term investments	<u>(53,076,039)</u>	<u>(51,140,625)</u>
Cash and cash equivalents at end of year	<u><u>\$ 1,220,310</u></u>	<u><u>\$ 462,000</u></u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
<b>Operating income</b>	<u>\$ 1,751,522</u>	<u>\$ 1,254,784</u>
<b>Adjustments to reconcile operating income to net cash provided by operating activities:</b>		
Depreciation expense	623,514	553,469
Other revenues	20,811	3,018
Rental income	103,230	104,740
Other expenses	(5,757)	(313,694)
<b>Changes in assets – (increase) decrease:</b>		
Accounts receivable – services, net	(90,038)	515,341
Accounts receivable – other	115,866	(117,576)
Prepaid expenses	(36,379)	(8,426)
Water-in-storage inventory	(2,078)	13,204
Materials and supplies inventory	75,192	(28,509)
<b>Change in deferred outflows of resources – (increase) decrease:</b>		
Pension related deferred outflows of resources	(80,776)	(106,558)
<b>Changes in liabilities – increase (decrease):</b>		
Accounts payable and accrued expenses	(378,218)	345,937
Accrued salaries and benefits	6,921	14,781
Compensated absences	(27,985)	12,668
Deposits and unearned revenue	32,185	6,823
Net pension liability	101,193	158,319
<b>Change in deferred inflows of resources – increase (decrease):</b>		
Pension related deferred inflows of resources	<u>(25,945)</u>	<u>(48,873)</u>
<b>Total adjustments</b>	<u>431,736</u>	<u>1,104,664</u>
<b>Net cash provided by operating activities</b>	<u><u>\$ 2,183,258</u></u>	<u><u>\$ 2,359,448</u></u>

There were no significant non-cash investing, capital and financing activities for the years ended June 30, 2018 and 2017.

**East Orange County Water District**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2018**

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

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

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

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

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

***Financial Reporting***

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

***Basis of Accounting and Measurement Focus***

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

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

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

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

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

**East Orange County Water District**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2018**

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

***Use of Estimates***

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

***Comparative Financial Statements and Reclassifications***

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

***Cash and Cash Equivalents***

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

***Investments***

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

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

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

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

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

***Accounts Receivable***

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

***Property Taxes***

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

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

**East Orange County Water District**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2018**

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

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

***Prepaid Expenses***

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

***Water-In-Storage Inventory***

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

***Materials and Supplies Inventory***

Materials and supplies inventory consists primarily of water meters, pipe and pipe fittings for construction and repair to the District’s water transmission and distribution system. Inventory is valued at cost using a weighted average cost method. Inventory items are charged to expense at the time that individual items are inventoried at year-end.

***Capital Assets***

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

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

***Construction-in-Process***

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

**East Orange County Water District**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2018**

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

***Compensated Absences***

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

***Pensions***

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

The following timeframes are used for pension reporting:

<u>CalPERS</u>	<u>June 30, 2018</u>
Valuation date	June 30, 2016
Measurement date	June 30, 2017
Measurement period	July 1, 2016 to June 30, 2017

Gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time. The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense. The amortization period differs depending on the source of the gain or loss. The difference between projected and actual earnings is amortized straight-line over 5 years. All other amounts are amortized straight-line over the average expected remaining service lives of all members that are provided with benefits (active, inactive and retirees) as of the beginning of the measurement period.

***Net Position***

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

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

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

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

**East Orange County Water District**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2018**

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

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

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

***Capital Contributions***

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

**Note 2 – Cash and Investments**

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

Description	June 30, 2018
Cash on hand	\$ 250
Demand deposits held with financial institutions	1,220,059
Investments	53,076,040
<b>Total cash and investments</b>	<b>\$ 54,296,349</b>

***Demand Deposits***

At June 30, 2018, the carrying amount of the District’s demand deposits was \$1,220,059, and the financial institution balance was \$1,139,132. The respective net difference represents outstanding checks, deposits-in-transit and/or other reconciling items.

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

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

***Custodial Credit Risk***

The custodial credit risk for *deposits* is the risk that in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District’s investment policy requires that collateral be held by an independent third party with whom the District has a current custodial agreement.

