EAST ORANGE COUNTY WATER DISTRICT

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

For the Fiscal Years Ended
June 30, 2023
(With Comparative Amounts as of June 30, 2022)

NIGRO & NIGRO PC

EAST ORANGE COUNTY WATER DISTRICT
For the Fiscal Year Ended June 30, 2023
Table of Contents

INTRODUCTORY SECTION

FINANCIAL SECTION

REQUIRED SUPPLEMENTARY INFORMATION

SUPPLEMENTARY INFORMATION

OTHER INDEPENDENT AUDITORS' REPORTS

Financial Section

NIGRO & NIGRO PC
A Professional Accountancy Corporation

INDEPENDENT AUDITORS' REPORT

Board of Directors
East Orange County Water District
Orange, California

Opinion

We have audited the accompanying financial statements of the East Orange County Water District (District), which comprise the balance sheet as of June 30, 2023, and related statements of revenue, expenses, and changes in net position, and cash flows for the year then ended, and related notes to the financial statements, as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2023, and the respective changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Jeff Nigro, CPA, CFE | Elizabeth Nigro, CPA | Shannon Bishop, CPA | Peter Glenn, CPA, CFE | Paul J. Kaymark, CPA | Jessica Berry, CPA | Angelika Vartikyan, CPA

MURRIETA OFFICE 25220 Hancock Avenue, Suite 400, Murrieta, CA 92562 • P: (951) 698-8783 • F: (951) 699-1064
WALNUT CREEK OFFICE 2121 N. California Blvd. Suite 290, Walnut Creek, CA 94596 • P: (844) 557-3111 • F: (844) 557-3444
www.nncpas.com • Licensed by the California Board of Accountancy

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards,* we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

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

Supplementary 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 as a whole. The Balance Sheets – Combined – Internal Funds and Schedule of Revenues, Expenses and Changes in Net Position – Combined – Internal Funds are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued a separate report dated March 28, 2024, 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 effectiveness of the District's 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.

Nigro & Nigro, PC

Murrieta, California
March 28, 2024

Management's Discussion and Analysis (MD&A) offers readers of East Orange County Water District's (District's) financial statements a narrative overview of the District's financial activities for the year ended June 30, 2023 and 2022. This MD&A presents financial highlights, an overview of the accompanying financial statements, an analysis of net position and results of operations, a current to prior year analysis, a discussion on restrictions, commitments and limitations, and a discussion of significant activity involving capital assets and long-term debt. Please read in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- In fiscal year 2023, the District's net position increased 2.88%, or $2,326,563 from the prior year's net position of $80,883,805 to $83,210,368, as a result of the year's operations.
- In fiscal year 2023, operating revenues decreased by 9.03%, or $1,387,992 from $15,376,016 to $13,988,024, from the prior year, primarily due to decreases in both wholesale and retail water consumption sales.
- In fiscal year 2023, operating expenses before depreciation expense increased by 11.04% or $1,411,068 from $12,780,482 to $14,191,550, from the prior year, primarily due to increases in the non-cash expense related to the annual revaluation of the District's net pension liability.

REQUIRED FINANCIAL STATEMENTS

This annual report consists of a series of financial statements. The Balance Sheet, Statement of Revenues, Expenses and Changes in Net Position and Statement of Cash Flows provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies.

The Balance Sheet includes all of the District's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenue and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of the District's operations over the past year and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and credit worthiness. The final required financial statement is the Statement of Cash Flows, which provides information about the District's cash receipts and cash payments during the reporting period. The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities and provides 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.

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 method 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. You can think of the District's net position – the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources – as one 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, zoning and new or changed government legislation.

Condensed Balance Sheets

	June 30, 2023	June 30, 2022	Change
Assets:			
Current assets	$ 38,580,928	$ 34,912,127	$ 3,668,801
Non-current assets	26,637,532	43,205,159	(16,567,627)
Capital assets, net	39,462,108	25,671,150	13,790,958
Total assets	104,680,568	103,788,436	892,132
Deferred outflows of resources	864,918	1,106,477	(241,559)
Total assets and deferred outflows of resources	$ 105,545,486	$ 104,894,913	$ 650,573
Liabilities:			
Current liabilities	$ 4,324,017	$ 5,026,020	$ (702,003)
Non-current liabilities	17,383,294	18,112,581	(729,287)
Total liabilities	21,707,311	23,138,601	(1,431,290)
Deferred inflows of resources	627,807	872,507	(244,700)
Net position:			
Net investment in capital assets	25,959,367	18,990,434	6,968,933
Restricted	21,789,119	29,862,783	(8,073,664)
Unrestricted	35,461,882	32,030,588	3,431,294
Total net position	83,210,368	80,883,805	2,326,563
Total liabilities, deferred outflows of resources and net position	$ 105,545,486	$ 104,894,913	$ 650,573

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 $83,210,368 and $80,883,805 as of June 30, 2023 and June 30, 2022, respectively.

FINANCIAL ANALYSIS OF THE DISTRICT (continued)

Condensed Balance Sheets (continued)
A large portion of the District's net position (31% and 23% as of June 30, 2023 and 2022, 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.

At the end of year 2023, the District showed a positive balance in its unrestricted net position of $35,461,882 which may be utilized in future years.

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

	June 30, 2023	June 30, 2022	Change
Operating revenues	$ 13,988,024	$ 15,376,016	$ (1,387,992)
Operating expenses	(14,191,550)	(12,780,482)	(1,411,068)
Operating income before depreciation	(203,526)	2,595,534	(2,799,060)
Depreciation expense	(1,290,617)	(1,067,048)	(223,569)
Operating income	(1,494,143)	1,528,486	(3,022,629)
Non-operating revenues(expenses), net	2,397,262	(54,125)	2,451,387
Capital contributions	1,423,444	81,994	1,341,450
Change in net position	2,326,563	1,556,355	770,208
Net position:			
Beginning of year	80,883,805	79,327,450	1,556,355
End of year	$ 83,210,368	$ 80,883,805	$ 2,326,563

The statement of revenues, expenses and changes in net position shows how the District's net position changed during the fiscal years. In fiscal year 2023, the District's net position increased 2.88%, or $2,326,563 from the prior year's net position of $80,883,805 to $83,210,368, as a result of the year's operations.

FINANCIAL ANALYSIS OF THE DISTRICT (continued)

The following table presents the detailed breakdown of the information presented in the condensed summary.

Total Revenues

	June 30, 2023	June 30, 2022	Increase (Decrease)
Operating revenues:			
Water consumption sales – wholesale	$ 7,301,637	$ 8,558,584	$ (1,256,947)
Water consumption sales – retail	1,355,937	1,644,013	(288,076)
Water service charges	2,071,857	1,994,631	77,226
Sewer service charges	3,079,234	3,093,772	(14,538)
Connection fees	113,742	33,405	80,337
Other operating revenues	65,617	51,611	14,006
Total operating revenues	13,988,024	15,376,016	(1,387,992)
Non-operating revenues:			
Property taxes	2,074,715	1,905,287	169,428
Investment earnings	540,648	(1,793,085)	2,333,733
Rental revenue – cellular antenna	143,834	173,090	(29,256)
Gain (loss) on sale of assets	32,550	(1,764)	34,314
Other non-operating revenues	38,924	299,432	(260,508)
Total non-operating revenues	2,830,671	582,960	2,247,711
Capital contributions	1,423,444	81,994	1,341,450
Total revenues	$ 18,242,139	$ 16,040,970	$ 2,201,169

In fiscal year 2023, operating revenues decreased by 9.03%, or $1,387,992 from $15,376,016 to $13,988,024, from the prior year, primarily due to decreases in both wholesale and retail water consumption sales.

FINANCIAL ANALYSIS OF THE DISTRICT (continued)

Total Expenses

	June 30, 2023	June 30, 2022	Increase (Decrease)
Operating expenses:			
Source of supply	$ 8,754,851	$ 10,054,006	$ (1,299,155)
Pumping	23,447	25,447	(2,000)
Transmission and distribution	534,343	466,081	68,262
Sewer operations	203,152	201,442	1,710
Salaries and benefits	3,437,085	1,041,886	2,395,199
General and administrative	1,238,672	991,620	247,052
Total operating expenses	14,191,550	12,780,482	1,411,068
Depreciation expense	1,290,617	1,067,048	223,569
Non-operating expenses:			
Interest expense	433,409	452,786	(19,377)
Other non-operating expenses	-	184,299	(184,299)
Total non-operating expenses	433,409	637,085	(203,676)
Total expenses	$ 15,915,576	$ 14,484,615	$ 1,430,961

In fiscal year 2023, operating expenses before depreciation expense increased by 11.04% or $1,411,068 from $12,780,482 to $14,191,550, from the prior year, primarily due to increases in the non-cash expense related to the annual revaluation of the District's net pension liability.

