

East Orange County Water District

Orange, California

Annual Financial Report

For the Years Ended June 30, 2017 and 2016



Our Mission Statement

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

Board of Directors as of June 30, 2017

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

Lisa Ohlund, General Manager
East Orange County Water District
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East Orange County Water District
Annual Financial Report
For the Years Ended June 30, 2017 and 2016

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying basic financial statements of the East Orange County Water District (District), which comprise of the balance sheets as of June 30, 2017 and 2016, and the related statements of revenues, expenses and change in net position, cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District, as of June 30, 2017 and 2016, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 through 9 and Schedule of the District's Proportionate Share of the Plan's Net Pension Liability and Schedule of the District's Contributions to the Pension Plan, on pages 41 and 42 respectfully, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

The PwC Group, LLP

Santa Ana, California
January 23, 2018



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

Independent Auditors' Report

To the Board of Directors
of the 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 balance sheets as of June 30, 2017 and 2016, and the related statements of revenues, expenses and changes in net position, cash flows for the years then ended, and the related notes to the financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated January 23, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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To the Board of Directors
of the East Orange County Water District
Orange, California
Page 2

Purpose of this Report

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

A handwritten signature in black ink that reads "The Perini Group, LLP". The signature is written in a cursive, flowing style.

Santa Ana, California
January 23, 2018

East Orange County Water District
Management's Discussion and Analysis (Unaudited)
For the Years Ended June 30, 2017 and 2016

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the East Orange County Water District (District) provides an introduction to the financial statements of the District for the years ended June 30, 2017 and 2016. We encourage readers to consider the information presented here in conjunction with the transmittal letter in the Introductory Section and with the basic financial statements and related notes, which follow this section.

Financial Highlights

- In 2017, the District received a capital contribution of \$40,830,193 for Sewer Area 7 from the Orange County Sanitation District (OCSD).
- In 2017, the District's net position before capital contribution increased by 13.9%, or \$2,715,192 to \$22,221,501.
- In 2016, the District's net position increased by 4.6%, or \$865,177 to \$19,506,309.
- In 2017, the District's operating revenues increased 46.2%, or \$2,375,024 to \$7,515,166, from the prior year, due primarily to the new sewer use fees revenue of \$2,619,853.
- In 2016, the District's operating revenues decreased 23.0%, or \$1,537,312 to \$5,140,142, from the prior year, due primarily to a decrease in wholesale water sales.
- In 2017, the District's operating expenses increased by 12.0%, or \$610,050 to \$5,706,913, from the prior year, due primarily to an increase in sewer system maintenance expense of \$424,342 and general and administrative expense of \$469,762.
- In 2016, the District's operating expenses decreased by 26.1%, or \$1,802,489 to \$5,096,863, from the prior year, due primarily to a decrease in wholesale water purchases.

Overview of the Financial Statements

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

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

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

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

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

East Orange County Water District
Management's Discussion and Analysis (Unaudited) (Continued)
For the Years Ended June 30, 2017 and 2016

Notes to the Basic Financial Statements

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

Financial Analysis of the District

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

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

Condensed Balance Sheets

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>Change</u>	<u>June 30, 2015</u>	<u>Change</u>
Assets:					
Current assets	\$ 52,830,887	\$ 10,435,608	\$ 42,395,279	\$ 10,090,457	\$ 345,151
Capital assets, net	12,002,823	10,469,620	1,533,203	10,267,247	202,373
Total assets	<u>64,833,710</u>	<u>20,905,228</u>	<u>43,928,482</u>	<u>20,357,704</u>	<u>547,524</u>
Deferred outflows of resources	<u>149,301</u>	<u>42,743</u>	<u>106,558</u>	<u>33,913</u>	<u>8,830</u>
Total assets and deferred outflows of resources	<u>\$ 64,983,011</u>	<u>\$ 20,947,971</u>	<u>\$ 44,035,040</u>	<u>\$ 20,391,617</u>	<u>\$ 556,354</u>
Liabilities:					
Current liabilities	\$ 1,296,631	\$ 916,422	\$ 380,209	\$ 1,195,916	\$ (279,494)
Noncurrent liabilities	499,435	341,116	158,319	399,219	(58,103)
Total liabilities	<u>1,796,066</u>	<u>1,257,538</u>	<u>538,528</u>	<u>1,595,135</u>	<u>(337,597)</u>
Deferred inflows of resources	<u>135,251</u>	<u>184,124</u>	<u>(48,873)</u>	<u>155,350</u>	<u>28,774</u>
Net position:					
Investment in capital assets	12,002,823	10,469,620	1,533,203	10,267,247	202,373
Restricted for sewer operations	40,789,893	-	40,789,893	-	-
Unrestricted	10,258,978	9,036,689	1,222,289	8,373,885	662,804
Total net position	<u>63,051,694</u>	<u>19,506,309</u>	<u>43,545,385</u>	<u>18,641,132</u>	<u>865,177</u>
Total liabilities, deferred inflows and net position	<u>\$ 64,983,011</u>	<u>\$ 20,947,971</u>	<u>\$ 44,035,040</u>	<u>\$ 20,391,617</u>	<u>\$ 556,354</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources of the District exceeded liabilities and deferred inflows of resources by \$63,051,694 and \$19,506,309, as of June 30, 2017 and 2016, respectively.

**East Orange County Water District
Management's Discussion and Analysis (Unaudited) (Continued)
For the Years Ended June 30, 2017 and 2016**

The District's net position of 19% at June 30, 2017 and 54% at June 30, 2016 reflects its investment in capital assets net of accumulated depreciation. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are *not* available for future spending.

The District's Improvement District No. 1 restricted net position of \$40,789,893 as of June 30, 2017 is restricted for future sewer system capital replacement and maintenance costs.

At the end of fiscal year 2017 and 2016, the District shows a positive balance in its unrestricted net position of \$10,258,978 and \$9,036,689, respectively that may be utilized in future years. The Board of Directors has taken action to reserve aspects of the unrestricted net position for specified purposes such as asset replacement, rate stabilization, growth accommodation and emergency reserves. The District has committed to the following internal funds and objectives:

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

Condensed Statements of Revenues, Expenses and Changes in Net Position

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>Change</u>	<u>June 30, 2015</u>	<u>Change</u>
Revenues:					
Operating revenues	\$ 7,515,166	\$ 5,140,142	\$ 2,375,024	\$ 6,677,454	\$ (1,537,312)
Non-operating revenues	1,774,102	1,338,064	436,038	1,258,023	80,041
Total revenues	<u>9,289,268</u>	<u>6,478,206</u>	<u>2,811,062</u>	<u>7,935,477</u>	<u>(1,457,271)</u>
Expenses:					
Operating expenses	5,706,913	5,096,863	610,050	6,899,352	(1,802,489)
Depreciation	553,469	516,166	37,303	497,462	18,704
Non-operating expenses	313,694	-	313,694	-	-
Total expenses	<u>6,574,076</u>	<u>5,613,029</u>	<u>961,047</u>	<u>7,396,814</u>	<u>(1,783,785)</u>
Change in net position before capital contributions	2,715,192	865,177	1,850,015	538,663	326,514
Capital contributions	<u>40,830,193</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net position	43,545,385	865,177	1,850,015	538,663	326,514
Net position:					
Beginning of year	<u>19,506,309</u>	<u>18,641,132</u>	<u>865,177</u>	<u>18,102,469</u>	<u>538,663</u>
End of year	<u>\$ 63,051,694</u>	<u>\$ 19,506,309</u>	<u>\$ 2,715,192</u>	<u>\$ 18,641,132</u>	<u>\$ 865,177</u>

The Statement of Revenues, Expenses, and Changes in Net Position show how the District's net position changes during the fiscal year. In the case of the District, net position increased by \$43,454,385 and \$865,177 as of June 30, 2017 and 2016, respectively.

