



Orange County Water District Comprehensive Annual Financial Report

FOR THE YEARS ENDED JUNE 30 , 2019 AND 2018

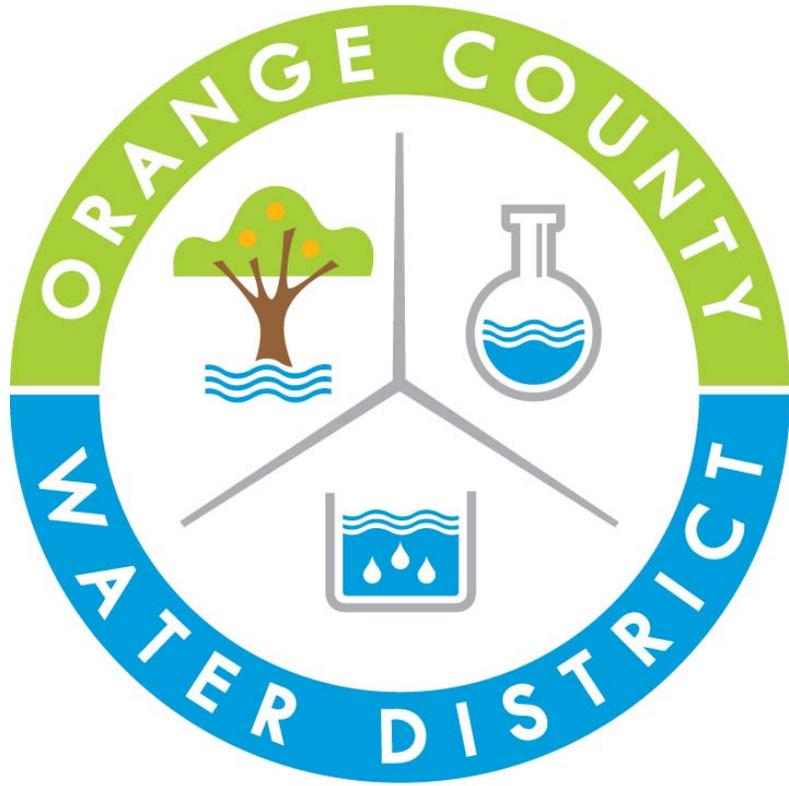
**ORANGE COUNTY WATER DISTRICT
FOUNTAIN VALLEY, CALIFORNIA**

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

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

**FOR THE YEAR ENDED
JUNE 30, 2019**

**PREPARED BY:
FINANCE DEPARTMENT**



SINCE 1933

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Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2019
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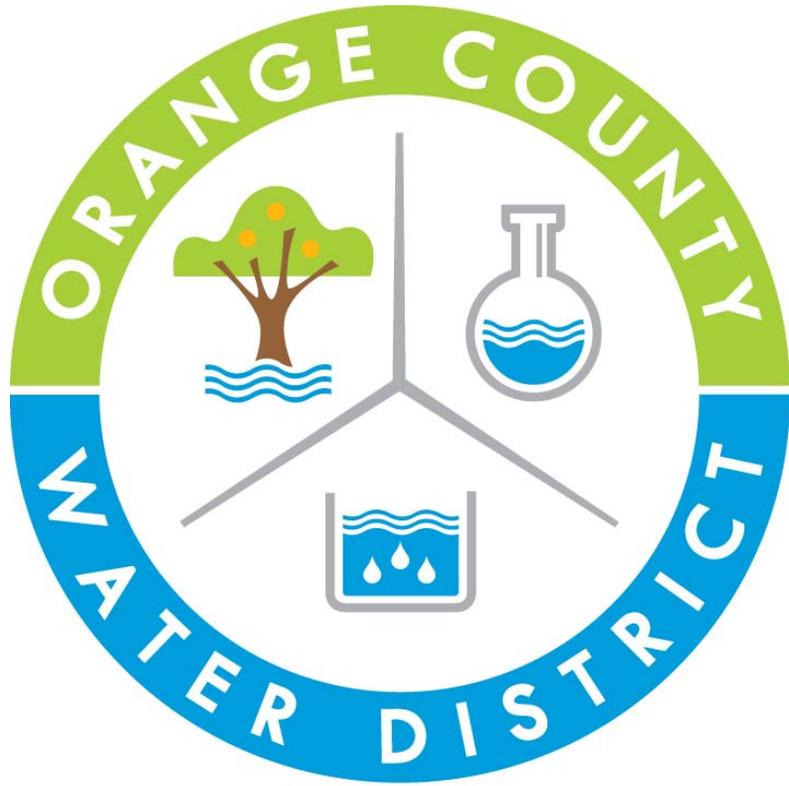
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Introductory Section



SINCE 1933

DIRECTORS

DENIS R. BILODEAU, P.E.
JORDAN BRANDMAN
CATHY GREEN
DINA L. NGUYEN, ESQ.
KELLY E. ROWE, C.E.G., C.H.
VICENTE SARMIENTO, ESQ.
STEPHEN R. SHELDON
TRI TA
ROGER C. YOH, P.E.
AHMAD ZAHRA



ORANGE COUNTY WATER DISTRICT
ORANGE COUNTY'S GROUNDWATER AUTHORITY

OFFICERS

President
VICENTE SARMIENTO, ESQ.
First Vice President
CATHY GREEN
Second Vice President
STEPHEN R. SHELDON
General Manager
MICHAEL R. MARKUS, P.E., D.WRE

LETTER OF TRANSMITTAL

October 16, 2019

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

It is our pleasure to submit the Comprehensive Annual Financial Report of the Orange County Water District (District) for the fiscal year ended June 30, 2019. District staff worked collectively and followed guidelines set forth by the Governmental Accounting Standards Board to prepare this report. This document, which contains a complete set of basic financial statements, is presented in conformity with generally accepted accounting principles (GAAP) and audited by White Nelson Diehl Evans LLP, a firm of licensed certified public accountants, in accordance with generally accepted auditing standards. State law requires that all special-purpose local governments publish these basic financial statements within seven months of the close of the agency's fiscal year.

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

The goal of the independent audit was to provide reasonable assurance and not absolute assurance that the basic financial statements of the District for the fiscal year ended June 30, 2019 were free of material misstatement. The independent audit involved examining the District's records on a test basis, disclosures in the basic financial statements, assessing the accounting principles used, estimates made by management, and evaluating the overall financial statement presentation. The independent auditors rendered an unmodified opinion that the District's basic financial statements for the fiscal year ended June 30, 2019 are presented fairly in conformity with GAAP.

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

AGENCY PROFILE

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

A ten-member Board of Directors (Board), seven of whom are elected directly by voters of the District, govern the District. The other three Directors are appointed by their representative city councils of Anaheim, Fullerton and Santa Ana. The District currently has 220.5 full time equivalent employees overseeing day-to-day activities at the direction of the General Manager.

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

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

The District primarily recharges the groundwater basin with Santa Ana River flows, Groundwater Replenishment System (GWRS) water and untreated water purchased from the Metropolitan Water District (MWD) of Southern California. The Santa Ana River flows valued at approximately \$118.2 million a year are essentially free to the District, less the expense to capture and percolate the water, resulting in groundwater that costs about a half of the cost of MWD water imported from Northern California and the Colorado River. The Santa Ana River flows, GWRS water and untreated MWD water are percolated into deep groundwater aquifers through spreading basins in Anaheim and Orange. By naturally filtering the water through the ground, the District saves ratepayers millions of dollars each year in water treatment costs.

The groundwater basin provides about three-fourths of all water used within the District's service area. With one of the most sophisticated groundwater protection programs in the country, the District uses more than 702 (owned and non-owned) wells providing more than 1,230 sampling points from which the District takes more than 17,468 water samples and conducts approximately 364,944 laboratory analyses every year.

The District's monitoring program looks for more than 500 possible contaminants, which are more than the required 148 target contaminants required by health agencies.

The District currently holds rights to all Santa Ana River flows reaching Prado Dam in Riverside County (the dam is owned by the U.S. Army Corps of Engineers for flood prevention). The District owns 2,150 acres behind the dam that is used for water conservation, water quality improvement and environmental enhancement. The District saves approximately \$28.6 million a year by collecting storm water behind Prado Dam, which is recharged into the basin instead of being lost to the ocean.