Capital Assets

Capital assets:	Balance June 30, 2023	Balance June 30, 2022
Non-depreciable assets	$ 25,808,590	$ 12,240,716
Depreciable assets	29,697,123	28,532,842
Accumulated depreciation	(16,043,605)	(15,102,408)
Total capital assets, net	$ 39,462,108	$ 25,671,150

At June 30, 2023, the District's investment in capital assets amounted to $39,462,108 (net of accumulated depreciation), respectively. Capital asset additions for 2023 amounted to $15,081,575 for various projects and equipment. See Note 6 for further information.

FINANCIAL ANALYSIS OF THE DISTRICT (continued)

Debt Administration

The long-term debt of the District is summarized below:

Long-term debt:	Balance June 30, 2023	Balance June 30, 2022
Loans payable	$ 18,052,000	$ 18,912,000

For the year ended June 30, 2023, long-term debt decreased by $860,000 from regular principal payments. See Note 8 for further information.

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.

CONDITIONS AFFECTING CURRENT AND FUTURE FINANCIAL POSITION

Management is unaware of any item that would affect the District's current financial position.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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, at 185 North McPherson Road, Orange, California 92869, (714) 538-5815.

EAST ORANGE COUNTY WATER DISTRICT

Balance Sheets

June 30, 2023 (With Comparable Amounts as of June 30, 2022)

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2023	2022
Current assets:		
Cash and investments (Note 2)	$ 36,331,945	$ 30,486,217
Accrued interest receivable	96,050	32,178
Accounts receivable, net (Note 4)	1,767,409	4,121,634
Property tax receivable	64,437	53,420
Lease receivable (Note 5)	133,553	125,871
Inventory – water-in-storage	55,940	51,252
Prepaid expenses	131,594	41,555
Total current assets	38,580,928	34,912,127
Non-current assets:		
Restricted – cash and investments (Note 2 and 3)	26,167,324	41,924,822
Restricted – accrued interest receivable (Note 3)	171,054	169,245
Lease receivable - (Note 5)	299,154	432,707
Net pension asset (Note 9)	-	678,385
Capital assets – not being depreciated (Note 6)	25,808,590	12,240,716
Capital assets – being depreciated, net (Note 6)	13,653,518	13,430,434
Total non-current assets	66,099,640	68,876,309
Total assets	104,680,568	103,788,436
Deferred outflows of resources:		
Deferred amounts related to net pension liability (Note 9)	864,918	1,106,477
Total deferred outflows of resources	864,918	1,106,477
Total assets and deferred outflows of resources	$ 105,545,486	$ 104,894,913
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
Current liabilities:		
Accounts payable and accrued expenses	$ 3,089,582	$ 3,829,129
Due to other governments	-	7,824
Deposits and unearned revenues	252,839	234,021
Accrued interest payable	32,898	34,465
Long-term liabilities – due within one year:		
Compensated absences (Note 7)	68,698	60,581
Loans payable (Note 8)	880,000	860,000
Total current liabilities	4,324,017	5,026,020
Non-current liabilities:		
Long-term liabilities – due in more than one year:		
Compensated absences (Note 7)	68,697	60,581
Loans payable (Note 8)	17,172,000	18,052,000
Net pension liability (Note 9)	142,597	-
Total non-current liabilities	17,383,294	18,112,581
Total liabilities	21,707,311	23,138,601
Deferred inflows of resources:		
Deferred amounts related to leases (Note 5)	408,898	542,686
Deferred amounts related to net pension liability (Note 9)	218,909	329,821
Total deferred inflows of resources	627,807	872,507
Net position:		
Net investment in capital assets (Note 10)	25,959,367	18,990,434
Restricted (Note 3)	21,789,119	29,862,783
Unrestricted	35,461,882	32,030,588
Total net position	83,210,368	80,883,805
Total liabilities, deferred inflows of resources and net position	$ 105,545,486	$ 104,894,913

EAST ORANGE COUNTY WATER DISTRICT

Statements of Revenues, Expenses and Changes in Net Position

For the Fiscal Year Ended June 30, 2023 (With Comparable Amounts as of June 30, 2022)

	2023	2022
Operating revenues:		
Water consumption sales – wholesale	$ 7,301,637	$ 8,558,584
Water consumption sales – retail	1,355,937	1,644,013
Water service charges	2,071,857	1,994,631
Sewer service charges	3,079,234	3,093,772
Connection fees	113,742	33,405
Other operating revenues	65,617	51,611
Total operating revenues	13,988,024	15,376,016
Operating expenses:		
Source of supply	8,754,851	10,054,006
Pumping	23,447	25,447
Transmission and distribution	534,343	466,081
Sewer operations	203,152	201,442
Salaries and benefits	3,437,085	1,041,886
General and administrative	1,238,672	991,620
Total operating expenses	14,191,550	12,780,482
Operating loss before depreciation	(203,526)	2,595,534
Depreciation expense	(1,290,617)	(1,067,048)
Operating loss	(1,494,143)	1,528,486
Non-operating revenues(expenses):		
Property taxes	2,074,715	1,905,287
Investment earnings	540,648	(1,793,085)
Rental revenue – cellular antenna	143,834	173,090
Interest expense	(433,409)	(452,786)
Gain (loss) on sale of assets	32,550	(1,764)
Other non-operating revenues	38,924	299,432
Other non-operating Expenses	-	(184,299)
Total non-operating revenues(expenses), net	2,397,262	(54,125)
Change in net position before capital contributions	903,119	1,474,361
Capital contributions:		
Capital grants	1,085,021	-
Contributed capital – developers	250,390	35,541
Capacity charges	88,033	46,453
Total capital contributions	1,423,444	81,994
Change in net position	2,326,563	1,556,355
Net position:		
Beginning of year	80,883,805	79,327,450
End of year	$ 83,210,368	$ 80,883,805

EAST ORANGE COUNTY WATER DISTRICT

Statements of Cash Flows

For the Fiscal Year Ended June 30, 2023 (With Comparable Amounts as of June 30, 2022)

	2023	2022
Cash flows from operating activities:		
Cash receipts from customers and others	$ 16,650,878	$ 13,953,633
Cash paid to employees for salaries and wages	(1,725,868)	(1,836,009)
Cash paid to vendors and suppliers for materials and services	(12,454,888)	(9,653,469)
Net cash provided by operating activities	2,470,122	2,464,155
Cash flows from non-capital financing activities:		
Proceeds from property taxes	2,113,639	1,903,657
Net cash provided by non-capital financing activities	2,113,639	1,903,657
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(15,081,575)	(9,213,780)
Procees from the sale of capital assets	32,550	4,280
Capital grants	1,085,021	-
Capital contributions	88,033	81,994
Principal paid on long-term debt	(860,000)	(841,000)
Interest paid on long-term debt	(434,976)	(452,786)
Net cash used in capital and related financing activities	(15,170,947)	(10,421,292)
Cash flows from investing activities:		
Purchase of investments, net	10,709,735	(2,149,705)
Investment earnings	474,967	517,422
Net cash provided by (used in) investing activities	11,184,702	(1,632,283)
Net increase(decrease) in cash and cash equivalents	597,516	(7,685,763)
Cash and cash equivalents:		
Beginning of year	12,891,843	20,577,606
End of year	$ 13,489,359	$ 12,891,843
Reconciliation of cash and cash equivalents:		
Cash and investments	$ 62,499,269	$ 72,411,039
Less: Long-term investments	(49,009,910)	(59,519,196)
Total cash and cash equivalents	$ 13,489,359	$ 12,891,843