East Orange County Water District
Management's Discussion and Analysis (Unaudited) (Continued)
For the Years Ended June 30, 2017 and 2016

Revenues

Operating revenues:	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>Change</u>	<u>June 30, 2015</u>	<u>Change</u>
Water use sales:					
Wholesale	\$ 2,199,352	\$ 2,382,793	\$ (183,441)	\$ 4,208,276	\$ (1,825,483)
Retail	1,175,611	978,948	196,663	1,253,430	(274,482)
Meter and standby service charges	566,538	560,056	6,482	530,224	29,832
Capacity and connection fees	883,758	863,981	19,777	639,819	224,162
Sewer use fees	2,619,853	-	2,619,853	-	-
Other connection fees	45,319	21,449	23,870	17,213	4,236
Other service charges	24,735	332,915	(308,180)	28,492	304,423
Total operating revenues	<u>7,515,166</u>	<u>5,140,142</u>	<u>2,375,024</u>	<u>6,677,454</u>	<u>(1,537,312)</u>
Non-operating revenues:					
Property taxes	1,525,655	1,160,319	365,336	1,085,641	74,678
Rental income – cellular antennas	104,740	99,750	4,990	133,679	(33,929)
Investment earnings	140,689	70,099	70,590	33,064	37,035
Other, net	3,018	7,896	(4,878)	5,639	2,257
Total non-operating revenues	<u>1,774,102</u>	<u>1,338,064</u>	<u>436,038</u>	<u>1,258,023</u>	<u>80,041</u>
Total revenue	<u>\$ 9,289,268</u>	<u>\$ 6,478,206</u>	<u>\$ 2,811,062</u>	<u>\$ 7,935,477</u>	<u>\$ (1,457,271)</u>

In 2017, the District's operating revenues increased 46.2%, or \$2,375,024 to \$7,515,166, from the prior year, due primarily to the new sewer use fees revenue of \$2,619,853.

In 2016, the District's operating revenues decreased 23.0%, or \$1,537,312 to \$5,140,142, from the prior year, due primarily to a decrease in wholesale water sales.

Expenses

Operating expenses:	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>Change</u>	<u>June 30, 2015</u>	<u>Change</u>
Source of supply	\$ 3,208,485	\$ 3,353,855	\$ (145,370)	\$ 5,205,082	\$ (1,851,227)
Pipeline capacity lease	-	-	-	53,000	(53,000)
Pumping	84,283	77,225	7,058	120,169	(42,944)
Transmission and distribution	763,381	909,123	(145,742)	921,250	(12,127)
Sewer system maintenance	424,342	-	424,342	-	-
General and administrative	1,226,422	756,660	469,762	599,851	156,809
Total operating expenses	<u>5,706,913</u>	<u>5,096,863</u>	<u>610,050</u>	<u>6,899,352</u>	<u>(1,802,489)</u>
Depreciation	553,469	516,166	37,303	497,462	18,704
Non-operating expenses:					
Other expenses	313,694	-	313,694	-	-
Total expenses	<u>\$ 6,574,076</u>	<u>\$ 5,613,029</u>	<u>\$ 647,353</u>	<u>\$ 7,396,814</u>	<u>\$ (1,783,785)</u>

In 2017, the District's operating expenses increased by 12.0%, or \$610,050 to \$5,706,913, from the prior year, due primarily to an increase in sewer system maintenance expense of \$424,342 and general and administrative expense of \$469,762.

In 2016, the District's operating expenses decreased by 26.1%, or \$1,802,489 to \$5,096,863, from the prior year, due primarily to a decrease in wholesale water purchases.

**East Orange County Water District
Management's Discussion and Analysis (Unaudited) (Continued)
For the Years Ended June 30, 2017 and 2016**

Capital Asset Administration

Capital assets as of June 30th are as follows:

<u>Description</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Non-depreciable assets	\$ 2,299,778	\$ 906,412	\$ 543,997
Depreciable assets	22,244,223	21,550,917	21,253,524
Accumulated depreciation	<u>(12,541,178)</u>	<u>(11,987,709)</u>	<u>(11,530,274)</u>
Total capital assets, net	<u>\$ 12,002,823</u>	<u>\$ 10,469,620</u>	<u>\$ 10,267,247</u>

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

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

Sewer Transfer

The Orange County Sanitation District (OCSD) has owned and operated a handful of community sewer systems in north and central Orange County since inheriting them from the County of Orange in 1985. In 2006, OCSD adopted a Strategic Plan that included divesting itself of local system ownership so it can focus exclusively on its core mission of providing effective wastewater collection, treatment, and recycling at the regional level.

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

The District is completing a Sewer System Master Plan to determine the future capital and maintenance needs of the sewer system.

Contacting the District's Financial Management Team

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

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BASIC FINANCIAL STATEMENTS

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East Orange County Water District
Balance Sheets
June 30, 2017 and 2016

<u>ASSETS</u>	<u>2017</u>	<u>2016</u>
Current assets:		
Cash and investments (Note 2)	\$ 51,602,625	\$ 8,911,836
Accrued interest receivable	66,167	8,826
Accounts receivable – services, net (Note 3)	850,971	1,366,312
Accounts receivable – other	117,576	-
Property taxes receivable	29,919	8,736
Prepaid expenses	64,997	56,571
Water-in-storage inventory	23,440	36,644
Materials and supplies inventory	75,192	46,683
Total current assets	<u>52,830,887</u>	<u>10,435,608</u>
Noncurrent assets:		
Capital assets – not being depreciated (Note 4)	2,299,778	906,412
Capital assets – being depreciated, net (Note 4)	9,703,045	9,563,208
Total noncurrent assets	<u>12,002,823</u>	<u>10,469,620</u>
Total assets	<u>64,833,710</u>	<u>20,905,228</u>
 <u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Pension related deferred outflows of resources (Note 6)	149,301	42,743
Total deferred outflows of resources	<u>149,301</u>	<u>42,743</u>
Total assets and deferred outflows of resources	<u>\$ 64,983,011</u>	<u>\$ 20,947,971</u>
 <u>LIABILITIES</u>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,035,092	\$ 689,155
Accrued salaries and benefits	33,865	19,084
Compensated absences (Note 5)	103,451	90,783
Deposits and unearned revenue	124,223	117,400
Total current liabilities	<u>1,296,631</u>	<u>916,422</u>
Noncurrent liabilities:		
Net pension liability (Note 6)	499,435	341,116
Total noncurrent liabilities	<u>499,435</u>	<u>341,116</u>
Total liabilities	<u>1,796,066</u>	<u>1,257,538</u>
 <u>DEFERRED INFLOWS OF RESOURCES</u>		
Pension related deferred inflows of resources (Note 6)	135,251	184,124
Total deferred inflows of resources	<u>135,251</u>	<u>184,124</u>
 <u>NET POSITION</u>		
Investment in capital assets	12,002,823	10,469,620
Restricted for sewer capital replacement and maintenance (Note 8)	40,789,893	-
Unrestricted	10,258,978	9,036,689
Total net position	<u>63,051,694</u>	<u>19,506,309</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 64,983,011</u>	<u>\$ 20,947,971</u>