**East Orange County Water District**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2018**

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

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

**Investments**

The District’s investments as of June 30, 2018 were as follows:

Investments	Measurement Input	Credit Rating	Fair Value	Maturity		
				12 Months or Less	13 to 24 Months	25 to 60 Months
Local Agency Investment Fund (LAIF)	Uncategorized	N/A	\$ 31,492,260	\$ 31,492,260	\$ -	\$ -
U.S. Treasury notes	Level 2	AAA	5,969,061	1,197,638	1,372,488	3,398,935
Governmental agency securities	Level 2	AA+ to A-	8,897,784	3,237,400	1,876,107	3,784,277
Corporate bonds	Level 2	AA+ to A-	4,731,795	1,266,119	1,727,236	1,738,440
Money market mutual funds	Uncategorized	AAA	404,472	404,472	-	-
Negotiable certificates-of-deposit	Level 2	N/A	1,580,668	106,669	296,609	1,177,390
<b>Total investments</b>			<u>\$ 53,076,040</u>	<u>\$ 37,704,558</u>	<u>\$ 5,272,440</u>	<u>\$ 10,099,042</u>

**Authorized Investments and Investment Policy**

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

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

**Investment in State Investment Pool**

The District is a voluntary participant in LAIF which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District’s investment in this pool is reported in the accompanying financial statements at amounts based upon the District’s pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

The District’s investments with LAIF at June 30, 2018 included a portion of the pool funds invested in structured notes and asset-backed securities:

**East Orange County Water District**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2018**

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

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

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

The District had \$31,492,260 invested in LAIF. The LAIF fair value factor of 0.998126869 was used to calculate the fair value of the investments in LAIF as of June 30, 2018.

***Fair Value Measurement Input***

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

***Credit Risk***

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. As of June 30, 2018, the District’s investment in the LAIF was not rated as noted in the table above.

***Interest Rate Risk***

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

***Concentration of Credit Risk***

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

<u>Description</u>	<u>Percentage</u>	<u>June 30, 2018</u>
Federal Farm Credit Bank	6%	\$ 3,340,309
Federal Home Loan Bank	10%	5,169,672



**East Orange County Water District**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2018**

**Note 3 – Accounts Receivable – Services, Net**

Accounts receivable consisted of the following at June 30, 2018:

Description	June 30, 2018
Accounts receivable – services	\$ 952,497
Allowance for doubtful accounts	(11,488)
<b>Accounts receivable – services, net</b>	<b>\$ 941,009</b>

**Note 4 – Capital Assets**

Changes in capital assets for the year ended June 30, 2018, were as follows:

	Balance July 1, 2017	Additions	Deletions	Reclassifications	Balance June 30, 2018
Non-depreciable assets:					
Land and easements	\$ 579,284	\$ -	\$ -	\$ -	\$ 579,284
Construction-in-process	1,720,494	2,050,356	(282,831)	(2,133,499)	1,354,520
Total non-depreciable assets	2,299,778	2,050,356	(282,831)	(2,133,499)	1,933,804
Depreciable assets:					
Transmission and distribution system	12,492,670	-	-	1,532,439	14,025,109
Structures and improvements	8,296,934	-	-	601,060	8,897,994
Capacity rights	943,320	-	-	-	943,320
Equipment	511,300	-	-	-	511,300
Total depreciable assets	22,244,224	-	-	2,133,499	24,377,723
Accumulated Depreciation:					
Transmission and distribution system	7,837,069	379,624	-	-	8,216,693
Structures and improvements	3,713,108	192,449	-	-	3,905,557
Capacity rights	668,210	12,578	-	-	680,788
Equipment	322,792	38,863	-	-	361,655
Total depreciation	12,541,179	623,514	-	-	13,164,693
Total depreciable assets, net	9,703,045	(623,514)	-	2,133,499	11,213,030
<b>Total capital assets, net</b>	\$ 12,002,823	\$ 1,426,842	\$ (282,831)	\$ -	\$ 13,146,834

**Note 5 – Compensated Absences**

Compensated absences consisted of the following at June 30, 2018:

Balance July 1, 2017	Earned	Taken	Balance June 30, 2018	Due within one year
\$ 103,451	\$ 29,230	\$ (57,215)	75,466	\$ 75,466

**East Orange County Water District**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2018**

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

The Plans Description Schedule

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

	<b>Miscellaneous Plans</b>	
	<b>Classic Tier 1</b>	<b>PEPRA Tier 2</b>
Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.0% @ 60	2.0 @ 62
Benefit vesting schedule	5-years or service	5-years or service
Benefits payments	monthly for life	monthly for life
Retirement age	50 - 67 & up	52 - 67 & up
Monthly benefits, as a % of eligible compensation	2.00%	1.0% to 2.5%
Required member contribution rates	6.900%	6.250%
Required employer contribution rates – FY 2018	7.200%	6.533%