	2023	2022
Reconciliation of operating income(loss) to net cash provided by operating activities:		
Operating income(loss)	$ (1,494,143)	$ 1,528,486
Adjustments to reconcile operating income(loss) to net cash provided by operating activities:		
Depreciation	1,290,617	1,067,048
Rental revenue	143,834	173,090
Other non-operating revenues	38,924	299,432
Other non-operating expenses	-	(184,299)
Change in assets – (increase)decrease:		
Accounts receivable, net	2,354,225	(1,357,307)
Lease receivable	125,871	(558,578)
Other receivables	-	20,980
Inventory – water-in-storage	(4,688)	(4,475)
Prepaid expenses	(90,039)	29,166
Change in deferred outflows of resources – (increase)decrease		
Deferred amounts related to net pension liability	241,559	(302,701)
Change in liabilities – increase(decrease):		
Accounts payable and accrued expenses	(747,371)	2,094,006
Deposits and unearned revenues	18,818	6,556
Compensated absences	16,233	23,118
Net pension liability	820,982	(947,718)
Change in deferred inflows of resources – increase(decrease)		
Deferred amounts related to leases	(133,788)	542,686
Deferred amounts related to net pension liability	(110,912)	34,665
Total adjustments	3,964,265	935,669
Net cash provided by operating activities	$ 2,470,122	$ 2,464,155
Noncash investing, capital and financing transactions		
Change in fair-value of investments	$ (533,906)	$ (2,385,828)

EAST ORANGE COUNTY WATER DISTRICT
Statement of Net Position – Fiduciary Fund
For the Fiscal Year Ended June 30, 2023

Assets	Custodial Fund
Current assets:	
Cash and investments (Note 2)	$ 29,659
Due from property owners	798
Total assets	$ 30,457
Liabilities and Net Position	
Current liabilities:	
Accounts payable	$ -
Total liabilities	-
Net position:	
Total net position	30,457
Total liabilities and net position	$ 30,457

EAST ORANGE COUNTY WATER DISTRICT

Statement of Changes in Net Position – Fiduciary Fund

For the Fiscal Year Ended June 30, 2023

	Custodial Fund
Additions:	
Parcel assessments	$ 51,708
Total revenues	51,708
Deductions:	
Administration	12,458
Interest expense	40,056
Total expenses	52,514
Change in net position	(806)
Net position:	
Beginning of year	31,263
End of year	$ 30,457

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A. Description of Organization

The East Orange County Water District (District) was organized in 1961, under provisions of the County Water District Act (Sections 30000 et. seq. of the Water Code of the State of California). 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. The District was formed 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 1,211 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 criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Standards Board Statement No. 61, The Financial Reporting Entity (GASB Statement No. 61). The District is the primary governmental unit based on the foundation of a separately elected governing board that is elected by the citizens in a general popular election. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District is financially accountable if it appoints a voting majority of the organization's governing body and: 1) It is able to impose its will on that organization, or 2) There is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

B. Basis of Presentation, Basis of Accounting

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 (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the year in which all eligibility requirements have been satisfied.

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation, Basis of Accounting (continued)

Operating revenues are those revenues that are generated from the primary operations of the District. The District reports a measure of operations by presenting the change in net position from operations as operating income in the statement of revenues, expenses, and changes in net position. Operating activities are defined by the District as all activities other than financing and investing activities (interest expense and investment income), grants and subsidies, and other infrequently occurring transactions of a non-operating nature. Operating expenses are those expenses that are essential to the primary operations of the District. All other expenses are reported as non-operating expenses.

In January 2017, GASB issued Statement No. 84 – *Fiduciary Activities*. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. The District reports a Custodial Fund that is used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations and other governments. The custodial funds are used to account for taxes received for special assessments debt for which the District is not obligated.

C. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position

1. Cash and Cash Equivalents
For purposes of the statement of cash flows, the District considers all highly liquid investments with a maturity of 90 days or less, when purchased, to be cash equivalents. Cash deposits are reported at the carrying amount, which reasonably estimates fair value.

2. Investments
Investments are reported at fair value except for short-term investments, which are reported at cost, which approximates fair value. Cash deposits are reported at carrying amount, which reasonably estimates fair value. Investments in governmental investment pools are reported at fair value based on the fair value per share of the pool's underlying portfolio.

In accordance with fair value measurements, the District categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement.

Financial assets and liabilities recorded on the balance sheet are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Inputs that reflect unadjusted quoted prices in active markets for identical investments, such as stocks, corporate and government bonds. The District has the ability to access the holding and quoted prices as of the measurement date.

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position (continued)

2. Investments (continued)

Level 2 – Inputs, other than quoted prices, that are observable for the asset or liability either directly or indirectly, including inputs from markets that are not considered to be active.

Level 3 – Inputs that are unobservable. Unobservable inputs reflect the District's own assumptions about the factors market participants would use in pricing an investment, and is based on the best information available in the circumstances.

3. Restricted Assets
Amounts shown as restricted assets have been restricted by either bond indentures, external constraints, or laws and regulations of other governments.

4. Receivables and Allowance for Doubtful Accounts
Customer accounts receivable consist of amounts owed by private individuals and organizations for services rendered in the regular course of business operations. Receivables are shown net of allowances for doubtful accounts. Uncollectable accounts are based on prior experience and management's assessment of the collectability of existing accounts.

5. Water in Storage
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. Water in storage is valued at average cost.

6. Prepaids
Certain payments of vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

7. Lease Receivable and Deferred Inflows of Resources
The primary objective is to enhance the relevance and consistency of information about the governments' leasing activities. As a lessor, the District is required to recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term, with certain exceptions. The District's lease receivable is measured at the present value of the lease payments expected to be received during the lease term. Under the lease agreement, the District may receive variable lease payments that are dependent upon the lessee's revenue. The variable payments are recorded as an inflow of resources in the period the payment is received. A deferred inflow of resources is recorded for the lease. The deferred inflow of resources is measured at the value of the lease receivable in addition to any payments received at or before the commencement of the lease term that relate to future periods. The deferred inflow of resources is amortized on a straight-line basis over the term of the lease.

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position (continued)

8. Capital Assets
Capital assets are stated at cost or at their estimated fair value at date of donation. It is the District's policy to capitalize assets costing over $5,000. The provision for depreciation is computed using the straight-line method over the estimated service lives of the capital assets. Estimated service lives for the District's classes of assets are as follows:

Description	Estimated Lives
Transmission and distribution system	5-100 years
Wastewater system	10-100 years
Structures and improvements	3-50 years
Equipment	5-50 years

9. Deferred Outflows/Inflows of Resources
In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net assets that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net assets that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time.

10. 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 120 hours of sick time. As of December 31, each year, one-half of the excess over 120 hours may be credited to additional vacation or may be paid to the employee. The remaining one-half is forfeited. The District has allocated the liability for accrued vacation and sick pay in the accompanying financial statements as 50% current liability and 50% non-current liability.

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position (continued)

11. 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 position of the District's California Public Employees' Retirement System (CalPERS) plans and addition to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

The following timeframes are used for pension reporting:

Valuation Date	June 30, 2021
Measurement Date	June 30, 2022
Measurement Period	July 1, 2021 to June 30, 2022

Gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systemically 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 as 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 lives of all members that are provided the benefits (active, inactive and retirees) as of the beginning of the measurement period.

12. Net Position

Net position is classified into three components: net investment in capital assets, restricted and unrestricted. These classifications are defined as follows:

- **Net investment in capital assets -** This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

- **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.

- **Unrestricted net position -** This component of net position consists of net position that does not meet the definition of "net investment in capital assets" or "restricted".

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Use of Estimates

The preparation of 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reported period. Actual results could differ from those estimates.

E. Property Taxes

The Orange County Assessor's Office assesses all real and personal property within the County each year. The Orange County Tax Collector's Office bills and collects the District's share of property taxes. The Orange County Auditor-Controller's Office remits current property tax collections to the District throughout the year. Property tax in California is levied in accordance with Article XIIIA of the State Constitution at one percent (1%) of countywide assessed valuations. Property taxes receivable at year-end are related to property taxes collected by the Orange County Tax Collector's Office, which have not been credited to the District's cash balance as of June 30.