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

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

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

Maintaining and Improving Water Quality

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

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

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

Improving Coastal Conditions

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

Using the Safest and Most Cost-Effective Financing Option

The District has traditionally and successfully used long-term debt financing in the form of Certificates of Participation, Revenue refunding bond, and low-cost State loans to pay for capital projects that have increased water production, removed pockets of contamination, increased producer pumping capacity, increased the capture of Santa Ana River flows, and prevented seawater intrusion. The District is always seeking ways to minimize capital project costs. The District was successful in securing a low rate Water Infrastructure Finance and Innovation Act (WIFIA) loan for the partial funding of the GWRS Final Expansion project.

ECONOMIC CONDITION AND OUTLOOK

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

Orange County's economy is expected to perform well in the next year. Local and statewide unemployment has gone down compared to last year. The local unemployment rate in June 2019 was 3.0% versus 4.2% for California and 3.7% for the nation. The California State Budget has passed. Although the precise implications of the state budget are unclear at this time, the District is expecting no cuts in the ad valorem property tax revenues for the upcoming fiscal year 2019-20.

During the water year 2018-19 the District replenished 344,800 acre-feet (af) of water. This includes groundwater replenishment of 161,700 af of Santa Ana River flows, 95,200 af of GWRS water and non-local recharge of 42,300 af of imported water. Other water sources include natural replenishment from rainfall that provided an additional 45,600 af of water.

Groundwater use in Orange County in 2018-19 was approximately 303,800 af or 99.0 billion gallons during the water year. Groundwater met 82.1% of the water demand within District boundaries. There are challenges ahead in meeting future water demand, but with continued investment in cost-effective capital improvement projects, the District is confident that the groundwater basin can stay ahead of demand and continue to provide a reliable, high-quality water supply.

MAJOR INITIATIVES FOR THE FUTURE

District is Planning the Following Projects for Fiscal Year 2019-2020:

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

Groundwater Replenishment System Final Expansion

The GWRS was designed and built to be easily expanded. With the completion of Orange County Sanitation District's Steve Anderson Lift Station in May 2009, the GWRS is receiving more feed water. The GWRS Initial Expansion was completed in July 2015, capable of producing 100 million gallons per day (MGD), an increase of 30 MGD from the original construction. The District is working towards final expansion of the system. The design is complete, and a construction contract has been awarded. The GWRS Final Expansion project will increase production capacity by another 30 MGD from our current capacity of 100 MGD to 130 MGD.

Mid-Basin Injection Project – Centennial Park

The Mid-Basin Injection project in Centennial Park located within the city of Santa Ana will construct 4 wells to inject GWRS product water directly into the principal aquifer near areas of significant water table drawdown. Each well is expected to provide another 1-3 million gallons per day (MGD) of recharge capacity. The project will provide additional basin recharge capacity that must be developed to support the GWRS Final Expansion Project (130 MGD total production capacity), raise groundwater levels in the principal aquifer, and reduce the amount of GWRS water that has to be sent to the Anaheim recharge basins allowing those facilities to be concentrated on capturing Santa Ana River storm flows and recharging untreated imported water. The project is currently under construction and will be complete by 2020.

Prado Sediment Management Demonstration Project

The project consists of removing approximately 120,000 cubic yards of sediment from behind Prado Dam using traditional excavation and dredging equipment. The first phase includes clearing and grubbing a 12-acre area in preparation for the excavation. A construction contract for this phase will be awarded in August 2019 and work will be complete by fall of 2019. The second phase will include the excavation and dredging and will occur in the summer of 2020. This project will evaluate the dredging capabilities for future ongoing sediment management behind the dam.

Conrock-Warner Transfer Tube

The project consists of installing a large diameter transfer tube between Conrock and Warner Basin. This transfer tube will be constructed at the invert of the basins to allow both basins to

drain and fill quickly and evenly in preparation for storm events and cleaning operations. The design will be complete in the fall of 2019 and the construction will take place in the summer of 2020 during the next scheduled draining and cleaning of Warner Basin.

Talbert Barrier Pipeline Replacement

This project will remove and replace segments of the seawater barrier pipeline that experience high velocities and have reached the end of their useful life expectancy. The pipeline conveys GWRS water from the product water pump station to the injection wells which keep seawater from intruding inland. The design will be complete by the end of 2019 and a construction contract will be publicly advertised in the spring of 2020.

Smith Basin Reconfiguration

Smith Basin is located on the Santiago Creek, immediately upstream of the Santiago Basins. High flows in Santiago Creek have caused erosion along the walls of Smith Basin that could impact adjacent properties. The project includes an evaluation of the erosion in Smith Basin and the stabilization and/or replacement of the eroded dirt slopes which will protect adjacent roads and properties. The project is currently in design which will be complete in the fall of 2019 and then be publicly advertised for construction for summer of 2020.

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

Water Conservation and Engagement Programs

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

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

Children's Water Education Festival

The Children's Water Education Festival (the Festival) is the largest event of its kind in the nation, serving 7,000 elementary school students annually. Thanks to more than 400 volunteers and the support of the Disneyland Resort, the Festival celebrated its 23rd anniversary in March 2019. For the seventh time, the Festival was held on the campus of the University of California, Irvine (UCI). For many of the students, it was the first time they visited a university campus.

The two-day Festival teaches children about water and the environment through hands-on educational activities. Topics include water resources, watersheds, wildlife and natural habitats,

biology, chemistry, and recycling at this unique event. This educational field trip is widely sought after by educators.

Next Generation Water Leaders

Next Generation Water Leaders is OCWD's newest educational experience for local students in grades 6-12. This year-round program, offered to public and private school students, is co-presented by OCWD and Inside the Outdoors, a hands-on environmental education program administered by the Orange County Department of Education.

Next Generation Water Leaders complements Next Generation Science Standards in California schools and is designed to inspire future water scientists, engineers, policy makers, environmentalists, and innovators.

O.C. Water Summit

The annual O.C. Water Summit (the Summit) teaches individuals, business, and community and civic leaders the origins of the region's water and provides information about the water supply crisis and water quality challenges. The event educates the public on what measures are in place to address these issues as well as possible solutions to water reliability and preserving the Bay-Delta River, California's main source of water. A collaborative effort between businesses, water agencies and local governments, the Summit provides a platform for individuals in the community to work with water utilities and legislators on creating and implementing solutions that will see Orange County through future water challenges. Topics for each Summit are determined according to the water climate each year. The Summit began in 2008.

O.C. Water Hero Program

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

OCWD.COM

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

H₂O Learning Center

The H₂O Learning Center is educating and informing visitors about water quality and OCWD's international and local leadership, so they can understand and have confidence in OCWD's management and innovation and the purity, reliability and cost-efficiency of the water that OCWD provides.

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

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

- Global and California views of water and how precious it is—includes videos and interactive opportunities regarding the Board Members, basin recharge and management and Philip L. Anthony Water Quality Laboratory testing. Some awards are displayed.
- The focused picture of OCWD & Orange County's water—where it comes from, a timeline of major OCWD events, the challenge of seawater intrusion and the success of our environmental projects. This too, features videos and interactive opportunities. The final panel provides a mosaic of photos of those who have toured and ways to interact through social media.

Facility Tours, Speaker's Bureau

As a leader in water reuse and groundwater management, OCWD receives hundreds of requests annually to provide on-site tours and briefings for visitors from local colleges, water agencies, the surrounding community, and international organizations. Through its active speakers' bureau program, OCWD also receives requests for representatives to go out to the community and speak to numerous organizations and schools, as well as at local, national and international conferences.

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

Staff conducted more than 200 tours in 2018-2019 and hosted about 4,800 guests.

SERVICE EFFORTS AND ACCOMPLISHMENTS

Many cities, towns and regions around the world are experiencing drought and water shortages, including the southwestern and southeastern United States, Singapore, the Middle East, and Australia. Government and water officials in these areas constantly seek new sources to provide

a reliable, long-term water supply. As technology increases and public opinion shifts, treating wastewater at an advanced recycled water treatment facility is now a viable water source for many of these areas. Through the success of OCWD's Groundwater Replenishment System (GWRS), indirect potable reuse (IPR) projects have been implemented or are being planned. About 38,000 visitors have toured GWRS since 2008, many of whom are international water experts and elected officials from six continents hoping to learn more about Indirect Potable Reuse (IPR) and ultimately replicate the project in their regions. As an example, guests have hailed from across the U.S., Mexico, Canada, Brazil, Israel, Spain, Greece, Kenya, Japan, China, Korea, Germany, Britain, Italy, Russia, Australia, Singapore, India, and Taiwan.