Plan Description

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

Members Covered by Benefit Terms

At June 30, 2016 (Valuation Date), the following members were covered by the benefit terms:

<b>Plan Members</b>	<b>Miscellaneous Plans</b>		<b>Total</b>
	<b>Classic Tier 1</b>	<b>PEPRA Tier 2</b>	
Active members	4	2	6
Transferred and terminated members	8	1	9
Retired members and beneficiaries	7	1	8
<b>Total plan members</b>	<b>19</b>	<b>4</b>	<b>23</b>

Benefits Provided

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

**East Orange County Water District**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2018**

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

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

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

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

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

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

Contributions

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

Contributions for the year ended June 30, 2018 were as follows:

<u>Contribution Type</u>	<u>Miscellaneous Plans</u>		<u>Total</u>
	<u>Classic Tier 1</u>	<u>PEPRA Tier 2</u>	
Contributions – employer	\$ 59,063	\$ 10,255	\$ 69,318
Contributions – members	36,591	9,744	46,335
<b>Total contributions</b>	<b>\$ 95,654</b>	<b>\$ 19,999</b>	<b>\$ 115,653</b>

**East Orange County Water District**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2018**

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

Actuarial Methods and Assumptions Used to Determine the Total Pension Liability

For the measurement period ending June 30, 2017 (Measurement Date), the total pension liability was determined by rolling forward the June 30, 2016 pension liability. The June 30, 2017 total pension liability were based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table	Derived using CalPERS' Membership Data for all Funds.
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

All other actuarial assumptions used in the June 30, 2017 Valuation was based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. To determine whether the municipal bond rate should be used in the calculation of the discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. The tests revealed the assets would not run out. Therefore, the current 7.15 percent discount rate is appropriate and use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.15 percent is applied to all plans in the Public Employees' Retirement Fund (PERF). The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS website under the GASB 68 section.

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

**East Orange County Water District**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2018**

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

<u>Investment Type</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1 - 10<sup>1</sup></u>	<u>Real Return Years 11+<sup>2</sup></u>
Global Equity	47.00%	4.90%	5.38%
Global Fixed Income	19.00%	80.00%	2.27%
Inflation Sensitive	6.00%	60.00%	1.39%
Private Equity	12.00%	6.60%	6.63%
Real Estate	11.00%	2.80%	5.21%
Infrastructure and Forestland	3.00%	3.90%	5.36%
Liquidity	2.00%	-0.40%	-0.90%
	<u>100.00%</u>		

<sup>1</sup> An expected inflation rate-of-return of 2.5% is used for years 1 – 10.

<sup>2</sup> An expected inflation rate-of-return of 3.0% is used for years 11+.

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

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

<u>Plan Type</u>	<u>Plan's Net Pension Liability/(Asset)</u>		
	<u>Discount Rate - 1%</u>	<u>Current Discount</u>	<u>Discount Rate + 1%</u>
	<u>6.15%</u>	<u>Rate 7.15%</u>	<u>8.15%</u>
CalPERS – Miscellaneous Plan	\$ 993,648	\$ 600,628	\$ 275,122

*Pension Plan Fiduciary Net Position*

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

*Proportionate Share of Net Pension Liability and Pension Expense*

The following table shows the plan's proportionate share of the risk pool collective net pension liability over the measurement period for the Miscellaneous Plan for the fiscal year ended June 30, 2018:

<u>Plan Type and Balance Descriptions</u>	<u>Plan Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability</u>
<b>CalPERS – Miscellaneous Plan:</b>			
Balance as of June 30, 2016 (Measurement Date)	\$ 2,549,771	\$ 2,050,336	\$ 499,435
Balance as of June 30, 2017 (Measurement Date)	\$ 2,857,352	\$ 2,256,724	\$ 600,628
<b>Change in Plan Net Pension Liability</b>	<b>\$ 307,581</b>	<b>\$ 206,388</b>	<b>\$ 101,193</b>

**East Orange County Water District**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2018**

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

The District's proportionate share of the net pension liability for the June 30, 2017 measurement date was as follows:

	<b>Percentage Share of Risk Pool</b>		<b>Change Increase/ (Decrease)</b>
	<b>Fiscal Year Ending June 30, 2018</b>	<b>Fiscal Year Ending June 30, 2017</b>	
Measurement Date	June 30, 2017	June 30, 2016	
Percentage of Risk Pool Net Pension Liability	0.017840%	0.014377%	0.003463%

For the year ended June 30, 2018, the District recognized pension expense/(credit) in the amounts of \$47,951, for the CalPERS Miscellaneous Plan.