East Orange County Water District
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ending June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating revenues:		
Water use sales	\$ 3,374,963	\$ 3,361,741
Meter and standby service charges	566,538	560,056
Capacity and connection fees	883,758	863,981
Sewer use fees	2,619,853	-
Other connection fees	45,319	21,449
Other service charges	24,735	332,915
Total operating revenues	<u>7,515,166</u>	<u>5,140,142</u>
Operating expenses:		
Source of supply	3,208,485	3,353,855
Pumping	84,283	77,225
Transmission and distribution	763,381	909,123
Sewer system maintenance	424,342	-
General and administrative	1,226,422	756,660
Total operating expenses	<u>5,706,913</u>	<u>5,096,863</u>
Operating income before depreciation	1,808,253	43,279
Depreciation expense	<u>(553,469)</u>	<u>(516,166)</u>
Operating income (loss)	<u>1,254,784</u>	<u>(472,887)</u>
Non-operating revenues (expenses):		
Property taxes	1,525,655	1,160,319
Rental income – cellular antennas	104,740	99,750
Investment earnings	140,689	70,099
Other revenues	3,018	7,896
Other expenses (Note 7)	<u>(313,694)</u>	<u>-</u>
Total non-operating revenues, net	<u>1,460,408</u>	<u>1,338,064</u>
Change in net position before capital contributions	<u>2,715,192</u>	<u>865,177</u>
Capital contributions:		
Sewer system capital transfer – ID No. 1 (Note 8)	<u>40,830,193</u>	<u>-</u>
Total capital contributions	<u>40,830,193</u>	<u>-</u>
Changes in net position	43,545,385	865,177
Net position:		
Beginning of year	<u>19,506,309</u>	<u>18,641,132</u>
End of year	<u>\$ 63,051,694</u>	<u>\$ 19,506,309</u>

East Orange County Water District
Statement of Cash Flows
For the Years Ending June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Cash receipts from customers for sales and services	\$ 7,922,772	\$ 4,830,931
Cash paid to employees for salaries and wages	(649,471)	(468,114)
Cash paid to vendors and suppliers for materials and services	(5,018,593)	(4,976,146)
Net cash provided by (used in) operating activities	<u>2,254,708</u>	<u>(613,329)</u>
Cash flows from non-capital financing activities:		
Proceeds from property taxes	1,504,472	1,161,759
Proceeds from rental income – cellular antennas	104,740	99,750
Net cash provided by non-capital financing activities	<u>1,609,212</u>	<u>1,261,509</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(2,086,672)	(718,539)
Proceeds from sewer system capital transfer – ID No. 1	40,830,193	-
Net cash provided by (used in) capital and related financing activities	<u>38,743,521</u>	<u>(718,539)</u>
Cash flows from investing activities:		
Proceeds from investment earnings	83,348	65,843
Net cash provided by investing activities	<u>83,348</u>	<u>65,843</u>
Net increase (decrease) in cash and investments	42,690,789	(4,516)
Cash and investments:		
Beginning of year	8,911,836	8,916,352
End of year	<u>\$ 51,602,625</u>	<u>\$ 8,911,836</u>

East Orange County Water District
Statement of Cash Flows (Continued)
For the Years Ending June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Reconciliation of operating income(loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ 1,254,784	\$ (472,887)
Adjustments to reconcile operating income(loss) to net cash provided by (used in) operating activities:		
Depreciation expense	553,469	516,166
Other revenues	3,018	7,896
Other expenses	(313,694)	-
Changes in assets – (increase)decrease:		
Accounts receivable – services, net	515,341	(336,611)
Accounts receivable – other	(117,576)	-
Prepaid expenses	(8,426)	(3,473)
Water-in-storage inventory	13,204	4,120
Materials and supplies inventory	(28,509)	(10,887)
Change in deferred outflows of resources – (increase)decrease:		
Pension related deferred outflows of resources	(106,558)	(8,830)
Changes in liabilities – increase(decrease):		
Accounts payable and accrued expenses	345,937	(336,530)
Accrued salaries and benefits	14,781	4,117
Compensated absences	12,668	33,415
Deposits and unearned revenue	6,823	19,504
Net pension liability	158,319	(58,103)
Change in deferred inflows of resources – increase(decrease):		
Pension related deferred inflows of resources	(48,873)	28,774
Total adjustments	<u>999,924</u>	<u>(140,442)</u>
Net cash provided by (used in) operating activities	<u>\$ 2,254,708</u>	<u>\$ (613,329)</u>
Non-cash investing, capital and financing transactions:		
Change in fair-value of cash and investments	<u>\$ (163,562)</u>	<u>\$ 20,865</u>

East Orange County Water District
Notes to the Basic Financial Statements
For the Year Ended June 30, 2017

Note 1 – Reporting Entity and Summary of Significant Accounting Policies

Organization and Operations of the Reporting Entity

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

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

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

Financial Reporting

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

Basis of Accounting and Measurement Focus

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

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

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

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

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

East Orange County Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016

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

Use of Estimates

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

Cash and Cash Equivalents

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

Investments

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

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

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

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

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

Accounts Receivable

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

Property Taxes

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

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

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

East Orange County Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016

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

Prepaid Expenses

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

Water-In-Storage Inventory

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

Materials and Supplies Inventory

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

Capital Assets

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

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

Construction-in-Process

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

Compensated Absences

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

East Orange County Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016

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

Pensions

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

The following timeframes are used for pension reporting:

<u>CalPERS</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Valuation date	June 30, 2015	June 30, 2014
Measurement date	June 30, 2016	June 30, 2015
Measurement period	July 1, 2015 to June 30, 2016	July 1, 2014 to June 30, 2015

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

Net Position

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

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

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

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

Water Use Sales – Wholesale and Retail

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

Capital Contributions

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

East Orange County Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016

Note 2 – Cash and Investments

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

<u>Description</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Cash on hand	\$ 244	\$ 258
Demand deposits held with financial institutions	461,756	94,871
Investments	51,140,625	8,816,707
Total cash and investments	\$ 51,602,625	\$ 8,911,836

Demand Deposits

At June 30, 2017 and 2016, the carrying amount of the District's demand deposits was \$461,756 and \$94,871, respectively, and the financial institution balance was \$575,012 and \$412,490, respectively. The \$113,256 and \$317,619 respective net difference as of June 30, 2017 and 2016 represents outstanding checks, deposits-in-transit and/or other reconciling items.

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

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

Custodial Credit Risk

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

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

As of June 30, 2017 and 2016, none of the District's deposits and investments was exposed to disclosable custodial credit risk.

East Orange County Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016

Note 2 – Cash and Investments (Continued)

Investments

The District’s investments as of June 30, 2017 were as follows:

<u>Investments</u>	<u>Measurement Input</u>	<u>Credit Rating</u>	<u>Fair Value</u>	<u>Maturity</u>		
				<u>12 Months or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>
Local Agency Investment Fund (LAIF)	Uncategorized	N/A	\$ 29,332,199	\$ 29,332,199	\$ -	\$ -
U.S. Treasury notes	Level 2	AAA	4,974,149	995,318	796,742	3,182,089
Governmental agency securities	Level 2	AA+ to A-	8,064,384	1,497,363	3,237,152	3,329,869
Corporate bonds	Level 2	AA+ to A-	6,643,817	1,637,030	1,631,359	3,375,428
Money market funds	Uncategorized	N/A	566,687	342,531	-	-
Negotiable certificates-of-deposit	Level 2	N/A	1,559,389	795,235	-	764,154
Total investments			\$ 51,140,625	\$ 34,599,676	\$ 5,665,253	\$ 10,651,540

The District’s investments as of June 30, 2016 were as follows:

<u>Investments</u>	<u>Measurement Input</u>	<u>Credit Rating</u>	<u>Fair Value</u>	<u>Maturity</u>		
				<u>12 Months or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>
Local Agency Investment Fund (LAIF)	Uncategorized	N/A	\$ 6,491,443	\$ 6,491,443	\$ -	\$ -
Money market funds	Uncategorized	N/A	802,267	802,267	-	-
Negotiable certificates-of-deposit	Level 2	N/A	1,522,997	200,490	799,580	522,927
Total investments			\$ 8,816,707	\$ 7,494,200	\$ 799,580	\$ 522,927

Authorized Investments and Investment Policy

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

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

Investment in State Investment Pool

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

East Orange County Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016

Note 2 – Cash and Investments (Continued)

Investment in State Investment Pool (Continued)

The District’s investments with LAIF at June 30, 2017 and 2016 included a portion of the pool funds invested in structured notes and asset-backed securities:

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

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

The District had \$29,332,199 and \$6,491,443 invested in LAIF, which had invested 2.89% and 2.81% of the pooled investment funds as of June 30, 2017 and June 30, 2016, respectively, in structured notes and medium-term asset-backed securities. The LAIF fair value factor of 0.998940671 and 1.000621222 was used to calculate the fair value of the investments in LAIF as of June 30, 2017 and 2016, respectively.

Fair Value Measurement Input

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

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. As of June 30, 2017 and 2016, the District’s investment in the LAIF was not rated as noted in the table above.

Interest Rate Risk

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

Concentration of Credit Risk

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

<u>Description</u>	<u>Percentage</u>	<u>June 30, 2017</u>
U.S. Treasury notes	10%	\$ 4,974,149
Governmental agency securities	16%	8,064,384
Corporate bonds	13%	6,643,817

East Orange County Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016

Note 3 – Accounts Receivable – Services, Net

Accounts receivable consisted of the following at June 30, 2017 and 2016:

Description	June 30, 2017	June 30, 2016
Accounts receivable – services	\$ 859,208	\$ 1,371,368
Allowance for doubtful accounts	(8,237)	(5,056)
Accounts receivable – services, net	\$ 850,971	\$ 1,366,312

Note 4 – Capital Assets

Changes in capital assets for the year ended June 30, 2017, were as follows:

	Balance July 1, 2016	Additions	Deletions	Reclassifications	Balance June 30, 2017
Non-depreciable assets:					
Land and easements	\$ 56,289	\$ 522,995	\$ -	\$ -	\$ 579,284
Construction-in-process	850,123	1,563,677	-	(693,306)	1,720,494
Total non-depreciable assets	906,412	2,086,672	-	(693,306)	2,299,778
Depreciable assets:					
Transmission and distribution system	12,289,505	203,165	-	-	12,492,670
Structures and improvements	7,947,842	349,092	-	-	8,296,934
Capacity rights	943,320	-	-	-	943,320
Equipment	370,250	141,049	-	-	511,299
Total depreciable assets	21,550,917	693,306	-	-	22,244,223
Accumulated depreciation	(11,987,709)	(553,469)	-	-	(12,541,178)
Total depreciable assets, net	9,563,208	139,837	-	-	9,703,045
Total capital assets, net	\$ 10,469,620	\$ 2,226,509	\$ -	\$ (693,306)	\$ 12,002,823

Changes in capital assets for the year ended June 30, 2016, were as follows:

	Balance July 1, 2015	Additions	Deletions	Reclassifications	Balance June 30, 2016
Non-depreciable assets:					
Land and easements	\$ 56,289	\$ -	\$ -	\$ -	\$ 56,289
Construction-in-process	487,708	718,539	-	(356,124)	850,123
Total non-depreciable assets	543,997	718,539	-	(356,124)	906,412
Depreciable assets:					
Transmission and distribution system	12,001,586	-	(35,448)	323,367	12,289,505
Structures and improvements	7,918,393	-	-	29,449	7,947,842
Capacity rights	943,320	-	-	-	943,320
Equipment	390,225	-	(23,283)	3,308	370,250
Total depreciable assets	21,253,524	-	(58,731)	356,124	21,550,917
Accumulated depreciation	(11,530,274)	(516,166)	58,731	-	(11,987,709)
Total depreciable assets, net	9,723,250	(516,166)	-	356,124	9,563,208
Total capital assets, net	\$ 10,267,247	\$ 202,373	\$ -	\$ -	\$ 10,469,620

East Orange County Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016

Note 5 – Compensated Absences

Compensated absences consisted of the following at June 30, 2017:

<u>Balance</u> <u>July 1, 2016</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance</u> <u>June 30, 2017</u>
\$ 90,783	\$ 136,025	\$ (123,357)	\$ 103,451

Compensated absences consisted of the following at June 30, 2016:

<u>Balance</u> <u>July 1, 2015</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance</u> <u>June 30, 2016</u>
\$ 57,368	\$ 100,235	\$ (66,820)	\$ 90,783

Note 6 – Net Pension Liability and Defined Benefit Pension Plan

Changes in the net pension liability and the related deferred inflows/outflows of resources for the year ending June 30, 2017, were as follows:

<u>Type of Account</u>	<u>Balance as of</u> <u>July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance as of</u> <u>June 30, 2017</u>
Deferred Outflows of Resources:				
Pension contributions made after the measurement date:				
CalPERS – Miscellaneous Plan	\$ 40,547	\$ 56,240	\$ (40,547)	\$ 56,240
Differences between projected and actual earnings on pension plan investments:				
CalPERS – Miscellaneous Plan	-	70,359	-	70,359
Adjustment due to differences in proportions:				
CalPERS – Miscellaneous Plan	-	29,600	(8,000)	21,600
Differences between expected and actual experience:				
CalPERS – Miscellaneous Plan	2,196	-	(1,094)	1,102
Total deferred outflows of resources	<u>\$ 42,743</u>	<u>\$ 156,199</u>	<u>\$ (49,641)</u>	<u>\$ 149,301</u>
Net Pension Liability:				
CalPERS – Miscellaneous Plan	<u>\$ 341,116</u>	<u>\$ 198,866</u>	<u>\$ (40,547)</u>	<u>\$ 499,435</u>
Deferred Inflows of Resources:				
Differences between projected and actual earnings on pension plan investments:				
CalPERS – Miscellaneous Plan	10,419	-	(10,419)	-
Difference between actual and proportionate share of employer contributions:				
CalPERS – Miscellaneous Plan	39,639	35,806	(26,259)	49,186
Adjustment due to differences in proportions:				
CalPERS – Miscellaneous Plan	113,287	-	(40,740)	72,547
Changes in assumptions:				
CalPERS – Miscellaneous Plan	20,779	-	(7,261)	13,518
Total deferred inflows of resources	<u>\$ 184,124</u>	<u>\$ 35,806</u>	<u>\$ (84,679)</u>	<u>\$ 135,251</u>

East Orange County Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016

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

Changes in the net pension liability and the related deferred inflows/outflows of resources for the year ending June 30, 2016, were as follows:

Type of Account	Balance as of July 1, 2015	Additions	Deletions	Balance as of June 30, 2016
Deferred Outflows of Resources:				
Pension contributions made after the measurement date:				
CalPERS – Miscellaneous Plan	\$ 33,913	\$ 40,547	\$ (33,913)	\$ 40,547
Differences between expected and actual experience:				
CalPERS – Miscellaneous Plan	-	2,981	(785)	2,196
Total deferred outflows of resources	\$ 33,913	\$ 43,528	\$ (34,698)	\$ 42,743
Net Pension Liability:				
CalPERS – Miscellaneous Plan	\$ 399,219	\$ 2,800	\$ (60,903)	\$ 341,116
Deferred Inflows of Resources:				
Differences between projected and actual earnings on pension plan investments:				
CalPERS – Miscellaneous Plan	\$ 134,156	\$ 9,873	\$ (133,610)	\$ 10,419
Difference between actual and proportionate share of employer contributions:				
CalPERS – Miscellaneous Plan	19,005	37,216	(16,582)	39,639
Adjustment due to differences in proportions:				
CalPERS – Miscellaneous Plan	2,189	151,838	(40,740)	113,287
Changes in assumptions:				
CalPERS – Miscellaneous Plan	-	28,201	(7,422)	20,779
Total deferred inflows of resources	\$ 155,350	\$ 227,128	\$ (198,354)	\$ 184,124

General Information about the Pension Plans

The Plans Description Schedule

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

	Miscellaneous Plans	
	Classic Tier 1	PEPRA Tier 2
Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.0% @ 60	2.0 @ 62
Benefit vesting schedule	5-years or service	5-years or service
Benefits payments	monthly for life	monthly for life
Retirement age	50 - 67 & up	52 - 67 & up
Monthly benefits, as a % of eligible compensation	2.00%	1.0% to 2.5%
Required member contribution rates	7.000%	6.500%
Required employer contribution rates – FY 2016	7.159%	6.555%
Required employer contribution rates – FY 2015	8.005%	6.500%

East Orange County Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016

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

General Information about the Pension Plans (Continued)

Plan Description

The District contributes to the California Public Employees’ Retirement System (CalPERS), a cost-sharing multiple-employer defined benefit pension plan. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. A full description of the pension plan, benefit provisions, assumptions (for funding, but not accounting purposes), and membership information are listed in the June 30, 2016 and 2015 Annual Actuarial Valuation Reports. This report and CalPERS’ audited financial statements are publicly available reports that can be obtained at CalPERS’ website under Forms and Publications.

Members Covered by Benefit Terms

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

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

At June 30, 2015 (Valuation Date), the following members were covered by the benefit terms:

<u>Plan Members</u>	<u>Miscellaneous Plans</u>		<u>Total</u>
	<u>Classic</u>	<u>PEPRA</u>	
	<u>Tier 1</u>	<u>Tier 2</u>	
Active members	6	1	7
Transferred and terminated members	8	-	8
Retired members and beneficiaries	5	1	6
Total plan members	19	2	21

Benefits Provided

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

East Orange County Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016

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

General Information about the Pension Plans (Continued)

Benefits Provided (Continued)

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

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

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

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

Contributions

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers will be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The public agency cost-sharing plans covered by the Miscellaneous risk pool, the Plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of members. For the measurement period ending June 30, 2016 and 2016 (Measurement Dates), the active member contribution rate for the Classic Miscellaneous Plan and the PEPRA Miscellaneous Plan are based above in the Plans Description schedule.

Contributions for the year ended June 30, 2017 were as follows:

<u>Contribution Type</u>	<u>Miscellaneous Plans</u>		<u>Total</u>
	<u>Classic Tier 1</u>	<u>PEPRA Tier 2</u>	
Contributions – employer	\$ 46,570	\$ 9,670	\$ 56,240
Contributions – members	30,570	9,172	39,742
Total contributions	\$ 77,140	\$ 18,842	\$ 95,982

East Orange County Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016

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

General Information about the Pension Plans (Continued)

Contributions (Continued)

Contributions for the year ended June 30, 2016 were as follows:

<u>Contribution Type</u>	<u>Miscellaneous Plans</u>		<u>Total</u>
	<u>Classic Tier 1</u>	<u>PEPRA Tier 2</u>	
Contributions – employer	\$ 34,970	\$ 5,577	\$ 40,547
Contributions – members	24,133	5,589	29,722
Total contributions	\$ 59,103	\$ 11,166	\$ 70,269

Net Pension Liability, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plans

Actuarial Methods and Assumptions Used to Determine the Total Pension Liability

For the measurement periods ending June 30, 2016 and 2015 (Measurement Dates), the total pension liability was determined by rolling forward the June 30, 2015 and 2014 total pension liabilities. The June 30, 2016 and 2015 total pension liabilities were based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table	Derived using CalPERS' Membership Data for all Funds.
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

All other actuarial assumptions used in the June 30, 2016 and 2015 Valuations were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent. The long-term expected rate of return on the pension plan investments was determined in which best-estimate ranges of expected future real rates are developed for each major asset class. In determining the long-term expected rate of return, both short-term and long-term market return expectations as well as the expected pension fund cash flows were considered. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years.

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

East Orange County Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016

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

Net Pension Liability, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plans (Continued)

Discount Rate (Continued)

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

Investment Type	New Strategic Allocation	Real Return Years 1 - 10 ¹	Real Return Years 11+ ²
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	20.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	1.00%	-0.55%	-1.05%
	<u>100.00%</u>		

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

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

CalPERS Discount Rate

On December 16, 2016, the CalPERS Board of Administration (Board) approved lowering the CalPERS discount rate assumption, the long-term rate of return, from 7.50 percent over the next three years. This will increase the District’s employer contribution costs beginning in fiscal year 2018-19. The phase in of the discount rate change approved by the Board is as follows:

Valuation Date	Required Contribution Date	Discount Rate
June 30, 2016	Fiscal Year 2018-19	7.375%
June 30, 2017	Fiscal Year 2019-20	7.250%
June 30, 2018	Fiscal Year 2020-21	7.000%

Lowering the discount rate means plans will see increases in both normal costs, the cost of pension benefits accruing in one year for active members and the accrued liabilities. These increases will result in higher required employer contributions.

East Orange County Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016

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

Net Pension Liability, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plans (Continued)

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

The following presents the District's proportionate share of the net pension liability of the Plan as of the measurement date, calculated using the discount rate of 7.65%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.65%) or 1 percentage-point higher (8.65%) than the current rate for the June 30, 2016 Valuation Date as follows:

<u>Plan Type</u>	<u>Plan's Net Pension Liability/(Asset)</u>		
	<u>Discount Rate - 1%</u> <u>6.65%</u>	<u>Current Discount</u> <u>Rate 7.650%</u>	<u>Discount Rate + 1%</u> <u>8.65%</u>
CalPERS – Miscellaneous Plan	\$ 842,714	\$ 499,435	\$ 215,733

The following presents the District's proportionate share of the net pension liability of the Plan as of the measurement date, calculated using the discount rate of 7.65%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.65%) or 1 percentage-point higher (8.65%) than the current rate for the June 30, 2015 Valuation Date as follows:

<u>Plan Type</u>	<u>Plan's Net Pension Liability/(Asset)</u>		
	<u>Discount Rate - 1%</u> <u>6.65%</u>	<u>Current Discount</u> <u>Rate 7.650%</u>	<u>Discount Rate + 1%</u> <u>8.65%</u>
CalPERS – Miscellaneous Plan	\$ 667,613	\$ 341,116	\$ 71,556

Pension Plan Fiduciary Net Position

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

East Orange County Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016

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

Net Pension Liability, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plans (Continued)

Proportionate Share of Net Pension Liability and Pension Expense

The following table shows the plan’s proportionate share of the risk pool collective net pension liability over the measurement period for the Miscellaneous Plan for the fiscal year ended June 30, 2017:

<u>Plan Type and Balance Descriptions</u>	<u>Plan Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Change in Plan Net Pension Liability</u>
CalPERS – Miscellaneous Plan:			
Balance as of June 30, 2015 (Measurement Date)	\$ 2,397,415	\$ 2,056,299	\$ 341,116
Balance as of June 30, 2016 (Measurement Date)	\$ 2,549,771	\$ 2,050,336	\$ 499,435
Change in Plan Net Pension Liability	<u>\$ 152,356</u>	<u>\$ (5,963)</u>	<u>\$ 158,319</u>

The following table shows the plan’s proportionate share of the risk pool collective net pension liability over the measurement period for the Miscellaneous Plan for the fiscal year ended June 30, 2016:

<u>Plan Type and Balance Descriptions</u>	<u>Plan Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Change in Plan Net Pension Liability</u>
CalPERS – Miscellaneous Plan:			
Balance as of June 30, 2014 (Measurement Date)	\$ 2,352,326	\$ 1,953,107	\$ 399,219
Balance as of June 30, 2015 (Measurement Date)	\$ 2,397,415	\$ 2,056,299	\$ 341,116
Change in Plan Net Pension Liability	<u>\$ 45,089</u>	<u>\$ 103,192</u>	<u>\$ (58,103)</u>

East Orange County Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016

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

Net Pension Liability, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plans (Continued)

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

The following is the approach established by the plan actuary to allocate the net pension liability and pension expense to the individual employers within the risk pool.

- (1) In determining a cost-sharing plan's proportionate share, total amounts of liabilities and assets are first calculated for the risk pool as a whole on the valuation date (June 30, 2015 and 2014). The risk pool's fiduciary net position ("FNP") subtracted from its total pension liability (TPL) determines the net pension liability (NPL) at the valuation date.
- (2) Using standard actuarial roll forward methods, the risk pool TPL is then computed at the measurement date (June 30, 2016 and 2015). Risk pool FNP at the measurement date is then subtracted from this number to compute the NPL for the risk pool at the measurement date. For purposes of FNP in this step and any later reference thereto, the risk pool's FNP at the measurement date denotes the aggregate risk pool's FNP at June 30, 2016 less the sum of all additional side fund (or unfunded liability) contributions made by all employers during the measurement period (2015-16 fiscal year and the 2014-15 fiscal year).
- (3) The individual plan's TPL, FNP and NPL are also calculated at the valuation date.
- (4) Two ratios are created by dividing the plan's individual TPL and FNP as of the valuation date from (3) by the amounts in step (1), the risk pool's total TPL and FNP, respectively.
- (5) The plan's TPL as of the Measurement Date is equal to the risk pool TPL generated in (2) multiplied by the TPL ratio generated in (4). The plan's FNP as of the Measurement Date is equal to the FNP generated in (2) multiplied by the FNP ratio generated in (4) plus any additional side fund (or unfunded liability) contributions made by the employer on behalf of the plan during the measurement period.
- (6) The plan's NPL at the Measurement Date is the difference between the TPL and FNP calculated in (5).

East Orange County Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016

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

Net Pension Liability, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plans (Continued)

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

The District’s proportionate share of the net pension liability for the June 30, 2016 measurement date was as follows:

	Percentage Share of Risk Pool		Change Increase/ (Decrease)
	Fiscal Year Ending June 30, 2017	Fiscal Year Ending June 30, 2016	
	Measurement Date	June 30, 2016	
Percentage of Risk Pool Net Pension Liability	0.014377%	0.012433%	0.001944%
Percentage of Plan (PERF C) Net Pension Liability	0.005772%	0.004970%	0.000802%

The District’s proportionate share of the net pension liability for the June 30, 2015 measurement date was as follows:

	Percentage Share of Risk Pool		Change Increase/ (Decrease)
	Fiscal Year Ending June 30, 2016	Fiscal Year Ending June 30, 2015	
	Measurement Date	June 30, 2015	
Percentage of Risk Pool Net Pension Liability	0.012433%	0.016153%	-0.003720%
Percentage of Plan (PERF C) Net Pension Liability	0.004970%	0.006416%	-0.001446%

For the years ended June 30, 2017 and 2016, the District recognized pension expense/(credit) in the amounts of \$59,128 and \$2,388, respectively, for the CalPERS Miscellaneous Plan.

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

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

The expected average remaining service lifetime (EARSL) for PERF C for the measurement date ending June 30, 2016 is 3.7 years, which was obtained by dividing the total service years of 475,689 (the sum of remaining service lifetimes of the active employees) by 127,009 (the total number of participants: active, inactive, and retired) in PERF C. Inactive employees and retirees have remaining service lifetimes equal to 0. Total future service is based on the members’ probability of decrementing due to an event other than receiving a cash refund.

The expected average remaining service lifetime (EARSL) for PERF C for the measurement date ending June 30, 2015 is 3.8 years, which was obtained by dividing the total service years of 460,700 (the sum of remaining service lifetimes of the active employees) by 122,789 (the total number of participants: active, inactive, and retired) in PERF C. Inactive employees and retirees have remaining service lifetimes equal to 0. Total future service is based on the members’ probability of decrementing due to an event other than receiving a cash refund.

East Orange County Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016

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

Net Pension Liability, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plans (Continued)

Deferred Outflows of Resources and Deferred Inflows of Resources

At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Account Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions made after the measurement date	\$ 56,240	\$ -
Difference between actual and proportionate share of employer contributions	-	49,186
Adjustment due to differences in proportions	21,600	72,547
Differences between expected and actual experience	1,102	-
Differences between projected and actual earnings on pension plan investments	70,359	-
Changes in assumptions	-	13,518
Total Deferred Outflows/(Inflows) of Resources	<u><u>\$ 149,301</u></u>	<u><u>\$ 135,251</u></u>

The District will recognize \$56,240 reported as deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date as a reduction of the net pension liability in the fiscal year ended June 30, 2017, as noted above.

Amortization of Deferred Outflows of Resources and Deferred Inflows of Resources

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

<u>Amortization Period Fiscal Year Ended June 30</u>	<u>Deferred Outflows/(Inflows) of Resources</u>
2018	\$ (54,101)
2019	(36,753)
2020	30,440
2021	18,224
Total	<u><u>\$ (42,190)</u></u>

East Orange County Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016

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

Net Pension Liability, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plans (Continued)

Deferred Outflows of Resources and Deferred Inflows of Resources

At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Account Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions made after the measurement date	\$ 40,547	\$ -
Difference between actual and proportionate share of employer contributions	-	39,639
Adjustment due to differences in proportions	-	113,287
Differences between expected and actual experience	2,196	-
Differences between projected and actual earnings on pension plan investments	-	10,419
Changes in assumptions	-	20,779
Total Deferred Outflows/(Inflows) of Resources	<u>\$ 42,743</u>	<u>\$ 184,124</u>

The District will recognize \$40,547 reported as deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date as a reduction of the net pension liability in the fiscal year ended June 30, 2017, as noted above.

Amortization of Deferred Outflows of Resources and Deferred Inflows of Resources

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

<u>Amortization Period Fiscal Year Ended June 30</u>	<u>Deferred Outflows/(Inflows) of Resources</u>
2017	\$ (71,870)
2018	(70,354)
2019	(53,021)
2020	13,317
Total	<u>\$ (181,928)</u>

East Orange County Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016

Note 7 – Other Non-Operating Expense

As of June 30, 2016, the District had recorded a receivable of \$313,694 for the costs incurred leading up to the impending transfer of the sewer operations from OCSD to the District. Once the transfer was completed, the District relieved the receivable and recognized the \$313,694 as a non-operating expense in the sewer fund for the fiscal year ended June 30, 2017.

Note 8 – Capital Contributions

Sewer System Capital Transfer – Improvement District No. 1

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

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

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

At June 30, 2017, the District has restricted \$40,789,893 for the sewer capital replacement and maintenance.