The property tax calendar is as follows:

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

NOTE 2 – CASH AND INVESTMENTS

Cash and cash investments were classified in the accompanying financial statements as follows:

Description	June 30, 2023
Cash and investments	$ 36,331,945
Restricted – cash and investments	26,167,324
Cash and cash equivalents – fiduciary fund	29,659
Total cash and cash equivalents	$ 62,528,928

Cash and investments consisted of the following:

Description	June 30, 2023
Cash on hand	$ 250
Demand deposits held with financial institutions	580,371
Local Agency Investment Fund (LAIF)	7,862,699
California CLASS	5,075,698
Investments	49,009,910
Total cash and cash equivalents	$ 62,528,928

Demand Deposits with Financial Institutions

At June 30, 2023, the carrying amount of the District's demand deposits was $580,371, and the financial institution's balances was $2,164,684. The net difference represents outstanding checks, deposits-in-transit and/or other reconciling items between the financial institution's balance and the District's balance for each year.

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.

NOTE 2 – CASH AND INVESTMENTS (continued)

Local Agency Investment Fund (LAIF)
The California State Treasurer, through the Pooled Money Investment Account (PMIA), invests taxpayers' money to manage the State's cash flow and strengthen the financial security of local governmental entities. PMIA policy sets as primary investment objectives safety, liquidity and yield. Through the PMIA, the Investment Division manages the Local Agency Investment Fund (LAIF). The LAIF allows cities, counties and special districts to place money in a major portfolio and, at no additional costs to taxpayers, use the expertise of Investment Division staff. Participating agencies can withdraw their funds from the LAIF at any time as LAIF is highly liquid and carries a dollar-in dollar-out amortized cost methodology.

The District is a voluntary participant in LAIF. The fair value of the District's investment in this pool is reported at an amount 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 the of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF. LAIF is not categorized under the fair value hierarchy established by GAAP as it is held at an amortized cost basis and it is Not Rated under the current credit risk ratings format. For financial reporting purposes, the District considers LAIF a cash equivalent due to its highly liquid nature and dollar-in dollar-out amortized cost methodology. As of June 30, 2023, the District held $7,862,699 in LAIF.

California Cooperative Liquid Assets Securities System (California CLASS)
The California Cooperative Liquid Assets Securities System (California CLASS) is a joint exercise of powers entity authorized under Section 6509.7, California Government Code. California CLASS is a pooled investment option that was created via a joint exercise of powers agreement by and among California public agencies. California CLASS provides California public agencies with a convenient method for investing in high-quality, short- to medium-term securities carefully selected to optimize interest earnings while prioritizing safety and liquidity. The California CLASS Prime and Enhanced Cash funds offer public agencies the opportunity to strengthen and diversify their cash management programs in accordance with the safety, liquidity, and yield hierarchy that governs the investment of public funds.

The management of California CLASS is under the direction of a Board of Trustees comprised of eligible Participants of the program. The Board of Trustees has appointed Public Trust Advisors, LLC to serve as the Investment Advisor and Administrator of the program and has appointed U.S. Bank as the Custodian.

The District is a voluntary participant in California CLASS. The fair value of the District's investment in this pool is reported at an amount based upon the District's pro-rata share of the fair value provided by California CLASS for the entire California CLASS portfolio (in relation to the amortized cost of the of that portfolio). The balance available for withdrawal is based on the accounting records maintained by California CLASS. California CLASS is not categorized under the fair value hierarchy established by GAAP as it is held at an amortized cost basis. The California Class Prime and Enhanced Cash funds receive a credit rating of AAAm (S&P Global Ratings) and AAAf/S1 (FitchRatings), respectively. For financial reporting purposes, the District considers California CLASS a cash equivalent due to its highly liquid nature and dollar-in dollar-out amortized cost methodology. As of June 30, 2023, the District held $5,075,698 in California CLASS.

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 District had approximately 66% and 15% of its investment portfolio invested in U.S. Treasury Obligations and U.S. Government Sponsored agency securities, respectively.

NOTE 2 – CASH AND INVESTMENTS (continued)

Investments
The District's investments as of June 30, 2023, are presented in the following Investment Table:

Type of Investments	Measurement Input	Credit Rating	Total Fair Value	Maturity: 12 Months or Less	Maturity: 13 to 24 Months	Maturity: 25 to 120 Months
U.S. treasury obligations	Level 2	N/A	$ 32,287,152	$ 7,103,261	$ 9,588,108	$ 15,595,783
U.S. government sponsored agency securities	Level 2	A to AAA	7,432,717	1,345,201	2,348,986	3,738,530
Medium-term corporate notes	Level 2	A to AAA	1,351,832	-	330,120	1,021,712
Negotiable certificates-of-deposit	Level 2	AAA	2,563,994	109,513	526,313	1,928,168
Money-market mutual funds	N/A	N/A	5,233,401	5,233,401	-	-
Held by PARS trustee:						
Money-market mutual funds	N/A	N/A	140,814	140,814	-	-
Total investments			$ 49,009,910	$ 13,932,190	$ 12,793,527	$ 22,284,193

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. The table does not address investments the investment of funds within the PARS 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.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer	Minimum Credit Rating
U.S. Treasury Obligations	5-years	None	None	N/A
U.S. Government Sponsored Agency Securities	5-years	None	50%	None
Asset-Backed Securities	5-years	15%	5%	AAA
Banker's Acceptances	180 days	40%	5%	A-1
Collateralized Certificates-of-Deposit	5-years	30%	5%	$250k deposit
Commercial Paper	270 days	25%	5%	AA above
Medium- Term Notes	5-years	30%	5%	A, A2
Money-Market Funds	None	20%	5%	AAAm, Aaa
MortgageBacked Securities	5-years	15%	5%	AAA, Aaa
Municipal Securities	5-years	20%	None	A, A2
California Local Agency Investment Fund (LAIF)	None	15%	15%	None
California CLASS	None	15%	15%	None

NOTE 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 to market interest rate fluctuations is provided by in the Investment Table that shows the distribution of the District's investments by maturity as of June 30, 2023.

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 Investment Table are Standard & Poor's credit ratings for the District's investments as of June 30, 2023. U.S. treasury obligations are not required to be rated and therefore no rating has been assigned.

Fair Value Measurements

The District categorizes its fair value measurement within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are quoted prices for similar assets in active markets, and Level 3 inputs are significant unobservable inputs. All of the District's investments were assigned a Level 2 input on the Investment Table.

NOTE 3 – RESTRICTED – ASSETS AND RESTRICTED – NET POSITION

Restricted assets as of June 30, were classified in the accompanying financial statements as follows:

Description	June 30, 2023
Restricted – cash and cash equivalents	$ 26,167,324
Restricted – accrued interest receivable	171,054
Total restricted assets	$ 26,338,378

Restricted assets for the year ended June 30, were restricted as follows:

Description	June 30, 2023
Capital projects	$ 21,648,305
Unspent proceeds from loan issuance	4,549,259
PARS trust	140,814
Total restricted assets	26,338,378
Less: Unspent proceeds from loan issuance	(4,549,259)
Total restricted – net position	$ 21,789,119

NOTE 4 – ACCOUNTS RECEIVABLE, NET

Accounts receivable, net of allowance for doubtful accounts consisted of the following:

Description	June 30, 2023
Accounts receivable	$ 1,796,203
Allowance for doubtful accounts	(28,794)
Total accounts receivable, net	$ 1,767,409

NOTE 5 – LEASE RECEIVABLE AND DEFERRED INFLOWS OF RESOURCES – LEASES

Changes in the District's lease receivable for the year ended June 30, 2023 was as follows:

Description	Balance July 1, 2022	Additions	Deductions	Balance June 30, 2023
Cellular antenna site rental No. 1	$ 211,759	$ -	$ (66,322)	$ 145,437
Cellular antenna site rental No. 2	346,819	-	(59,549)	287,270
	$ 558,578	$ -	$ (125,871)	$ 432,707

The District is reporting a total lease receivable of $432,707 and a total related deferred inflows of resources of $408,898 for the year ending June 30, 2023. Also, the District is reporting total lease revenue of $143,834 and interest revenue of $13,130 related to lease payments received for the years ending June 30, 2023.

The leases held by the District do not have an implicit rate of return, therefore the District used their incremental borrowing rate of 2.40% - 3.0% to discount the lease revenue to the net present value. In some cases leases contain termination clauses. In these cases the clause requires the lessee or lessor to show cause to terminate the lease. Also, certain leasing-types are considered "volatile leases." Those volatile leases were not extended past their initial lease period for financial statement recognition due to their volatility. The District's lease is summarized as follows:

Cellular Antenna Site Rental No. 1

The District, on July 1, 2021, renewed a continuous lease for 48 months as lessor for the use of a cellular antenna site rental. An initial lease receivable was recorded in the amount of $274,167. As of June 30, 2023, the value of the lease receivable was $145,437. The lease is required to make monthly fixed payments of $5,738 for the first 12-month period, then increase 3.0% per year. The lease has an interest rate of 3.00%. The value of the deferred inflow of resources was $137,079 as of June 30, 2023. The District recognized lease revenue of $73,691 and interest revenue of $5,453 during the fiscal year. The lessee will be evaluated by the District for future extensions after the completion of this lease period. Since this is considered a volatile lease only this lease period has been recognized.