In California alone, there are more than four other GWRS-like projects currently being developed by other agencies including the City of San Diego, Los Angeles Department of Water and Power, Santa Clara Valley Water District, and the GRIP Project sponsored by four water agencies in Los Angeles County.

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

For year 2017-18, staff initiated the GWRS bottled water tour, reaching out and responding to more than 250 media for each of the following: the campaign launch, the Winter Fest and Guinness World Record event, and the #GetOverIt! social media campaign. This resulted in more than 500 million audience views. Staff also issued 26 press releases and about 150 monthly articles.

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

The following list of awards is representative of the acclaim and recognition bestowed on the District and its GWRS from 2016 through June 2019.

2019

The Orange County Water District and Orange County Sanitation District received a *Silver Mercury Award* for their GWRS Bottled Water Campaign (February 2019)

2018

The Orange County Water District received a Governor's Environmental and Economic Leadership Award (GEELA) for environmental education. (January 2018)

Guinness World Records™ title for the most wastewater recycled to drinking water in 24 hours. (February 2018)

OCWD Assistant General Manager Michael Wehner was selected as the Recycled Water Advocate of the Year by WateReuse California. (March 2018)

OCWD, along with the Orange County Sanitation District, received the Grand Prize for Environmental communications for the Groundwater Replenishment System Bottled Water Campaign. The award was given by the American Academy of Environmental Engineers and Scientists (AAEES). (April 2018)

OCWD received the Honor Award for Research from the American Academy of Environmental Engineers and Scientists (AAEES) for work to evaluate a more cost-effective and environmentally-friendly method of analysis of N-nitrosodimethylamine (NDMA) in drinking water and recycled water that will improve public health protection. (April 2018)

The Orange County Water District, Orange County Sanitation District and Dick Jones Communications received a Ragan's 2017 PR Daily Honorable Mention in the Press Event or Media Tour category for "Purified Recycled Water Takes on Hollywood," the GWRS bottled water launch. (April 2018)

The Orange County Water District, Orange County Sanitation District received a Platinum Hermes Award for the Advanced Purified Bottled Water Campaign in the Public Relations/Communications/Strategic Programs/PR Campaign category. (April 2018)

The Orange County Water District received a 2018 Water Research Foundation Outstanding Subscriber Award for Applied Research. (June 2018)

OCWD Operations Manager Tyson Neely received the Southwest Membrane Operator Association 2018 Outstanding Plant Operator Award for outstanding service and dedication to membrane operations and for leadership within the industry. (June 2018)

2017

The Orange County Water District received an Honorable Mention for *2016 Public Communications Achievement* from the American Water Works Association (AWWA) for fostering and supporting the development of public outreach programs and integrating public affairs as a core element of utility planning and management. (January 2017)

OCWD was honored with the *AVA Digital 2017 Gold Award* for its PowerPoint titled "Water Manufacturing Process." It is the foundational presentation used prior to Groundwater Replenishment System tours and a key component of OCWD's on-site tours and Speaker's Bureau program for the community. AVA Digital Awards is an international competition that recognizes outstanding work by creative professionals involved in the concept, direction, design, and production of media that is part of the evolution of digital communication. (January 2017)

The American Society of Civil Engineers (ASCE) presented the *Outstanding Water Project Award* for La Palma Water Recharge Basin to the Orange County Water District. (February 2017)

The Orange County Engineering Council (OCEC) selected La Palma Groundwater Recharge Basin project to receive the *2017 OCEC Engineering Project Achievement Award*. (February 2017)

The GWRS Final Expansion Feasibility Study (aka SP-173 Effluent Reuse Study) received the *Excellence in Environmental Engineering & Science Awards Competition Honor Award* in the Environmental Sustainability category from the American Academy of Environmental Engineers & Scientists (AAEES). It was a joint study conducted by OCWD and the Orange County Sanitation District. (April 2017)

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

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

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

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

The Orange County Water District's Children's Water Education Festival is a *PR World Awards® Gold Winner* in the "Training or Educational Event" category. The coveted annual PR World Awards program encompasses the world's best in public relations, marketing, corporate communications, investor relations, and business development professionals, teams, departments, and achievements from every major industry in the world. (June 2017)

The Orange County Water District was chosen as one of two recipients for the 2017 WaterReuse Public Education Program of the Year Award. The award recognizes education programs whose outreach enhances a better appreciation of water resources, management and conservation. (August 2017)

The GWRS Bottled Water Launch received a One Planet Silver Award in the Product or Service Launch of the Year category. (December 2017)

2016

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

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

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

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

The Groundwater Replenishment System Initial Expansion was awarded the American Society of Civil Engineers (ASCE) *Orange County Branch's Water/Wastewater Treatment Project of the Year Award*. ASCE Orange County Branch (OCB) is part of a global civil engineering community. The OCB has about 2,500 members in Orange County, California and is currently the fourth largest branch within ASCE. (March 2016)

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

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

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

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

The Orange County Water District was designated a *Clair A. Hill Water Agency Award for Excellence Finalist*. The award recognized outstanding achievements by public water agencies. (May 2016)

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

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

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

Orange County's Groundwater Replenishment System Initial Expansion received the prestigious *Water Environment Federation Project Excellence Award*. The Orange County Water District, the Orange County Sanitation District, Black & Veatch Corporation, and McCarthy Building Companies, Inc. were all honored for their work on the expansion. (September 2016)

The Orange County Water District received the *Exceptional Utility Leader Award* from the International Desalination Association. OCWD was recognized for its leadership and innovation in advancing water reuse and conservation. (September 2016)

The Orange County Water District received the *Gold Award in the Video/Audio category by MarCom Awards*. OCWD was recognized for its 40 minute animated PowerPoint presentation titled "Water Manufacturing Process," which is used to begin each Groundwater Replenishment System (GWRS) tour. (October 2016)

Southern California Edison (SCE) & The Climate Registry honored the Orange County Water District with the *2016 Cool Planet Award*. This annual award recognizes the valuable contribution of SCE business customers who demonstrate exemplary leadership in energy and carbon management within their business size and industry sector. (October 2016)

The Orange County Water District received the *Sandor C. Csallany Institutional Award for Exemplary Contributions to Water Resources Management*. The award is presented to a water resources institution that has achieved a status of eminence in some aspect of water resources management. AWRA's Board of Directors and members selected OCWD for its outstanding forethought and creativity in the form of progressive groundwater management and water reuse. (November 2016)

RELEVANT FINANCIAL POLICIES

Internal Control Structure

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

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

Accounting and Budgetary Policies

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

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

Debt Management

The District's debt mainly consists of Certificates of Participation (COP), Refunding Revenue Bond (RRB), state loans and commercial paper. The District has executed 16 issuances since 1989. Only three COP and RRB issuances are outstanding (2003A, 2013A, 2017A&B and 2019 A&B) as of June 30, 2019. Other issuances are either advanced refunded, defeased, or refinanced with the help of the state loans and Refunding Revenue Bond.

During FY 2018-19, the District issued \$141.505 million of 2019A&B debt to partially support the final expansion of the GWRS project and partially refunded \$7.8 million of 2017B Certificate of Participation debt that resulted in significant debt service savings.

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

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

During fiscal year 2013-14 the District used \$28.4 million of commercial paper debt to purchase land for the creation of La Palma basin. The District has \$12.9 million tax-exempt commercial paper debt currently outstanding from this purchase.

The District has a letter of credit and reimbursement agreement supporting a commercial paper program with Sumitomo Mitsui Banking Corporation. The District has credit capacity of \$70.0 million less \$40.713 million outstanding commercial paper debt to meet its future financing needs through the commercial paper program. During the FY 2018-19, the District paid off \$12.2 million of taxable commercial paper debt.

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

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

OTHER INFORMATION

Independent Audit: The District's policy, as well as sound financial practice, requires an annual audit of financial records and transactions of all operations of the District by independent certified public accountants selected by the Board of Directors. The accounting firm of White Nelson Diehl Evans LLP was selected to perform the (FY 2018-19) audit. The auditor's opinion is included in this report.