Note 9 – Deferred Compensation Savings Plan

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

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

East Orange County Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2017 and 2016

Note 10 – Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, injuries to employees and natural disasters. The District is a member of the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California water agencies. The purpose of the ACWA/JPIA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. At June 30, 2017 and 2016, the District participated in the liability and property programs of the ACWA/JPIA as follows:

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

There have been no losses or claims in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the years ending June 30, 2017, 2016 and 2015. 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, 2017, 2016 and 2015.

Note 11 – Commitments and Contingencies

Joint Facilities Agreement

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

Construction Contracts

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

Litigation

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

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

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East Orange County Water District
Required Supplementary Information (Unaudited)
Schedule of the District's Proportionate Share of the Plan's Net Pension Liability
For the Year Ended June 30, 2017

Last Ten Fiscal Years

California Public Employees' Retirement System (CalPERS) Miscellaneous Plan

Measurement Date:	<u>June 30, 2016¹</u>	<u>June 30, 2015¹</u>	<u>June 30, 2014¹</u>
District's Proportion of the Net Pension Liability	0.005772%	0.004970%	0.006416%
District's Proportionate Share of the Net Pension Liability	<u>\$ 499,435</u>	<u>\$ 341,116</u>	<u>\$ 399,219</u>
District's Covered-Employee Payroll	<u>\$ 439,988</u>	<u>\$ 446,749</u>	<u>\$ 424,397</u>
District's Proportionate Share of the Net Pension Liability as a Percentage of Covered-Employee Payroll	<u>113.51%</u>	<u>76.36%</u>	<u>94.07%</u>
Plan's Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	<u>74.06%</u>	<u>78.40%</u>	<u>83.03%</u>

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

East Orange County Water District
Required Supplementary Information (Unaudited)
Schedule of the District's Contributions to the Pension Plan
For the Year Ended June 30, 2017

Last Ten Fiscal Years

California Public Employees' Retirement System (CalPERS) Miscellaneous Plan

Fiscal Year:	<u>2016-17¹</u>	<u>2015-16¹</u>	<u>2014-15¹</u>	<u>2013-14¹</u>
Actuarially Determined Contribution ²	\$ 56,240	\$ 40,547	\$ 33,913	\$ 27,002
Contribution in Relation to the Actuarially Determined Contribution ²	<u>(56,240)</u>	<u>(40,547)</u>	<u>(33,913)</u>	<u>(27,002)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered-Employee Payroll	<u>\$ 570,254</u>	<u>\$ 439,988</u>	<u>\$ 446,749</u>	<u>\$ 424,397</u>
Contributions as a Percentage of Covered- Employee Payroll	<u>9.86%</u>	<u>9.22%</u>	<u>7.59%</u>	<u>6.36%</u>

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

² Employers are assumed to make contributions equal to the actuarially determined contributions (which is the actuarially determined contribution). However, some employers may choose to make additional contributions towards their side-fund or their unfunded liability. Employer contributions for such plan exceed the actuarial determined contributions. CalPERS has determined that employer obligations referred to as *side-funds* are not considered separately financed specific liabilities.

³ Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB No. 68 defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different than total earnings for covered-employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll-related ratios.

Notes to the Schedule:

Change in Benefit Terms: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2013 as they have minimal cost impact. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes)

SUPPLEMENTARY INFORMATION

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East Orange County Water District
Combining Schedule of Balance Sheets
June 30, 2017

<u>ASSETS</u>	<u>Wholesale</u>	<u>Retail</u>	<u>ID No. 1</u>	<u>Total</u>
Current assets:				
Cash and investments	\$ 7,366,078	\$ 3,502,716	\$ 40,733,831	\$ 51,602,625
Accrued interest receivable	14,256	6,105	45,806	66,167
Accounts receivable – services, net	479,032	353,556	18,383	850,971
Accounts receivable – other	-	-	117,576	117,576
Property taxes receivable	8,136	4,576	17,207	29,919
Prepaid expenses	41,265	12,620	11,112	64,997
Water-in-storage inventory	20,386	3,054	-	23,440
Materials and supplies inventory	25,191	25,191	24,810	75,192
Total current assets	<u>7,954,344</u>	<u>3,907,818</u>	<u>40,968,725</u>	<u>52,830,887</u>
Non-current assets:				
Capital assets – not being depreciated	889,683	187,123	1,222,972	2,299,778
Capital assets – being depreciated, net	4,756,463	4,650,357	296,225	9,703,045
Total non-current assets	<u>5,646,146</u>	<u>4,837,480</u>	<u>1,519,197</u>	<u>12,002,823</u>
Total assets	<u>13,600,490</u>	<u>8,745,298</u>	<u>42,487,922</u>	<u>64,833,710</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>				
Pension related deferred outflows of resources	70,171	79,130	-	149,301
Total deferred outflows of resources	<u>70,171</u>	<u>79,130</u>	<u>-</u>	<u>149,301</u>
Total assets and deferred outflows of resources	<u>\$ 13,670,661</u>	<u>\$ 8,824,428</u>	<u>\$ 42,487,922</u>	<u>\$ 64,983,011</u>
<u>LIABILITIES</u>				
Current liabilities:				
Accounts payable and accrued expenses	\$ 584,397	\$ 318,966	\$ 131,729	\$ 1,035,092
Accrued salaries and benefits	15,218	8,350	10,297	33,865
Compensated absences	33,370	33,275	36,806	103,451
Deposits and unearned revenue	22,933	101,290	-	124,223
Total current liabilities	<u>655,918</u>	<u>461,881</u>	<u>178,832</u>	<u>1,296,631</u>
Non-current liabilities:				
Net pension liability	234,734	264,701	-	499,435
Total non-current liabilities	<u>234,734</u>	<u>264,701</u>	<u>-</u>	<u>499,435</u>
Total liabilities	<u>890,652</u>	<u>726,582</u>	<u>178,832</u>	<u>1,796,066</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>				
Pension related deferred inflows of resources	63,568	71,683	-	135,251
Total deferred inflows of resources	<u>63,568</u>	<u>71,683</u>	<u>-</u>	<u>135,251</u>
<u>NET POSITION</u>				
Investment in capital assets	5,646,146	4,837,480	1,519,197	12,002,823
Restricted for sewer operations	-	-	40,789,893	40,789,893
Unrestricted	7,070,295	3,188,683	-	10,258,978
Total net position	<u>12,716,441</u>	<u>8,026,163</u>	<u>42,309,090</u>	<u>63,051,694</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 13,670,661</u>	<u>\$ 8,824,428</u>	<u>\$ 42,487,922</u>	<u>\$ 64,983,011</u>

East Orange County Water District
Combining Schedule of Balance Sheets
June 30, 2016