NOTE 5 – LEASE RECEIVABLE AND DEFERRED INFLOWS OF RESOURCES – LEASES (continued)

Cellular Antenna Site Rental No. 2

The District, on July 1, 2021, renewed a continuous lease for 74 months as lessor for the use of a cellular antenna site rental. An initial lease receivable was recorded in the amount of $402,307. As of June 30, 2023, the value of the lease receivable was $287,270. The lease is required to make monthly fixed payments of $5,238 for the first 12-month period, then increase 3.0% per year. The lease has an interest rate of 2.40%. The value of the deferred inflow of resources was $271,819 as of June 30, 2023. The District recognized lease revenue of $70,143 and interest revenue of $7,677 during the fiscal year. The lessee will be evaluated by the District for future extensions after the completion of this lease period. Since this is considered a volatile lease only this lease period has been recognized.

Minimum future lease receipts for the next four fiscal years are as follows:

Fiscal Year	Principal	Interest	Total
2024	$ 133,553	$ 9,618	$ 143,171
2025	141,576	5,889	147,465
2026	70,444	3,015	73,459
2027	74,379	1,283	75,662
2028	12,755	39	12,794
Total	432,707	$ 19,844	$ 452,551
Current	(133,553)		
Long-term	$ 299,154		

Changes in the District's deferred inflows of resources related to leases for June 30, 2023, is as follows:

Description	Balance July 1, 2022	Additions	Deductions	Balance June 30, 2023
Cellular antenna site rental No. 1	$ 205,623	$ -	$ (68,544)	$ 137,079
Cellular antenna site rental No. 2	337,063		(65,244)	271,819
	$ 542,686	$ -	$ (133,788)	$ 408,898

The amounts reported as deferred inflows of resources related to leases for the year ended June 30, 2023, will be amortized in future periods as follows:

Amortization Period Fiscal Year Ended June 30	Deferred Inflows of Resources
2024	$ 133,788
2025	133,788
2026	65,244
2027	65,244
2028	10,834
Total	$ 408,898

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

Changes in capital assets for the fiscal year ended June 30, 2023, were as follows:

Description	Balance July 1, 2022	Additions	Deletions/ Transfers	Balance June 30, 2023
Non-depreciable assets:				
Land	$ 579,284	$ -	$ -	$ 579,284
Capacity rights	943,320	-	-	943,320
Construction-in-process	10,718,112	15,473,338	(1,905,464)	24,285,986
Total non-depreciable assets	12,240,716	15,473,338	(1,905,464)	25,808,590
Depreciable assets:				
Transmission and distribution system	17,447,439	1,263,439	(88,066)	18,622,812
Structures and improvements	8,944,206	111,599	(135,230)	8,920,575
Equipment	2,141,197	138,663	(126,124)	2,153,736
Total depreciable assets	28,532,842	1,513,701	(349,420)	29,697,123
Accumulated depreciation:				
Transmission and distribution system	(10,335,394)	(601,622)	88,066	(10,848,950)
Structures and improvements	(3,886,442)	(353,085)	135,230	(4,104,297)
Equipment	(880,572)	(335,910)	126,124	(1,090,358)
Total accumulated depreciation	(15,102,408)	(1,290,617)	349,420	(16,043,605)
Total depreciable assets, net	13,430,434	223,084	-	13,653,518
Total capital assets, net	$ 25,671,150	$ 15,696,422	$ (1,905,464)	$ 39,462,108

In fiscal year 2023, major capital asset additions amounted to $15,081,575, and depreciation expense amounted to $1,290,617.

NOTE 7 – COMPENSATED ABSENCES

Changes in compensated absences amounts for the year ended June 30, 2023, were as follows:

Balance July 1, 2022	Additions	Deletions	Balance June 30, 2023	Due Within One Year	Due in More Than One Year
$ 121,162	$ 93,861	$ (77,628)	$ 137,395	$ 68,698	$ 68,697

NOTE 8 – LOANS PAYABLE

Changes in loans payable amounts for the year ended June 30, 2023, were as follows:

Balance July 1, 2022	Additions	Deductions	Balance June 30, 2023	Current Portion	Long-term Portion
$ 18,912,000	$ -	$ (860,000)	$ 18,052,000	$ 880,000	$ 17,172,000

2020 Installment Purchase Agreement

On December 1, 2020, the District entered into an Installment Purchase Agreement in the amount of $20,120,000 with Sterling National Bank with interest at 2.30% used to finance the "2020 Project" which involves three capital improvement projects to comply with California Environmental Quality Act. The three capital improvement projects being financed are Vista Panorama Reservoir Replacement, VanderWerff Well Replacement, and Capacity Reliability Augmentation Project. Annual principal payments plus interest are due through June 2040.

Annual debt service requirements on the loan are as follows:

Fiscal Year	Principal	Interest	Total
2024	$ 880,000	$ 415,196	$ 1,295,196
2025	900,000	394,956	1,294,956
2026	921,000	374,256	1,295,256
2027	942,000	353,003	1,295,003
2028	963,000	331,409	1,294,409
2029-2033	5,161,000	1,314,289	6,475,289
2034-2038	5,782,000	692,877	6,474,877
2039-2040	2,503,000	86,697	2,589,697
Total	18,052,000	$ 3,962,683	$ 22,014,683
Current	(880,000)		
Long-term	$ 17,172,000		

NOTE 9 – PENSION PLAN

Summary

The following balances on the balance sheet will be addressed in this footnote as follows:

Description		2023
Pension related deferred outflows	$	864,918
Net pension liability		142,597
Pension related deferred inflows		218,909

Qualified employees are covered under a multiple-employer defined benefit pension plan maintained by agencies of the State of California known as the California Public Employees' Retirement System (CalPERS), or "The Plan".

A. General Information about the Pension Plan

The Plan

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

	Miscellaneous Plans	
	Classic Tier 1	PEPRA Tier 2
Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.0% @ 60	2.0% @ 62
Benefit vesting schedule	5-years of service	5-years of service
Benefits payments	monthly for life	monthly for life
Retirement age	50 - 67 & up	52 - 67 & up
Monthly benefits, as a % of eligible compensation	2.0% to 2.7%	1.0% to 2.0%
Required member contribution rates	7.000%	6.750%
Required employer contribution rates – FY 2022	8.650%	7.590%

Plan Description

The Plan is an agent multiple-employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). A full description of the pension plan regarding number of employees covered, benefit provisions, assumptions (for funding, but not accounting purposes), and membership information are listed in the Plan's June 30, 2021 and June 30, 2020 Annual Actuarial Valuation Report (funding valuation). Details of the benefits provided can be obtained in Appendix B of the actuarial valuation report. This report and CalPERS' audited financial statements are publicly available reports that can be obtained at CalPERS' website.

NOTE 9 – PENSION PLAN (continued)

A. General Information about the Pension Plan (continued)

At June 30, 2022 measurement date, the following members were covered by the benefit terms:

	Miscellaneous Plans		
Plan Members	**Classic Tier 1**	**PEPRA Tier 2**	**Total**
Active members	6	8	14
Transferred and terminated members	7	3	10
Retired members and beneficiaries	9	1	10
Total plan members	22	12	34

All qualified permanent and probationary employees are eligible to participate in the District's cost-sharing multiple-employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by state statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions, and membership information that can be found on the CalPERS website.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments, and death benefits to Plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for nonindustrial disability benefits after five years of service. The death benefit is one of the following the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost-of-living adjustments for each Plan are applied as specified by the Public Employees' Retirement Law.