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

The expected average remaining service lifetime (EARSL) for PERF C for the measurement date ending June 30, 2017 is 3.8 years, which was obtained by dividing the total service years of 490,088 (the sum of remaining service lifetimes of the active employees) by 130,595 (the total number of participants: active, inactive, and retired) in PERF C. Inactive employees and retirees have remaining service lifetimes equal to 0. Total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

*Deferred Outflows of Resources and Deferred Inflows of Resources*

At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<b>Account Description</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Pension contributions made after the measurement date	\$ 69,318	\$ -
Difference between actual and proportionate share of employer contributions	-	45,763
Adjustment due to differences in proportions	13,601	40,685
Differences between expected and actual experience	961	13,767
Differences between projected and actual earnings on pension plan investments	26,965	-
Changes in assumptions	119,232	9,091
<b>Total Deferred Outflows/(Inflows) of Resources</b>	<b>\$ 230,077</b>	<b>\$ 109,306</b>

**East Orange County Water District**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2018**

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

The District will recognize \$69,318 reported as deferred outflows of resources related to pensions resulting from the District’s contributions subsequent to the measurement date as a reduction of the net pension liability in the fiscal year ended June 30, 2019, as noted above.

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

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

Amortization Period Fiscal Year Ended June 30	Deferred Outflows/(Inflows) of Resources
2019	\$ (27,871)
2020	60,162
2021	35,172
2022	(16,010)
<b>Total</b>	<b>\$ 51,453</b>

**Note 7 – Capital Contributions**

***Sewer System Capital Transfer – Improvement District No. 1***

On May 11, 2016, the Orange County Local Agency Formation Commission approved the transfer of the Sewer Area 7 system from OCSD to the District effective August 1, 2016. The Sewer Area 7 system asset transfer included sewage pipelines, manholes and approximately \$40 million in reserve funds for future capital replacement and maintenance requirements. The sewage pipeline and manholes system was deemed to be fully depreciated as they were installed over 50 years ago.

The Sewer Area 7 system reserve funds totaled \$41,587,622 as of July 1, 2016. However, there were two prior-year OCSD self-insurance claims outstanding due to sewage spills within the Sewer Area 7 service area. These claims were resolved during the fiscal year ended June 30, 2017 by the OCSD for \$757,429 including associated legal costs. Therefore, the District received \$40,830,193 in net reserve funds for Improvement District No. 1 (ID No. 1) as follows:

Description	Balance
Sewer system capital transfer – ID No. 1	\$ 41,587,622
Prior year OCSD self-insurance claims settled in current year	(757,429)
<b>Total capital contributions</b>	<b>\$ 40,830,193</b>

**East Orange County Water District**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2018**

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**Note 8 – Deferred Compensation Savings Plan**

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

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

**Note 9 – Risk Management**

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, injuries to employees and natural disasters. The District is a member of the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California water agencies. The purpose of the ACWA/JPIA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. At June 30, 2018, the District participated in the liability and property programs of the ACWA/JPIA as follows:

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

There have been no losses or claims in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the years ending June 30, 2018, 2017 and 2016. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of June 30, 2018, 2017 and 2016.



**East Orange County Water District**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2018**

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**Note 10 – Commitments and Contingencies**

***Joint Facilities Agreement***

The District is a party to a joint facilities agreement, dated February 13, 1964, with the Irvine Ranch Water District (IRWD) for the original purpose of constructing, operating and maintaining a water treatment plant, reservoir and pipelines. The construction was completed in 1964 and the District has capitalized the reservoir and pipelines as part of its utility plant assets. IRWD entered into this agreement with the District to gain capacity rights in the water treatment plant, reservoir and pipelines. The District and IRWD continue to proportionally share in the costs of maintenance and operations of the reservoir and pipelines; however, the treatment plant has been abandoned.

***Construction Contracts***

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

***Litigation***

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

**REQUIRED SUPPLEMENTARY INFORMATION**

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

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

<sup>1</sup> Historical information is presented only for measurement periods for which GASB No. 68 is applicable.