<u>ASSETS</u>	<u>Wholesale</u>	<u>Retail</u>	<u>Total</u>
Current assets:			
Cash and investments	\$ 5,952,282	\$ 2,959,554	\$ 8,911,836
Accrued interest receivable	5,835	2,991	8,826
Accounts receivable – services, net	1,096,204	270,108	1,366,312
Property taxes receivable	5,575	3,161	8,736
Prepaid expenses	43,266	13,305	56,571
Water-in-storage inventory	32,278	4,366	36,644
Materials and supplies inventory	28,681	18,002	46,683
Total current assets	<u>7,164,121</u>	<u>3,271,487</u>	<u>10,435,608</u>
Noncurrent assets:			
Capital assets – not being depreciated	717,362	189,050	906,412
Capital assets – being depreciated, net	5,060,188	4,503,020	9,563,208
Total noncurrent assets	<u>5,777,550</u>	<u>4,692,070</u>	<u>10,469,620</u>
Total assets	<u>12,941,671</u>	<u>7,963,557</u>	<u>20,905,228</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Pension related deferred outflows of resources	20,089	22,654	42,743
Total deferred outflows of resources	<u>20,089</u>	<u>22,654</u>	<u>42,743</u>
Total assets and deferred outflows of resources	<u>\$ 12,961,760</u>	<u>\$ 7,986,211</u>	<u>\$ 20,947,971</u>
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable and accrued expenses	\$ 517,567	\$ 171,588	\$ 689,155
Accrued salaries and benefits	8,915	10,169	19,084
Compensated absences	42,214	48,569	90,783
Deposits and unearned revenue	22,491	94,909	117,400
Total current liabilities	<u>591,187</u>	<u>325,235</u>	<u>916,422</u>
Noncurrent liabilities:			
Net pension liability	155,358	185,758	341,116
Total noncurrent liabilities	<u>155,358</u>	<u>185,758</u>	<u>341,116</u>
Total liabilities	<u>746,545</u>	<u>510,993</u>	<u>1,257,538</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Pension related deferred inflows of resources	84,426	99,698	184,124
Total deferred inflows of resources	<u>84,426</u>	<u>99,698</u>	<u>184,124</u>
<u>NET POSITION</u>			
Investment in capital assets	5,777,550	4,692,070	10,469,620
Unrestricted	6,353,239	2,683,450	9,036,689
Total net position	<u>12,130,789</u>	<u>7,375,520</u>	<u>19,506,309</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 12,961,760</u>	<u>\$ 7,986,211</u>	<u>\$ 20,947,971</u>

East Orange County Water District
Combining Schedule of Revenues, Expenditures, and Change in Net Position
For the Year Ended June 30, 2017

	<u>Wholesale</u>	<u>Retail</u>	<u>ID No. 1</u>	<u>Internal Balances</u>	<u>Total</u>
Operating revenues:					
Water use sales	\$ 2,386,181	\$ 1,175,611	\$ -	\$ (186,829)	\$ 3,374,963
Meter and standby service charges	209,454	395,256	-	(38,172)	566,538
Capacity and connection fees	904,073	-	-	(20,315)	883,758
Sewer use fees	-	-	2,619,853	-	2,619,853
Other connection fees	35,811	9,508	-	-	45,319
Other service charges	1,844	11,209	11,682	-	24,735
Total operating revenues	<u>3,537,363</u>	<u>1,591,584</u>	<u>2,631,535</u>	<u>(245,316)</u>	<u>7,515,166</u>
Operating expenses:					
Source of supply:					
Water purchases	2,391,115	186,829	-	(186,829)	2,391,115
Standby service charges	201,620	38,172	-	(38,172)	201,620
Capacity and connection fees	383,939	20,315	-	(20,315)	383,939
Replenishment assessment	-	218,024	-	-	218,024
MWDOC choice	10,917	2,870	-	-	13,787
Total source of supply	<u>2,987,591</u>	<u>466,210</u>	<u>-</u>	<u>(245,316)</u>	<u>3,208,485</u>
Pumping	1,819	82,464	-	-	84,283
Transmission and distribution	375,745	387,636	-	-	763,381
Sewer system maintenance	-	-	424,342	-	424,342
General and administrative	228,554	237,607	760,261	-	1,226,422
Total operating expenses	<u>3,593,709</u>	<u>1,173,917</u>	<u>1,184,603</u>	<u>(245,316)</u>	<u>5,706,913</u>
Operating income(loss) before depreciation	(56,346)	417,667	1,446,932	-	1,808,253
Depreciation	(331,680)	(201,753)	(20,036)	-	(553,469)
Operating income(loss)	<u>(388,026)</u>	<u>215,914</u>	<u>1,426,896</u>	<u>-</u>	<u>1,254,784</u>
Non-operating revenues(expenses):					
Property taxes	812,306	410,432	302,917	-	1,525,655
Rental income – cellular antennas	104,740	-	-	-	104,740
Investment earnings	55,817	23,535	61,337	-	140,689
Other revenues	815	762	1,441	-	3,018
Other expenses	-	-	(313,694)	-	(313,694)
Total non-operating revenues, net	<u>973,678</u>	<u>434,729</u>	<u>52,001</u>	<u>-</u>	<u>1,460,408</u>
Capital contributions:					
Sewer system capital transfer – ID No. 1	-	-	40,830,193	-	40,830,193
Total capital contributions	<u>-</u>	<u>-</u>	<u>40,830,193</u>	<u>-</u>	<u>40,830,193</u>
Change in net position	<u>585,652</u>	<u>650,643</u>	<u>42,309,090</u>	<u>-</u>	<u>43,545,385</u>
Net position:					
Beginning of year	12,130,789	7,375,520	-	-	19,506,309
End of year	<u>\$12,716,441</u>	<u>\$ 8,026,163</u>	<u>\$42,309,090</u>	<u>\$ -</u>	<u>\$63,051,694</u>

East Orange County Water District
Combining Schedule of Revenues, Expenditures, and Change in Net Position
For the Year Ended June 30, 2016

	<u>Wholesale</u>	<u>Retail</u>	<u>Internal Balances</u>	<u>Total</u>
Operating revenues:				
Water use sales	\$ 2,544,130	\$ 978,948	\$ (161,337)	\$ 3,361,741
Meter and standby service charges	244,760	374,973	(59,677)	560,056
Capacity and connection fees	892,883	-	(28,902)	863,981
Other connection fees	15,000	6,449	-	21,449
Other service charges	318,820	14,095	-	332,915
Total operating revenues	<u>4,015,593</u>	<u>1,374,465</u>	<u>(249,916)</u>	<u>5,140,142</u>
Operating expenses:				
Source of supply:				
Water purchases	2,546,983	161,337	(161,337)	2,546,983
Standby service charges	238,508	59,677	(59,677)	238,508
Capacity and connection fees	401,674	28,902	(28,902)	401,674
Replenishment assessment	-	154,680	-	154,680
MWDOC choice	10,321	1,689	-	12,010
Total source of supply	<u>3,197,486</u>	<u>406,285</u>	<u>(249,916)</u>	<u>3,353,855</u>
Pumping	2,038	75,187	-	77,225
Transmission and distribution	448,284	460,839	-	909,123
General and administrative	502,003	254,657	-	756,660
Total operating expenses	<u>4,149,811</u>	<u>1,196,968</u>	<u>(249,916)</u>	<u>5,096,863</u>
Operating income(loss) before depreciation	(134,218)	177,497	-	43,279
Depreciation	(317,713)	(198,453)	-	(516,166)
Operating income(loss)	<u>(451,931)</u>	<u>(20,956)</u>	<u>-</u>	<u>(472,887)</u>
Non-operating revenues(expenses):				
Property taxes	765,401	394,918	-	1,160,319
Rental income – cellular antennas	99,750	-	-	99,750
Investment earnings	59,662	10,437	-	70,099
Other revenues	4,799	3,097	-	7,896
Total non-operating revenues, net	<u>929,612</u>	<u>408,452</u>	<u>-</u>	<u>1,338,064</u>
Change in net position	<u>477,681</u>	<u>387,496</u>	<u>-</u>	<u>865,177</u>
Net position:				
Beginning of year	11,653,108	6,988,024	-	18,641,132
End of year	<u>\$ 12,130,789</u>	<u>\$ 7,375,520</u>	<u>\$ -</u>	<u>\$ 19,506,309</u>