Contributions

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers are 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 fiscal year ended June 30, 2023, were as follows:

	Miscellaneous Plans		
Contribution Type	**Classic Tier 1**	**PEPRA Tier 2**	**Total**
Contributions – employer	$ 94,523	$ 49,780	$ 144,303

NOTE 9 – PENSION PLAN (continued)

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions

Proportionate Share of Net Pension Liability and Pension Expense

The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2022, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2021, rolled forward to June 30, 2022, using standard update procedures. The District's proportionate share of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

The following table shows the District'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, 2023:

	Percentage Share of Risk Pool		
	Fiscal Year Ending June 30, 2023	Fiscal Year Ending June 30, 2022	Change Increase/ (Decrease)
Measurement Date	June 30, 2022	June 30, 2021	
Percentage of Risk Pool Net Pension Liability	0.003047%	-0.035727%	0.038774%
Percentage of Plan Net Pension Liability	0.003047%	-0.035727%	0.038774%

Proportionate Share of Net Pension Liability and Pension Expense (continued)

The following table shows the District'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, 2022:

Plan Type and Balance Descriptions	Plan Total Pension Liability	Plan Fiduciary Net Position	Change in Plan Net Pension Liability/(Asset)
CalPERS – Miscellaneous Plan:			
Balance as of June 30, 2021 (Measurement Date)	$ 4,416,168	$ 5,094,553	$ (678,385)
Balance as of June 30, 2022 (Measurement Date)	$ 5,066,466	$ 4,923,869	$ 142,597
Change in Plan Net Pension Liability	$ 650,298	$ (170,684)	$ 820,982

NOTE 9 – PENSION PLAN (continued)

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (continued)

Proportionate Share of Net Pension Liability and Pension Expense (continued)
For the fiscal year ended June 30, 2023, the District recognized pension expense of $1,095,933. At June 30, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Account Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions made after the measurement date	$ 144,303	$ -
Difference between actual and proportionate share of employer contributions	202,658	(93,278)
Adjustment due to differences in proportions	474,361	(123,713)
Differences between expected and actual experience	2,864	(1,918)
Differences between projected and actual earnings on pension plan investments	26,120	-
Changes in assumptions	14,612	-
Total Deferred Outflows/(Inflows) of Resources	$ 864,918	$ (218,909)

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period. The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, changes of assumptions, and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 3.8 years.

An amount of $144,303 for 2023, were reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2024.

NOTE 9 – PENSION PLAN (continued)

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (continued)

Proportionate Share of Net Pension Liability and Pension Expense (continued)

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at June 30, 2023 will be recognized as a reduction to pension expense as follows:

Amortization Period Fiscal Year Ended June 30	Deferred Outflows/(Inflows) of Resources
2022	$ (221,163)
2023	(253,734)
2024	(300,175)
2025	(385,443)
Total	$ (1,160,515)

Actuarial Methods and Assumptions Used to Determine Total Pension Liability
For the measurement period ending June 30, 2022 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2021, total pension liability. The June 30, 2022, total pension liability was based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal in accordance with the requirement of GASB Statement No. 68
Actuarial Assumptions:	
Discount Rate	6.90%
Inflation	2.30%
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 2.30% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.30% thereafter

Long-term Expected Rate of Return
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.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations. Using historical returns of all of the funds' asset classes, expected compound (geometric) returns were calculated over the next 20 years using a building-block approach. The expected rate of return was then adjusted to account for assumed administrative expenses of 10 Basis points. The expected real rates of return by asset class are as follows:

NOTE 9 – PENSION PLAN (continued)

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (continued)

Long-term Expected Rate of Return (continued)

The table below reflects long-term expected real rate of return by asset class.

Asset Class	Assumed Asset Allocation	Real Return [1,2]
Global Equity - Cap-weighted	30.0%	4.54%
Global Equity - Non-Cap-weighted	12.0%	3.84%
Private Equity	13.0%	7.28%
Treasury	5.0%	0.27%
Mortgage-backed Securities	5.0%	0.50%
Investment Grade Corporates	10.0%	1.56%
High Yield	5.0%	2.27%
Emerging Market Debt	5.0%	2.48%
Private Debt	5.0%	3.57%
Real Estate	15.0%	3.21%
Leverage	-5.0%	-0.59%
	100.0%	

[1] An expected inflation of 2.3% is used for this period.
[2] Figures are based on the 2021 Asset Liability Management study.

Discount Rate
The discount rate used to measure the total pension liability was 6.90%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Subsequent Events
On July 12, 2021, CalPERS reported a preliminary 21.3% net return on investments for fiscal year 2020-21. Based on the thresholds specified in CalPERS Funding Risk Mitigation policy, the excess return of 14.3% prescribes a reduction in investment volatility that corresponds to a reduction in the discount rate used for funding purposes of 0.20%, from 7.00% to 6.80%. Since CalPERS was in the final stages of the four-year Asset Liability Management (ALM) cycle, the board elected to defer any changes to the asset allocation until the ALM process concluded, and the board could make its final decision on the asset allocation in November 2021.

NOTE 9 – PENSION PLAN (continued)

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (continued)

Subsequent Events (continued)
On November 17, 2021, the board adopted a new strategic asset allocation. The new asset allocation along with the new capital market assumptions, economic assumptions and administrative expense assumption support a discount rate of 6.90% (net of investment expense but without a reduction for administrative expense) for financial reporting purposes. This includes a reduction in the price inflation assumption from 2.50% to 2.30% as recommended in the November 2021 CalPERS Experience Study and Review of Actuarial Assumptions. This study also recommended modifications to retirement rates, termination rates, mortality rates and rates of salary increases that were adopted by the board. These new assumptions will be reflected in the GASB 68 accounting valuation reports for the June 30, 2022, measurement date.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate
The following presents the net pension liability/(asset) of the Plan as of the measurement date, calculated using the discount rate of 6.90%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (5.90%) or 1 percentage-point higher (7.90%) than the current rate:

Changes in the discount rate for the year ended June 30, 2023, was as follows:

	Plan's Net Pension Liability/(Asset)		
Plan Type	**Discount Rate - 1% 5.90%**	**Current Discount Rate 6.90%**	**Discount Rate + 1% 7.90%**
CalPERS – Miscellaneous Plan	$ 3,524,916	$ 1,597,778	$ 4,640

Pension Plan Fiduciary Net Position
Detailed information about the pension 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.

C. Payable to the Pension Plans
At June 30, 2023, the District reported no payables for outstanding contributions to the CalPERS pension plan required for the year ended June 30, 2023.

NOTE 10 – NET INVESTMENT IN CAPITAL ASSETS

Net investment in capital assets consisted of the following as of June 30:

Description	June 30, 2023
Net investment in capital assets:	
Capital assets – not being depreciated	$ 25,808,590
Capital assets, net – being depreciated	13,653,518
Loans payable – current portion	(880,000)
Loans payable – non-current portion	(17,172,000)
Unspent proceeds from loan issuance (Note 3)	4,549,259
Total net investment in capital assets	$ 25,959,367

NOTE 11 – DEFERRED COMPENSATION SAVINGS PLAN

For the benefit of its employees, the District participates in two 457 Deferred Compensation Programs (Programs). The purpose of these Programs is to provide deferred compensation for public employees that elect to participate in the Programs. 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.

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. Accordingly, the District is in compliance with this legislation. Therefore, these assets are not the legal property of the District, and are not subject to claims of the District's general creditors.

The District has implemented GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. Since the District has little administrative involvement and does not perform the investing function for this plan, the assets and related liabilities are not shown on the accompanying financial statements.

NOTE 12 – RISK MANAGEMENT POOL

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 and self-insurance authority, created under provisions of California Government Code Sections 6500 et seq. The purpose of the Insurance Authority is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage. Further information about the Insurance Authority is as follows:

A.	**Entity**	ACWA-JPIA
B.	**Purpose**	To pool member contributions and realize the advantages of self-insurance
C.	**Participants**	As of September 30, 2022 – 396 member districts
D.	**Governing board**	Nine representatives employed by members
E.	**Condensed financial information** **Audit signed**	September 30, 2022 February 7, 2023

Statement of financial position:	**Sept 30, 2022**
Total assets	$ 246,615,214
Deferred outflows	6,108,562
Total liabilities	137,126,606
Deferred inflows	2,813,249
Net position	$ 112,783,921
Statement of revenues, expenses and changes in net position:	
Total revenues	$ 175,619,417
Total expenses	(212,646,028)
Change in net position	(37,026,611)
Beginning – net position	149,810,532
Ending – net position	$ 112,783,921

F. **Member agencies share of year-end financial position** — Not Calculated

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 $500,000,000 (total insurable value of $48,405,017). The District has a $2,500 deductible for buildings, personal property and fixed equipment, a $25,000/$50,000 deductible for accidental mechanical breakdown, a $1,000 deductible for mobile equipment, and a $500 deductible for licensed vehicles.