**Summary of Changes of Benefits or Assumptions:**

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

**Changes in Assumptions:** In 2017, the accounting discount rate reduced from 7.65 percent to 7.15 percent.

**East Orange County Water District**  
**Required Supplementary Information (Unaudited)**  
**Schedule of the District's Contributions to the Pension Plan**  
**Last Ten Fiscal Years <sup>1</sup>**

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

<sup>1</sup> Historical information is presented only for measurement periods for which GASB No. 68 is applicable.

Notes to schedule:

The actuarial methods and assumptions used to set the actuarially determine contributions for the fiscal year ended June 30, 2018 were from the June 30, 2015 public agency valuations.

Actuarial Cost Method	Entry Age Normal
Amortization Method/Period	Level of Percent of Payroll
Actuarial Assumptions	
Discount Rate	7.50%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Payroll Growth	3.00%
Retirement Age	The probabilities of Retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.
Mortality Rate Table	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increases	Contract COLA up to 2.75% until Purchasing Power Protection Floor On Purchasing Power applies, 2.75% thereafter

The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

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**SUPPLEMENTARY INFORMATION**

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**East Orange County Water District**  
**Combining Schedule of Balance Sheets**  
**June 30, 2018**

<u>ASSETS</u>	<u>Wholesale</u>	<u>Retail</u>	<u>ID No. 1</u>	<u>Internal Balances</u>	<u>Total</u>
<b>Current assets:</b>					
Cash and investments	\$ 7,901,757	\$ 4,059,822	\$ 42,334,770	\$ -	\$ 54,296,349
Accrued interest receivable	37,719	14,329	94,582	-	146,630
Accounts receivable – services, net	572,316	420,934	25,257	(77,498)	941,009
Accounts receivable – other	-	-	1,710	-	1,710
Property taxes receivable	7,270	4,059	18,210	-	29,539
Prepaid expenses	48,462	16,919	35,995	-	101,376
Water-in-storage inventory	22,708	2,810	-	-	25,518
<b>Total current assets</b>	<b>8,590,232</b>	<b>4,518,873</b>	<b>42,510,524</b>	<b>(77,498)</b>	<b>55,542,131</b>
<b>Non-current assets:</b>					
Capital assets – not being depreciated	655,020	151,381	1,127,403	-	1,933,804
Capital assets – being depreciated, net	4,820,603	5,039,180	1,353,247	-	11,213,030
<b>Total non-current assets</b>	<b>5,475,623</b>	<b>5,190,561</b>	<b>2,480,650</b>	<b>-</b>	<b>13,146,834</b>
<b>Total assets</b>	<b>14,065,855</b>	<b>9,709,434</b>	<b>44,991,174</b>	<b>(77,498)</b>	<b>68,688,965</b>
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>					
Pension related deferred outflows of resources	76,693	76,693	76,691	-	230,077
<b>Total deferred outflows of resources</b>	<b>76,693</b>	<b>76,693</b>	<b>76,691</b>	<b>-</b>	<b>230,077</b>
<b>Total assets and deferred outflows of resources</b>	<b>\$ 14,142,548</b>	<b>\$ 9,786,127</b>	<b>\$ 45,067,865</b>	<b>\$ (77,498)</b>	<b>\$ 68,919,042</b>
<b><u>LIABILITIES</u></b>					
<b>Current liabilities:</b>					
Accounts payable and accrued expenses	\$ 356,555	\$ 220,084	\$ 157,733	\$ (77,498)	\$ 656,874
Accrued salaries and benefits	10,274	10,547	19,965	-	40,786
Compensated absences	22,069	19,964	33,433	-	75,466
Deposits and unearned revenue	31,291	122,134	2,983	-	156,408
<b>Total current liabilities</b>	<b>420,189</b>	<b>372,729</b>	<b>214,114</b>	<b>(77,498)</b>	<b>929,534</b>
<b>Non-current liabilities:</b>					
Net pension liability	200,209	200,209	200,210	-	600,628
<b>Total non-current liabilities</b>	<b>200,209</b>	<b>200,209</b>	<b>200,210</b>	<b>-</b>	<b>600,628</b>
<b>Total liabilities</b>	<b>620,398</b>	<b>572,938</b>	<b>414,324</b>	<b>(77,498)</b>	<b>1,530,162</b>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>					
Pension related deferred inflows of resources	36,436	36,436	36,434	-	109,306
<b>Total deferred inflows of resources</b>	<b>36,436</b>	<b>36,436</b>	<b>36,434</b>	<b>-</b>	<b>109,306</b>
<b><u>NET POSITION</u></b>					
Investment in capital assets	5,475,623	5,190,561	2,480,650	-	13,146,834
Restricted for sewer operations	-	-	42,136,457	-	42,136,457
Unrestricted	8,010,091	3,986,192	-	-	11,996,283
<b>Total net position</b>	<b>13,485,714</b>	<b>9,176,753</b>	<b>44,617,107</b>	<b>-</b>	<b>67,279,574</b>
<b>Total liabilities, deferred inflows of resources and net position</b>	<b>\$ 14,142,548</b>	<b>\$ 9,786,127</b>	<b>\$ 45,067,865</b>	<b>\$ (77,498)</b>	<b>\$ 68,919,042</b>