Awards: The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Orange County Water District for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2018. In order

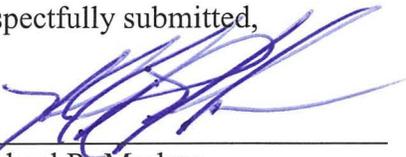
to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR, whose contents conform to program standards. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

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

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

Respectfully submitted,

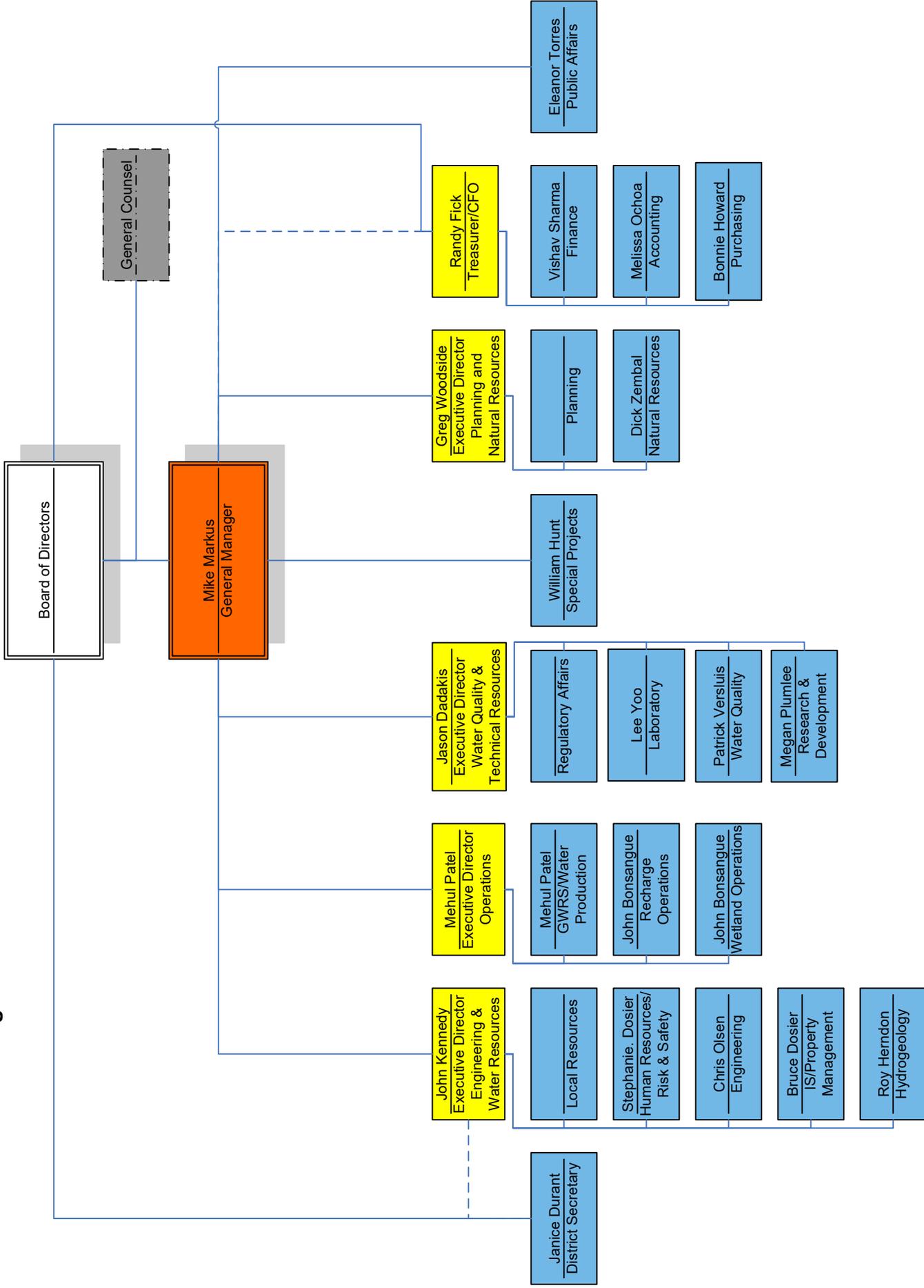


Michael R. Markus
General Manager



Randy Fick
Chief Financial Officer/Treasurer

OCWD Organizational Structure





**Orange County Water District Comprehensive
Annual Financial Report Fiscal Year 2018-19**

Board of Directors

Dina Nguyen, Division 1

Denis Bilodeau, P.E., Division 2

Roger Yoh, P.E., Division 3

Tri Ta, Division 4

Stephen Sheldon, 2nd Vice President, Division 5

Cathy Green, 1st Vice President, Division 6

Kelly E. Rowe, CFM, P.G., C.E.G., C.H. Division 7

Vicente Sarmiento, President, Division 8

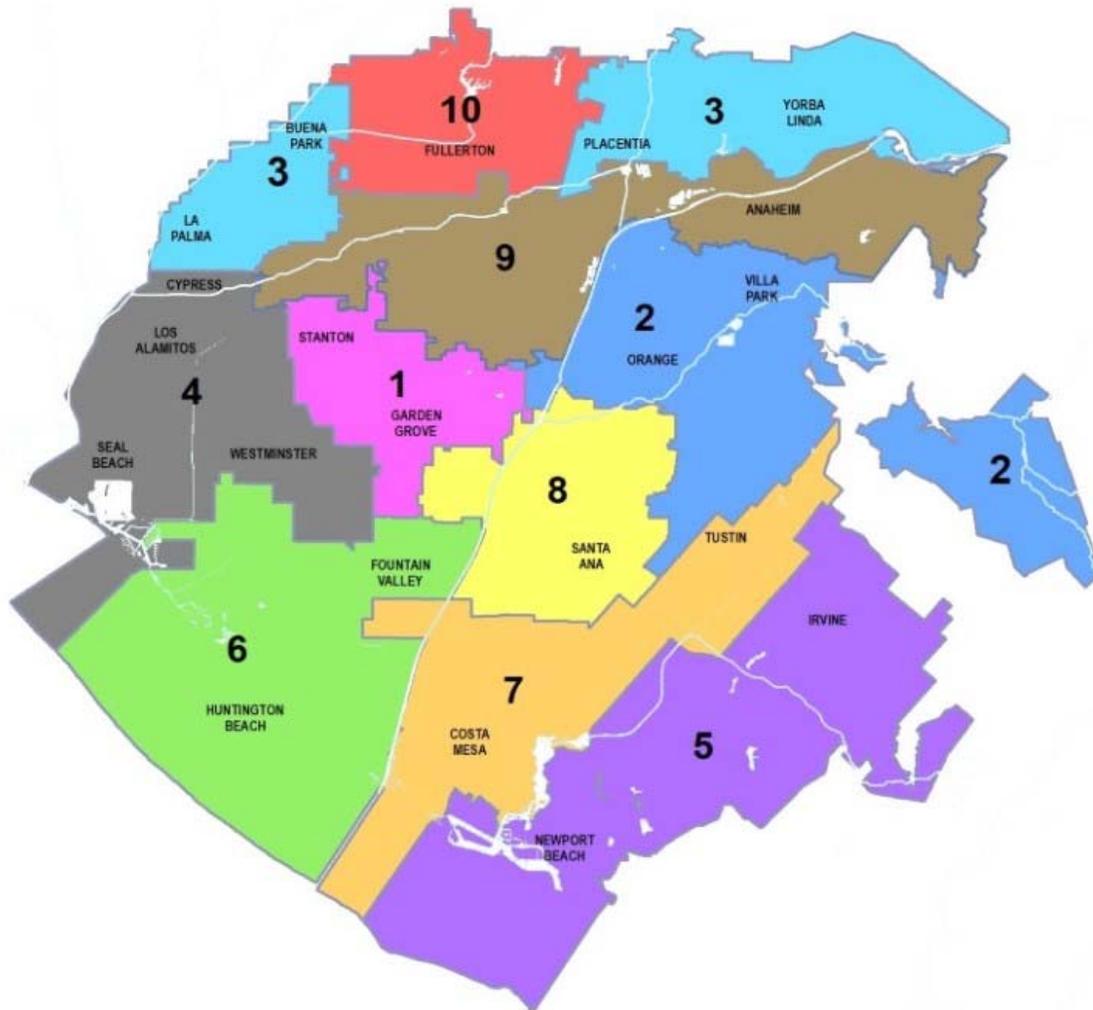
Jordan Brandman, Division 9

Ahmad Zahra, Division 10



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

ORANGE COUNTY WATER DISTRICT



DISTRICT VITAL STATISTICS

Date of Enactment: 1933
 Form of Government: Special District of the State of California
 Area (square miles): 381
 Employees (full-time): 220.5