General Liability - The Insurance Authority has pooled self-insurance up to $5,000,000 per occurrence and has purchased excess insurance coverage in layers up to of $60,000,000. This program does not have a deductible.

NOTE 12 – RISK MANAGEMENT POOL (continued)

Auto Liability - The Insurance Authority has pooled self-insurance up to $5,000,000 per occurrence and has purchased excess insurance coverage in layers up to $60,000,000. This program does not have a deductible. Public Officials' Liability - The Insurance Authority has pooled self-insurance up to $5,000,000 per occurrence and has purchased excess insurance coverage in layers up to $60,000,000.

Cyber Liability - The Insurance Authority has purchased insurance coverage of $3,000,000 per occurrence/$5,000,000 aggregate. This program does not have a deductible.

Crime - The Insurance Authority has pooled self-insurance up to $100,000 per occurrence. The District has a $1,000 deductible.

Public Official Bond - The District has purchased a $200,000 bond to cover the general manager's faithful performance of duty.

Workers' Compensation - The Insurance Authority is self-insured up to $2,000,000 and excess insurance coverage has been purchased up to the statutory limit for workers' compensation coverage. The Insurance Authority is self-insurance up to $2,000,000 and has purchased excess insurance coverage of $2,000,000 for employer's liability coverage.

Underground Storage Tank Pollution Liability - The Insurance Authority is self-insured up to $500,000 per occurrence and has purchased excess coverage of $3,000,000. The District has a $10,000 deductible.

The District pays annual premiums for these coverages. They are subject to retrospective adjustments based on claims expended. The nature and amount of these adjustments cannot be estimated and are charged to expenses as invoiced. There were no instances in the past three years where a settlement exceeded the District's coverage.

Settled claims have not exceeded any of the coverage amounts 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, 2023, 2022, and 2021. 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, 2023, 2022, and 2021.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Excluded Leases – Short-Term Leases and De Minimis Leases
The District does not recognize a lease receivable and a deferred inflow of resources for short-term leases. Short-term leases are certain leases that have a maximum possible term under the lease contract of 12-months (or less), including any options to extend, regardless of their probability of being exercised.

Also, d*e minimis* lessor or lessee leases are certain leases (i.e., room rental, copiers, printers, postage machines) that regardless of their lease contract period are *de minimis* with regards to their aggregate total dollar amount to the financial statements as a whole.

NOTE 13 – COMMITMENTS AND CONTINGENCIES (continued)

Grant Awards
Grant funds received by the District are subject to audit by the grantor agencies. Such audit could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grant. Management of the District believes that such disallowances, if any, would not be significant.

Construction Contracts
The District has a variety of agreements with private parties relating to the installation, improvement or modification of water and wastewater 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 capital contributions.

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 the ultimate outcome of such matters, if any, will not materially affect its financial condition.

NOTE 14 – SUBSEQUENT EVENTS

The District has evaluated subsequent events through March 28, 2024, the date which the financial statements were available to be issued.

Required Supplementary Information

EAST ORANGE COUNTY WATER DISTRICT

Schedule of the District's Proportionate Share of the Net Pension Liability
For the Year Ended June 30, 2023

Last Ten Fiscal Years*

California Public Employees' Retirement System (CalPERS) Miscellaneous Plan

Measurement Date	District's Proportion of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan's Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability
June 30, 2014	0.006416%	$ 399,219	$ 424,397	94.07%	83.03%
June 30, 2015	0.004970%	341,116	446,749	76.36%	78.40%
June 30, 2016	0.005772%	499,435	439,988	113.51%	74.06%
June 30, 2017	0.017840%	600,628	570,254	105.33%	78.98%
June 30, 2018	0.019150%	582,611	703,788	82.78%	81.99%
June 30, 2019	0.019830%	658,490	886,564	74.27%	81.54%
June 30, 2020	0.002475%	269,333	1,101,431	24.45%	93.20%
June 30, 2021	-0.035727%	(678,385)	1,322,992	-51.28%	115.36%
June 30, 2022	0.003047%	142,597	1,531,885	9.31%	97.19%

Notes to Schedule:

Benefit Changes:
There were no changes in benefits.

Changes in Assumptions:
From fiscal year June 30, 2015 and June 30, 2016:

GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50% used for the June 30, 2014, measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015, measurement date is without reduction of pension plan administrative expense.

From fiscal year June 30, 2016 to June 30, 2017:
There were no changes in assumptions.

From fiscal year June 30, 2017 to June 30, 2018:
The discount rate was reduced from 7.65% to 7.15%.

From fiscal year June 30, 2018 to June 30, 2019:
There were no significant changes in assumptions.

From fiscal year June 30, 2019 to June 30, 2020:
There were no significant changes in assumptions.

From fiscal year June 30, 2020 to June 30, 2021:
There were no significant changes in assumptions.

From fiscal year June 30, 2021 to June 30, 2022:
There were no significant changes in assumptions.

From fiscal year June 30, 2022 to June 30, 2023:
The discount rate was reduced from 7.15% to 6.90% and the inflation rate from 2.50% to 2.30%.

*Fiscal year 2014 was the first measurement date year of implementation; therefore, only nine years are shown.
Certain amounts have been updated per the 2020 CalPERS Actuarial Valuations

EAST ORANGE COUNTY WATER DISTRICT

Schedule of the District's Contributions to the Defined Benefit Pension Plan
For the Year Ended June 30, 2023

Last Ten Fiscal Years*

California Public Employees' Retirement System (CalPERS) Miscellaneous Plan

Fiscal Year	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
June 30, 2015	33,913	(33,913)	-	446,749	7.59%
June 30, 2016	40,547	(40,547)	-	439,988	9.22%
June 30, 2017	56,240	(56,240)	-	570,254	9.86%
June 30, 2018	69,318	(69,318)	-	703,788	9.85%
June 30, 2019	96,026	(96,026)	-	886,564	10.83%
June 30, 2020	580,137	(580,137)	-	1,101,431	52.67%
June 30, 2021	451,154	(451,154)	-	1,322,992	34.10%
June 30, 2022	127,579	(127,579)	-	1,531,885	8.33%
June 30, 2023	144,303	(144,303)	-	1,727,217	8.35%

Notes to Schedule:

Fiscal Year	Valuation Date	Actuarial Cost Method	Asset Valuation Method	Inflation	Investment Rate of Return
June 30, 2015	June 30, 2012	Entry Age	Fair Value	2.75%	7.65%
June 30, 2016	June 30, 2013	Entry Age	Fair Value	2.75%	7.65%
June 30, 2017	June 30, 2014	Entry Age	Fair Value	2.75%	7.65%
June 30, 2018	June 30, 2015	Entry Age	Fair Value	2.75%	7.15%
June 30, 2019	June 30, 2016	Entry Age	Fair Value	2.50%	7.15%
June 30, 2020	June 30, 2017	Entry Age	Fair Value	2.50%	7.15%
June 30, 2021	June 30, 2018	Entry Age	Fair Value	2.50%	7.15%
June 30, 2022	June 30, 2019	Entry Age	Fair Value	2.50%	7.15%
June 30, 2023	June 30, 2020	Entry Age	Fair Value	2.30%	6.90%

Amortization Method	Level percentage of payroll, closed
Salary Increases	Depending on age, service, and type of employment
Investment Rate of Return	Net of pension plan investment expense, including inflation
Retirement Age	50 years (2.0%@60), 52 years (2.0%@62)
Mortality	Mortality assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study adopted by the CalPERS Board.