**East Orange County Water District**  
**Combining Schedule of Revenues, Expenditures, and Change in Net Position**  
**For the Year Ended June 30, 2018**

	<u>Wholesale</u>	<u>Retail</u>	<u>ID No. 1</u>	<u>Internal Balances</u>	<u>Total</u>
<b>Operating revenues:</b>					
Water use sales	\$ 3,201,490	\$ 1,468,515	\$ -	\$ (97,010)	\$ 4,572,995
Meter and standby service charges	159,908	433,771	-	(5,272)	588,407
Capacity and connection fees	910,273	-	-	(57,968)	852,305
Sewer use fees	-	-	2,980,537	-	2,980,537
Other connection fees	293,184	20,918	27,810	-	341,912
Other service charges	5,079	12,170	29,190	-	46,439
<b>Total operating revenues</b>	<u>4,569,934</u>	<u>1,935,374</u>	<u>3,037,537</u>	<u>(160,250)</u>	<u>9,382,595</u>
<b>Operating expenses:</b>					
Source of supply:					
Water purchases	3,198,095	97,010	-	(97,010)	3,198,095
Standby service charges	157,948	34,794	-	(34,794)	157,948
Capacity and connection fees	390,140	28,446	-	(28,446)	390,140
Replenishment assessment	-	281,018	-	-	281,018
<b>Total source of supply</b>	<u>3,746,183</u>	<u>441,268</u>	<u>-</u>	<u>(160,250)</u>	<u>4,027,201</u>
Pumping	2,018	51,249	-	-	53,267
Transmission and distribution	472,054	395,166	690	-	867,910
Sewer system maintenance	-	-	484,153	-	484,153
General and administrative	288,904	169,368	1,116,756	-	1,575,028
<b>Total operating expenses</b>	<u>4,509,159</u>	<u>1,057,051</u>	<u>1,601,599</u>	<u>(160,250)</u>	<u>7,007,559</u>
Operating income(loss) before depreciation	60,775	878,323	1,435,938	-	2,375,036
Depreciation	(360,315)	(212,238)	(50,961)	-	(623,514)
<b>Operating income(loss)</b>	<u>(299,540)</u>	<u>666,085</u>	<u>1,384,977</u>	<u>-</u>	<u>1,751,522</u>
<b>Non-operating revenues(expenses):</b>					
Property taxes	890,378	431,537	311,750	-	1,633,665
Rental income – cellular antennas	103,230	-	-	-	103,230
Investment earnings	69,372	43,080	278,550	-	391,002
Other revenues	5,833	9,888	5,090	-	20,811
Other expenses	-	-	(5,757)	-	(5,757)
<b>Total non-operating revenues, net</b>	<u>1,068,813</u>	<u>484,505</u>	<u>589,633</u>	<u>-</u>	<u>2,142,951</u>
<b>Capital contributions:</b>					
Capital contributions from developers	-	-	333,407	-	333,407
<b>Total capital contributions</b>	<u>-</u>	<u>-</u>	<u>333,407</u>	<u>-</u>	<u>333,407</u>
<b>Change in net position</b>	<u>769,273</u>	<u>1,150,590</u>	<u>2,308,017</u>	<u>-</u>	<u>4,227,880</u>
<b>Net position:</b>					
Beginning of year	12,716,441	8,026,163	42,309,090	-	63,051,694
End of year	<u>\$ 13,485,714</u>	<u>\$ 9,176,753</u>	<u>\$ 44,617,107</u>	<u>\$ -</u>	<u>\$ 67,279,574</u>