Major Groundwater Producing Agencies:

- | | |
|-----------------------------------|----------------------------|
| Anaheim, City of | Mesa Water District |
| Buena Park, City of | Newport Beach, City of |
| East Orange County Water District | Orange, City of |
| Fountain Valley, City of | Santa Ana, City of |
| Fullerton, City of | Seal Beach, City of |
| Garden Grove, City of | Serrano Water District |
| Golden State Water Company | Tustin, City of |
| Huntington Beach, City of | Westminster, City of |
| Irvine Ranch Water District | Yorba Linda Water District |
| La Palma, City of | |



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**Orange County Water District
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

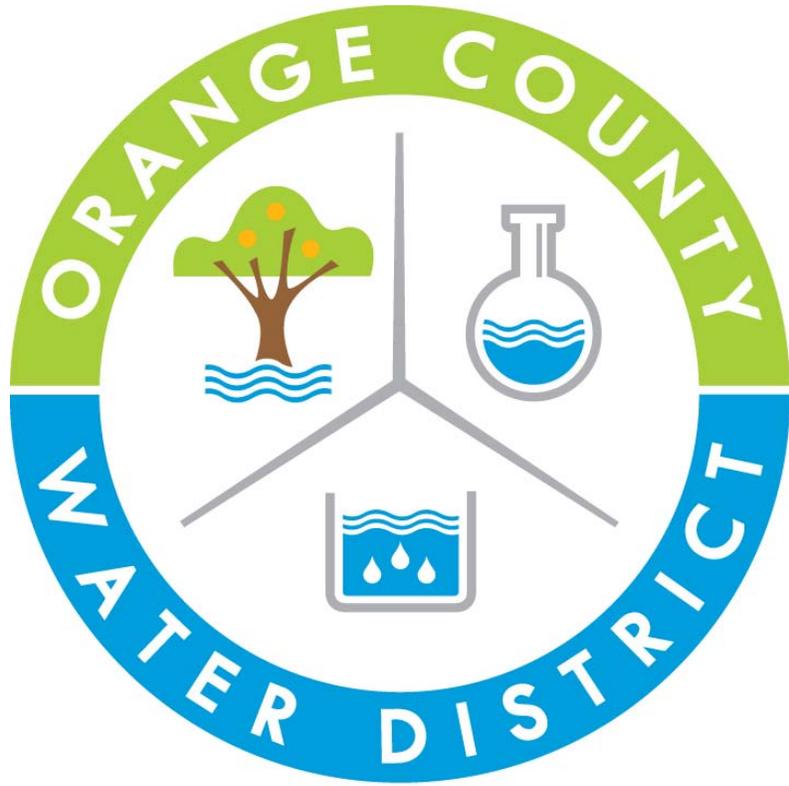
June 30, 2018

Christopher P. Morrill

Executive Director/CEO

Financial Section

Independent Auditors' Report



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INDEPENDENT AUDITORS' REPORT

Board of Directors
Orange County Water District
Fountain Valley, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of the Orange County Water District (the District) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of the District as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Prior-Year Comparative Information

The financial statements include partial prior-year comparative information. Such information does not include all of the information required to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2018, from which such partial information was derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the other post-employment benefits plan annual money-weighted rate of return on investments, the schedule of changes in the net OPEB liability and related ratios, and the schedule of contributions - OPEB, identified as Required Supplementary Information (RSI) in the accompanying table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the RSI because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

White Nelson Dick Evans LLP

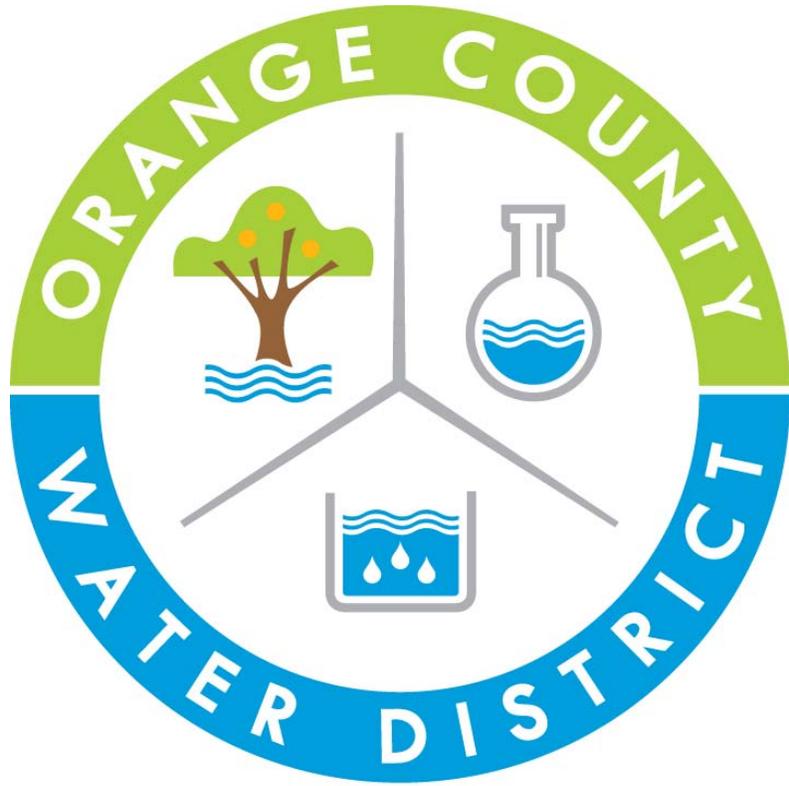
Irvine, California

October 16, 2019

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Management's Discussion and Analysis

Financial Highlights for the Year Ended June 30, 2019



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**ORANGE COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2019**

The following summary analysis is a brief discussion of the Orange County Water District's (District) performance that provides an overview of the District's financial activities for the year ended June 30, 2019. This section should be read in conjunction with the financial statements and the notes to the financial statements, which follow this analysis.

FINANCIAL HIGHLIGHTS

- Total assets and deferred outflows of resources exceed total liabilities and deferred inflows of resources by \$376.2 million (net position), representing \$149.2 million in net investment in capital assets, \$136.9 million restricted for construction of capital assets, \$0.1 million restricted for debt service, \$2.6 million restricted for custodial costs and \$85.3 million unrestricted for operations. Net position increased \$70.9 million or 23.26%, in 2019 over the prior year.
- In 2019, the District's operating revenues increased 5.07% or \$7.50 million from the prior year, primarily due to the net effect of an increase in replenishment assessments of \$2.57 million and increase in basin equity assessments of \$6.38 million. The increase in the replenishment assessment rate from \$445 to \$462 per acre-foot was approved by the Board and pumping decreased 2.19% from 310,025 acre-feet to 303,221 acre-feet. In 2018, the District's operating revenues increased 7.46% or \$10.27 million from the prior year, primarily due to the net effect of an increase in replenishment assessments of \$16.09 million and a decrease of basin equity assessments of \$6.11 million. The increase in the replenishment assessment rate from \$402 to \$445 per acre-foot was approved by the Board and pumping increased 2.78% from 301,637 acre-feet to 310,025 acre-feet.
- Total operating expenses increased 1.26% or \$1.95 million in 2019, mainly due to the net effect of \$1.42 million increase in water purchases, due to the Metropolitan Water District (MWD) rate increase, \$1.25 million decrease in water production expenses, which is the result of less electrical power used by the Groundwater Replenishment System, and \$2.05 million increase in general and administrative expenses for daily operations. In 2018, operating expenses increased 10.90% or \$15.20 million, mainly due to the District purchased an increased quantity of supplemental water from Metropolitan Water District (MWD) of \$12.00 million and an increase in untreated water rates from MWD. Water production costs also increased \$2.68 million due to higher costs and usage of electricity for increased water production from the Groundwater Replenishment System.
- The District's non-operating revenues, net of expenses increased \$51.2 million or 266.47% in 2019, as a result a gain on sale of land of \$23.2 million, net of expenses and the District receiving \$27.5 million in legal settlements, net of expenses. In 2018, non-operating revenues, net of expenses increased 45.60% or \$6.01 million, primarily due to increases in property tax revenues of \$1.63 million, investment income of \$1.15 million and legal settlement income of \$3.17 million.
- Total long-term debt is \$724.34 million in 2019, as compared to the \$605.47 million in the prior year. The increase of \$118.87 million or 19.63% is primarily due to the net effect of issuing new short-term obligations of \$135 million for the Groundwater Replenishment System Final Expansion project and \$12.2 million reduction of debt by principal payments to the taxable commercial paper debt. In 2018, debt increased by \$35.26 million or 6.18% primarily due to the \$40 million one-time purchase of 60,060 acre-feet of in-lieu water from Metropolitan Water District (MWD) financed with taxable commercial paper debt.