*Fiscal year 2014 was the first measurement date year of implementation; therefore, only nine years are shown.
Certain amounts have been updated per the 2020 CalPERS Actuarial Valuations

Supplementary Information

EAST ORANGE COUNTY WATER DISTRICT

Balance Sheets – Combined – Internal Funds

June 30, 2023 (With Comparative Amounts as of June 30, 2022)

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	Wholesale	Retail	ID No. 1	Internal Balances	2023	2022
Current assets:						
Cash and investments	$ 8,109,899	$ 5,027,691	$ 23,194,355	$ -	$ 36,331,945	$ 30,486,217
Accrued interest receivable	29,214	35,162	31,674	-	96,050	32,178
Accounts receivable, net	1,401,283	443,564	15,716	(93,154)	1,767,409	4,121,634
Property tax receivable	15,898	8,896	39,643	-	64,437	53,420
Lease receivable	133,553	-	-	-	133,553	125,871
Inventory – water-in-storage	50,167	5,773	-	-	55,940	51,252
Prepaid expenses	18,925	25,931	86,738	-	131,594	41,555
Total current assets	9,758,939	5,547,017	23,368,126	(93,154)	38,580,928	34,912,127
Non-current assets:						
Restricted – cash and investments	56,326	1,511,489	24,599,509	-	26,167,324	41,924,822
Restricted – accrued interest receivable	-	-	171,054	-	171,054	169,245
Lease receivable	299,154	-	-	-	299,154	432,707
Net pension asset	-	-	-	-	-	678,385
Capital assets – not being depreciated	3,545,426	7,225,225	15,037,939	-	25,808,590	12,240,716
Capital assets – being depreciated, net	4,306,030	4,905,079	4,442,409	-	13,653,518	13,430,434
Total non-current assets	8,206,936	13,641,793	44,250,911	-	66,099,640	68,876,309
Total assets	17,965,875	19,188,810	67,619,037	(93,154)	104,680,568	103,788,436
Deferred outflows of resources:						
Deferred amounts related to net pension liability	408,761	408,761	47,396	-	864,918	1,106,477
Total deferred outflows of resources	408,761	408,761	47,396	-	864,918	1,106,477
Total assets and deferred outflows of resources	$ 18,374,636	$ 19,597,571	$ 67,666,433	$ (93,154)	$ 105,545,486	$ 104,894,913
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION						
Current liabilities:						
Accounts payable and accrued expenses	$ 1,839,209	$ 688,380	$ 655,147	$ (93,154)	$ 3,089,582	$ 3,829,129
Due to other governments	-	-	-	-	-	7,824
Deposits and unearned revenues	-	235,038	17,801	-	252,839	234,021
Accrued interest payable	-	6,580	26,318	-	32,898	34,465
Long-term liabilities – due within one year:						
Compensated absences	13,945	17,130	37,623	-	68,698	60,581
Loans payable	-	176,000	704,000	-	880,000	860,000
Total current liabilities	1,853,154	1,123,128	1,440,889	(93,154)	4,324,017	5,026,020
Non-current liabilities:						
Long-term liabilities – due in more than one year:						
Compensated absences	13,945	17,129	37,623	-	68,697	60,581
Loans payable	-	3,434,400	13,737,600	-	17,172,000	18,052,000
Net pension liability	67,391	67,391	7,815	-	142,597	-
Total non-current liabilities	81,336	3,518,920	13,783,038	-	17,383,294	18,112,581
Total liabilities	1,934,490	4,642,048	15,223,927	(93,154)	21,707,311	23,138,601
Deferred inflows of resources:						
Deferred amounts related to leases	408,898	-	-	-	408,898	542,686
Deferred amounts related to net pension liability	103,456	103,456	11,997	-	218,909	329,821
Total deferred inflows of resources	512,354	103,456	11,997	-	627,807	872,507
Net position:						
Net investment in capital assets	7,851,456	10,003,230	8,104,681	-	25,959,367	18,990,434
Restricted	56,326	28,163	21,704,630	-	21,789,119	29,862,783
Unrestricted	8,020,010	4,820,674	22,621,198	-	35,461,882	32,030,588
Total net position	15,927,792	14,852,067	52,430,509	-	83,210,368	80,883,805
Total liabilities, deferred inflows of resources and net position	$ 18,374,636	$ 19,597,571	$ 67,666,433	$ (93,154)	$ 105,545,486	$ 104,894,913

EAST ORANGE COUNTY WATER DISTRICT

Schedule of Revenues, Expenses and Changes in Net Position – Combined – Internal Funds
For the Year Ended June 30, 2023 (With Comparative Amounts as of June 30, 2022)

	Wholesale	Retail	ID No. 1	Internal Balances	2023	2022
Operating revenues:						
Water consumption sales	$ 8,181,833	$ 1,355,937	$ -	$ (880,196)	$ 8,657,574	$ 10,202,597
Water service charges	1,081,216	1,066,144	-	(75,503)	2,071,857	1,994,631
Sewer service charges	-	-	3,079,234	-	3,079,234	3,093,772
Connection fees	80,578	33,164	-	-	113,742	33,405
Other operating revenues	-	10,669	54,948	-	65,617	51,611
Total operating revenues	9,343,627	2,465,914	3,134,182	(955,699)	13,988,024	15,376,016
Operating expenses:						
Source of supply	8,752,739	957,811	-	(955,699)	8,754,851	10,054,006
Pumping	-	23,447	-	-	23,447	25,447
Transmission and distribution	275,535	258,808	-	-	534,343	466,081
Sewer operations	-	-	203,152	-	203,152	201,442
Salaries and benefits	830,578	1,024,355	1,582,152	-	3,437,085	1,041,886
General and administrative	317,368	416,020	505,284	-	1,238,672	991,620
Total operating expenses	10,176,220	2,680,441	2,290,588	(955,699)	14,191,550	12,780,482
Operating income(loss) before depreciation	(832,593)	(214,527)	843,594	-	(203,526)	2,595,534
Depreciation expense	(399,104)	(307,809)	(583,704)	-	(1,290,617)	(1,067,048)
Operating income(loss)	(1,231,697)	(522,336)	259,890	-	(1,494,143)	1,528,486
Non-operating revenues(expenses):						
Property taxes	1,078,335	557,457	438,923	-	2,074,715	1,905,287
Investment earnings	244,140	52,254	244,254	-	540,648	(1,793,085)
Rental revenue – cellular antenna	143,834	-	-	-	143,834	173,090
Interest expense	-	(86,682)	(346,727)	-	(433,409)	(452,786)
Gain (loss) on sale of assets	10,590	10,959	11,001	-	32,550	(1,764)
Other non-operating revenues	17,110	14,393	7,421	-	38,924	299,432
Other non-operating Expenses	-	-	-	-	-	(184,299)
Transfers In/(Out)	(17,115)	24,051	(6,936)	-	-	-
Total non-operating revenues(expenses), net	1,476,894	572,432	347,936	-	2,397,262	(54,125)
Change in net position before capital contribs.	245,197	50,096	607,826	-	903,119	1,474,361
Capital contributions:						
Capital grants	-	1,085,021	-	-	1,085,021	-
Contributed capital – developers	250,390	-	-	-	250,390	35,541
Capacity charges	-	-	88,033	-	88,033	46,453
Total capital contributions	250,390	1,085,021	88,033	-	1,423,444	81,994
Change in net position	495,587	1,135,117	695,859	-	2,326,563	1,556,355
Net position:						
Beginning of year	15,432,205	13,716,950	51,734,650	-	80,883,805	79,327,450
End of year	$ 15,927,792	$ 14,852,067	$ 52,430,509	$ -	$ 83,210,368	$ 80,883,805

Other Independent Auditors' Reports

NIGRO & NIGRO PC
A Professional Accountancy Corporation

INDEPENDENT AUDITORS' 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*

Board of Directors
East Orange County Water District
Orange, California

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 the East Orange County Water District (District), which comprise the balance sheet as of June 30, 2023, and the related statement of revenues, expenses and changes in net position and cash flows for the fiscal year then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 28, 2024.

Internal Control Over Financial Reporting
In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures 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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 District'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 or significant deficiencies may exist that have not been identified.

Jeff Nigro, CPA, CFE | Elizabeth Nigro, CPA | Shannon Bishop, CPA | Peter Glenn, CPA, CFE | Paul J. Kaymark, CPA | Jessica Berry, CPA | Angelika Vartikyan, CPA

MURRIETA OFFICE 25220 Hancock Avenue, Suite 400, Murrieta, CA 92562 • P: (951) 698-8783 • F: (951) 699-1064
WALNUT CREEK OFFICE 2121 N. California Blvd. Suite 290, Walnut Creek, CA 94596 • P: (844) 557-3111 • F: (844) 557-3444
www.nncpas.com • *Licensed by the California Board of Accountancy*

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the District's financial statements are free of 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 financial statements. 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*.

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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Nigro & Nigro, PC

Murrieta, California
March 28, 2024