**ORANGE COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
For the Year Ended June 30, 2019**

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

The Statement of Cash Flows provide information regarding the District's cash receipts and cash payments and changes in cash resulting from operations, non-capital financing, capital and related financing, and investments activities and provides information on the sources and uses of the District's cash.

The fiduciary fund financial statements include the Statement of Fiduciary Net Position and the Statement of Changes in the Fiduciary Net Position. The fiduciary fund is not reported in the District's financial statements because the resources of those funds are not available to support the District's activities. The District's fiduciary fund is used to report resources held in trust for retirees and beneficiaries covered by the Other Post-Employment Benefit Plan. The fiduciary fund financial statements can be found on pages 20 and 21 of this report.

Notes to the basic financial statements provide additional information that is necessary to acquire a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 23 to 59 of this report.

Other information includes *required supplementary information* concerning the District's progress in funding its obligations to provide Other Post-Employment Benefits to its employees. Required supplementary information can be found on pages 61 to 63 of this report.

FINANCIAL ANALYSIS OF THE DISTRICT

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

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

**ORANGE COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
For the Year Ended June 30, 2019**

Condensed Statements of Net Position

	<u>2019</u>	<u>2018</u>	<u>Change</u>	<u>2017</u>	<u>Change</u>
Assets:					
Current assets	\$ 426,784,896	\$ 247,764,217	\$ 179,020,679	\$ 226,441,939	\$ 21,322,278
Capital assets	697,476,124	705,412,834	(7,936,710)	709,428,786	(4,015,952)
Other non-current assets	4,500,281	101,754	4,398,527	774,433	(672,679)
Total assets	<u>1,128,761,301</u>	<u>953,278,805</u>	<u>175,482,496</u>	<u>936,645,158</u>	<u>16,633,647</u>
Deferred outflows of resources	<u>36,293,377</u>	<u>26,213,803</u>	<u>10,079,574</u>	<u>29,511,122</u>	<u>(3,297,319)</u>
Liabilities:					
Current liabilities	76,968,154	97,990,635	(21,022,481)	60,397,261	37,593,374
Long-term debt	669,114,704	538,818,042	130,296,662	539,916,451	(1,098,409)
Other long-term liabilities	42,771,522	37,449,176	5,322,346	22,713,485	14,735,691
Total liabilities	<u>788,854,380</u>	<u>674,257,853</u>	<u>114,596,527</u>	<u>623,027,197</u>	<u>51,230,656</u>
Deferred inflows of resources	<u>-</u>	<u>21,183</u>	<u>(21,183)</u>	<u>-</u>	<u>21,183</u>
Net position:					
Net investment in capital assets	149,157,213	151,082,728	(1,925,515)	150,961,053	121,675
Restricted for construction of capital assets	136,941,866	-	136,941,866	-	-
Restricted for debt service	118,970	-	118,970	-	-
Restricted for custodial costs	2,565,512	66,579	2,498,933	5,370,190	(5,303,611)
Unrestricted	87,416,737	154,064,265	(66,647,528)	186,797,840	(32,733,575)
Total net position	<u>\$ 376,200,298</u>	<u>\$ 305,213,572</u>	<u>\$ 70,986,726</u>	<u>\$ 343,129,083</u>	<u>\$ (37,915,511)</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, total assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$376.20 million at June 30, 2019 compared with \$305.21 million at June 30, 2018.

A portion of the District's net position (39.87% and 49.50% as of June 30, 2019 and 2018, respectively) reflects the District's net investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending.

At the end of the fiscal year 2019, the District reflects a balance in its restricted for construction of capital assets of \$136.94 million and \$0.12 million restricted for debt service payments.

An additional portion of the District's net position \$2.57 million and \$0.07 million as of June 30, 2019 and 2018, respectively, are for custodial costs, which represents resources that are subject to external restrictions on how they may be used.

At the end of fiscal years 2019 and 2018, the District reflects a positive balance in its unrestricted net position of \$87.41 million and \$154.06 million, respectively, which may be utilized in future years.

**ORANGE COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
For the Year Ended June 30, 2019**

Condensed Statements of Revenues, Expenses and Changes in Net Position

	<u>2019</u>	<u>2018</u>	<u>Change</u>	<u>2017</u>	<u>Change</u>
Operating revenues	\$ 155,374,357	\$ 147,869,984	\$ 7,504,373	\$ 137,601,758	\$ 10,268,226
Operating expenses	156,644,282	154,691,739	1,952,543	139,491,432	15,200,307
Operating income (loss)	(1,269,925)	(6,821,755)	5,551,830	(1,889,674)	(4,932,081)
Non-operating revenues, net of expenses	70,357,913	19,198,889	51,159,024	13,185,798	6,013,091
Net income (loss) before capital contributions	69,087,988	12,377,134	56,710,854	11,296,124	1,081,010
Capital contributions from other parties	4,134,250	6,483,761	(2,349,511)	-	6,483,761
Capital contributions to other parties	(2,235,512)	-	(2,235,512)	1,782,165	(1,782,165)
Changes in net position before special item	70,986,726	18,860,895	52,125,831	13,078,289	5,782,606
Special item - In-Lieu water purchase	-	(39,999,960)	39,999,960	-	(39,999,960)
Changes in net position	70,986,726	(21,139,065)	92,125,791	13,078,289	(34,217,354)
Net position, beginning of year	305,213,572	326,352,637	(21,139,065)	330,050,794	(3,698,157)
Net position, end of year	<u>\$ 376,200,298</u>	<u>\$ 305,213,572</u>	<u>\$ 70,986,726</u>	<u>\$ 343,129,083</u>	<u>\$ (37,915,511)</u>

Fiscal Year 2019

The statements of revenues, expenses and changes in net position indicate how the District's net position changed during the fiscal year. The District reported an increase in net position of \$70.9 million for the fiscal year ended June 30, 2019, which is a result of the current year changes noted below.

Operating revenues increased by \$7.50 million or 5.07% from the prior year primarily due to an increase in replenishment assessments of \$2.57 million, which is a result of the Board approved rate increase of replenishment assessment from \$445 to \$462 per acre-foot, although pumping decreased 2.19% from 310,025 acre-feet to 303,221 acre-feet due to the increased rainfall this year. Basin equity assessments increased \$6.38 million, primarily due to having more groundwater pumping over the basin production percentage than prior year. The District maintained its basin pumping percentage at 77%.

Operating expenses increased 1.26% or \$1.95 million in 2019, mainly due to the net effect of \$1.42 million increase in water purchases, due to Metropolitan Water District (MWD) rate increase, \$1.25 million decrease in water production expenses, which is the result of less electrical power used by the Groundwater Replenishment System that decreased production from 105,520 acre-feet to 95,220 acre-feet of water, and a \$2.05 million increase in general and administrative expenses for daily operations.

The District's non-operating revenues, net of expenses, increased \$51.16 million or 266.47%. Most of this increase is a result of a gain on sale of land, net of expenses of \$23.2 million and the District received \$27.5 million in legal settlements, net of expenses.

In 2019, the District's net capital contributions decreased \$4.59 million from prior year, mainly due to decreases in federal, state and local grant revenue.

**ORANGE COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
For the Year Ended June 30, 2019**

Fiscal Year 2018

The District reported a decrease in net position of \$21.14 million for the fiscal year ended June 30, 2018. The changes in net position is primarily due to a decrease of \$16.78 million as required by the Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Operating revenues increased by \$10.27 million or 7.46% from the prior year primarily due to the net effect of an increase in replenishment assessments of \$16.09 million and a decrease in basin equity assessments of \$6.11 million. The increase in replenishment assessments is attributable to the Board approved rate increase of replenishment assessment from \$402 to \$445 per acre-foot and pumping increased 3.60% from 301,637 acre-feet to 310,025 acre-feet. The District increased its basin pumping percentage to 77%.

Operating expenses increased 10.90% or \$15.20 million in 2018, due to a \$12.00 million increase of quantities of supplemental water purchased from Metropolitan Water District (MWD) and increases in MWD untreated water rates. Water production costs also increased by \$2.68 million, mainly due to higher electrical costs used for the Groundwater Replenishment System, which produced 9% more or 105,359 acre-feet of water this year.

The District's non-operating revenues, net of expenses, increased 45.60% or \$6.01 million. Most of this increase is due to an increase in property tax revenues of \$1.63 million, investment income of \$1.15 million, and legal settlement income of \$3.17 million.

In 2018, the District's capital contributions increased \$4.70 million mainly due to an increase in federal, state and local grant revenue.

The District reported a special item of a one-time purchase of \$40 million for 60,060 acre-feet of In-Lieu water. Metropolitan Water District of Southern California has been managing a surplus of imported water this fiscal year due to the exceptionally wet winter that was recently experienced in California and was at risk of not storing all the water available. Metropolitan Water District of Southern California encouraged groundwater agencies to purchase additional supplies, if possible. Metropolitan Water District of Southern California made excess treated water available to the Orange County Water District member agencies "in-lieu" of their normal groundwater pumping at the untreated rate. This water is only being made available during fiscal year 2017-18. The District used \$40 million in proceeds of a taxable commercial paper debt issuance to purchase 60,060 acre-feet of treated supplemental water in December of 2017 from the Metropolitan Water District of Southern California through Metropolitan Water District of Orange County. The District currently expects to prepay the \$40 million in taxable commercial paper debt from replenishment assessments and other revenues from time-to-time over a period of approximately ten years.

**ORANGE COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
For the Year Ended June 30, 2019**

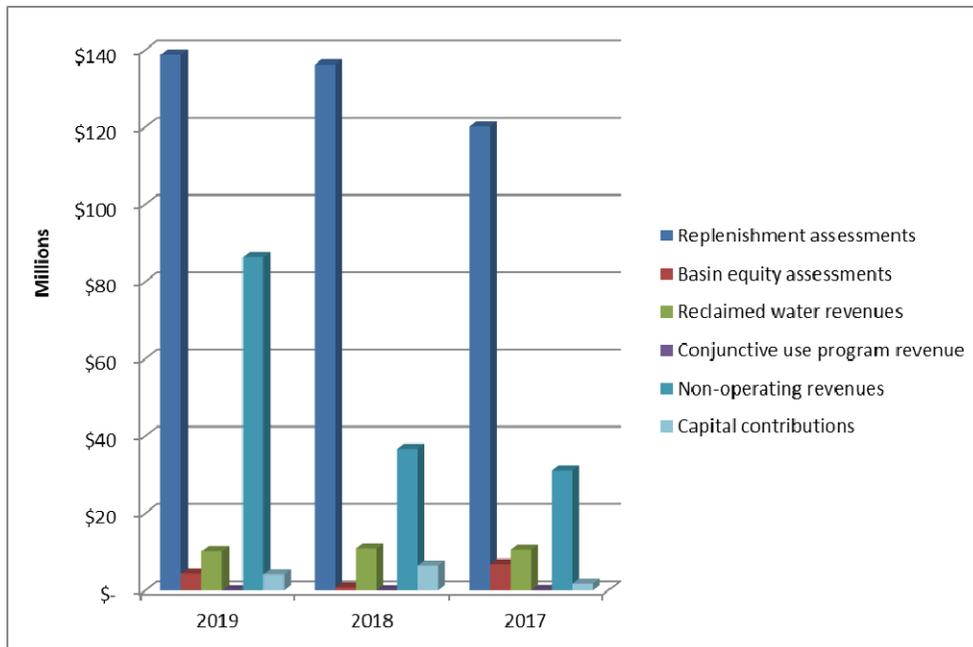
Total Revenues

	<u>2019</u>	<u>2018</u>	<u>Change</u>	<u>2017</u>	<u>Change</u>
Operating revenues:					
Replenishment assessments	\$ 138,779,385	\$ 136,212,805	\$ 2,566,580	\$ 120,120,803	\$ 16,092,002
Basin equity assessments	6,384,640	723,321	5,661,319	6,833,449	(6,110,128)
Reclaimed water revenues	10,210,332	10,933,858	(723,526)	10,606,006	327,852
Conjunctive use program revenue	-	-	-	41,500	(41,500)
Total operating revenues	<u>155,374,357</u>	<u>147,869,984</u>	<u>7,504,373</u>	<u>137,601,758</u>	<u>10,268,226</u>
Non-operating revenues:					
Property taxes	28,276,898	27,060,304	1,216,594	25,432,802	1,627,502
Investment income	3,788,863	2,556,061	1,232,802	1,402,268	1,153,793
Net increase in fair value of investments	1,892,935	-	1,892,935	-	-
Rental income, net of expenses	1,549,580	1,488,003	61,577	1,153,434	334,569
Legal settlements, net of expenses	27,476,135	2,310,325	25,165,810	-	2,310,325
Gain on disposal of capital assets	19,190,733	-	19,190,733	93,260	(93,260)
Other non-operating revenues	4,139,709	3,269,258	870,451	2,978,288	290,970
Total non-operating revenues	<u>86,314,853</u>	<u>36,683,951</u>	<u>49,630,902</u>	<u>31,060,052</u>	<u>5,623,899</u>
Capital contributions	<u>4,134,250</u>	<u>6,483,761</u>	<u>(2,349,511)</u>	<u>1,782,165</u>	<u>4,701,596</u>
Total revenues	<u>\$ 245,823,460</u>	<u>\$ 191,037,696</u>	<u>\$ 54,785,764</u>	<u>\$ 170,443,975</u>	<u>\$ 20,593,721</u>

In 2019, the District's total revenues increased 28.7% or \$54.8 million, primarily due to \$23.2 million increase on gain on sale of land, net of expenses and \$27.5 million in legal settlements, net of expenses.

In 2018, the District's total revenues increased 12.08% or \$20.6 million, primarily due to the net effect of a decrease in basin equity assessments of \$6.11 million, offset with increases of replenishment assessments of \$16.09 million, property tax revenues of \$1.63 million, investment income of \$1.15 million, \$2.31 million legal settlement, net of expenses and capital contributions of \$4.70 million.

**Total Revenues
(2019, 2018 and 2017)**



**ORANGE COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
For the Year Ended June 30, 2019**

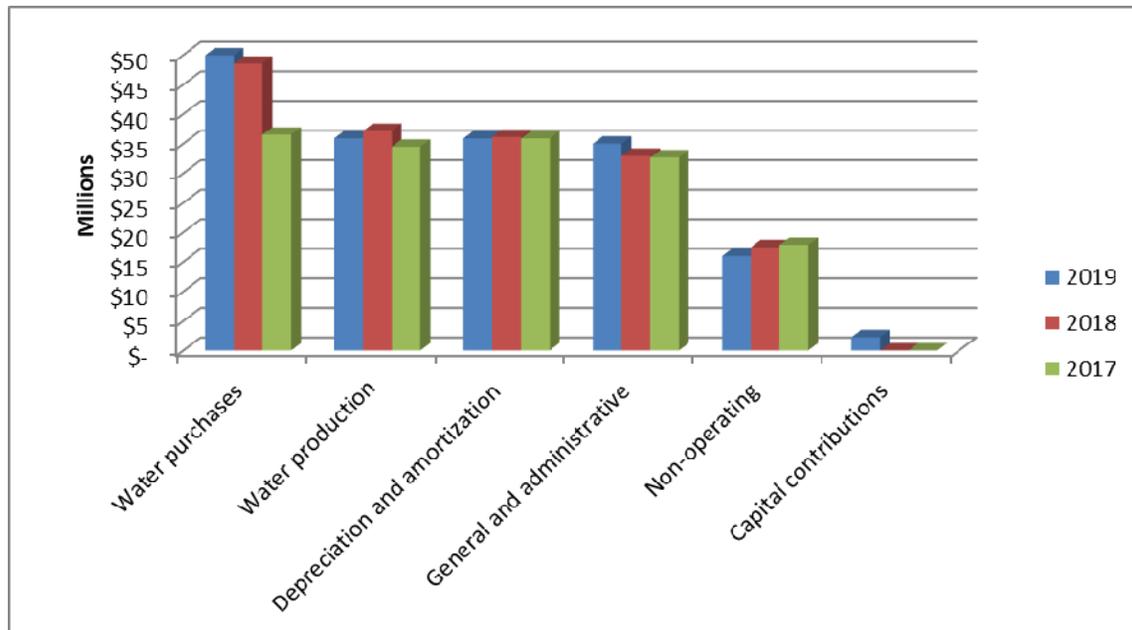
Total Expenses

	<u>2019</u>	<u>2018</u>	<u>Change</u>	<u>2017</u>	<u>Change</u>
Operating expenses:					
Water purchases	\$ 49,920,482	\$ 48,504,350	\$ 1,416,132	\$ 36,507,292	\$ 11,997,058
Water production	35,891,184	37,141,781	(1,250,597)	34,461,866	2,679,915
Depreciation and amortization	35,865,015	36,123,555	(258,540)	35,862,620	260,935
General and administrative	34,967,601	32,922,053	2,045,548	32,659,654	262,399
Total operating expenses	<u>156,644,282</u>	<u>154,691,739</u>	<u>1,952,543</u>	<u>139,491,432</u>	<u>15,200,307</u>
Non-operating expenses:					
Decrease in fair value of investment	-	1,277,042	(1,277,042)	507,807	769,235
Legal settlements, net of expenses	-	-	-	859,728	(859,728)
Interest expense	15,956,940	15,809,681	147,259	16,506,719	(697,038)
Loss on disposal of capital assets	-	398,339	(398,339)	-	398,339
Total non-operating expenses	<u>15,956,940</u>	<u>17,485,062</u>	<u>(1,528,122)</u>	<u>17,874,254</u>	<u>(389,192)</u>
Capital contributions	<u>2,235,512</u>	<u>-</u>	<u>2,235,512</u>	<u>-</u>	<u>-</u>
Total expenses	<u>\$ 174,836,734</u>	<u>\$ 172,176,801</u>	<u>\$ 2,659,933</u>	<u>\$ 157,365,686</u>	<u>\$ 14,811,115</u>

In 2019, the District's total expenses increased 1.54% or \$2.66 million, mainly due to the net effect of an increase in water purchases of \$1.42 million, \$1.25 million decrease in water production expenses, \$2.05 million increase in general and administrative expenses, and \$1.53 million decrease in non-operating expenses.

In 2018, the District's total expenses increased 9.41% or \$14.81 million, primarily due to the higher water purchase expense of \$12.00 million and an increase in water production costs of \$2.68 million.

**Total Expenses
(2019, 2018 and 2017)**



**ORANGE COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
For the Year Ended June 30, 2019**

CAPITAL ASSETS

As of the fiscal year ended June 30, 2019, the District had invested \$1,228.11 million in capital assets, including land, water rights, structures and improvements, infrastructure, equipment and construction in progress. Capital additions, net of transfers and retirements totaled \$26.92 million and \$26.05 million made during the fiscal years ended June 30, 2019 and 2018, respectively.

The main reasons for these capital additions were construction in progress, equipment, structure and infrastructure improvements on various water basin/water recycling projects in fiscal year ended 2019.

Net capital assets worth \$1.14 million and \$5,983 were retired during the years ended June 30, 2019 and 2018, respectively.

The following is a summary of the capital assets at June 30, 2019, June 30, 2018, and June 30, 2017 respectively:

	<u>2019</u>	<u>2018</u>	<u>Change</u>	<u>2017</u>	<u>Change</u>
Land	\$ 74,146,171	\$ 74,146,641	\$ (470)	\$ 74,146,641	\$ -
Water Rights	6,823,570	6,823,570	-	6,823,570	-
Structures and improvements	716,535,412	702,316,773	14,218,639	675,882,210	26,434,563
Infrastructure	80,235,428	73,496,821	6,738,607	68,297,651	5,199,170
Equipment	288,372,325	287,384,414	987,911	275,897,048	11,487,366
Construction in progress	61,995,091	57,022,335	4,972,756	74,097,612	(17,075,277)
Subtotal	1,228,107,997	1,201,190,554	26,917,443	1,175,144,732	26,045,822
Less: accumulated depreciation	(530,631,873)	(495,777,720)	(34,854,153)	(465,715,946)	(30,061,774)
Total capital assets	<u>\$ 697,476,124</u>	<u>\$ 705,412,834</u>	<u>\$ (7,936,710)</u>	<u>\$ 709,428,786</u>	<u>\$ (4,015,952)</u>

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

DEBT ADMINISTRATION

At June 30, 2019 the District had \$724.34 million in total debt outstanding compared to \$605.47 million at the fiscal year ended June 30, 2018. It includes loans from the State of California, commercial paper, revenue refunding bonds and installment purchase agreements associated with the certificates of participation. This amount represents a net increase of \$118.87 million from the prior year, primarily due to the net effect of issuing new short-term obligations of \$135 million for the Groundwater Replenishment System Final Expansion project and a principal payment of \$12.2 million to the taxable commercial paper debt.

In 2018 the District had \$605.47 million in total debt outstanding compared to \$570.21 million at the fiscal year ended June 30, 2017. It includes loans from the State of California, commercial paper, revenue refunding bonds and installment purchase agreements associated with the certificates of participation. This amount represents a net increase of \$35.26 million from the prior year, primarily due to the \$40 million one-time purchase of 60,060 acre-feet of In-Lieu water from Metropolitan Water District (MWD) financed with commercial paper.

**ORANGE COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
For the Year Ended June 30, 2019**

The following is a summary of the long-term debt at June 30, 2019, June 30, 2018 and June 30, 2017 respectively:

	<u>2019</u>	<u>2018</u>	<u>Change</u>	<u>2017</u>	<u>Change</u>
Certificates-of-Participation	\$ 276,523,244	\$ 129,815,000	\$ 146,708,244	\$ 129,815,000	\$ -
Revenue refunding bonds	176,749,315	186,765,413	(10,016,098)	188,418,466	(1,653,053)
State of California loans	230,354,520	235,978,713	(5,624,193)	235,163,138	815,575
Commercial paper	40,713,000	52,913,000	(12,200,000)	16,813,000	36,100,000
Total	<u>\$ 724,340,079</u>	<u>\$ 605,472,126</u>	<u>\$ 118,867,953</u>	<u>\$ 570,209,604</u>	<u>\$ 35,262,522</u>

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

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

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

NET OTHER POST-EMPLOYMENT BENEFITS (OPEB) LIABILITY

The District implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting of Postemployment Benefits Other Than Pensions* in 2018. This Statement required the District to recognize and disclose in its financial statements, the net other post-employment benefits (OPEB) liabilities, OPEB expense, deferred outflows and deferred inflows of resources related to the OPEB benefit plan.

The District's net other post-employment benefits (OPEB) liability is \$19.58 million and \$18.93 million, as of June 30, 2019 and 2018, respectively.

The District's OPEB expense recognized in 2019 and 2018 was \$2.2 million and \$2.10 million, respectively, and is included in operating expense on the Statements of Revenues, Expenses and Changes in Net Position.

The deferred outflows and deferred inflows of resources include certain changes in total OPEB liability and fiduciary net position that are to be recognized in future OPEB expense systematically over time. These amounts can fluctuate from year to year due to actuarial methods and assumptions, such as normal entry age, discount rate, mortality and inflation. Deferred outflows of resources related to OPEB liability for 2019 is \$7.66 million, which primarily represents projected versus actual investment earnings of \$.02 million, \$1.3 million annual contributions, plus an additional \$6 million pre-funded contributions the District paid into the OPEB Trust during the fiscal year ended June 30, 2019.

Additional information on other post-employment benefit plan can be found in Note 10 of this report.

**ORANGE COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
For the Year Ended June 30, 2019**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Board of Directors approved the budget for the fiscal year 2019-20. The budget included \$73.1 million for operations, \$0.6 million for new equipment, \$59.6 million for water purchases, \$37.8 million for debt service, \$1.5 million for retiree health expenditures and \$14.6 million for Replacement and Refurbishment (R&R) fund expenditure.

The Board increased the Replenishment Assessment from \$462 per acre-foot to \$487 per acre-foot and the basin production percentage remains at 77%.

A multi-year construction-in-progress (CIP) budget of \$60.6 million was adopted. These CIP projects will be funded through long term debt, grants, and the District will be funding \$6 million pay-as-you-go from the general fund.

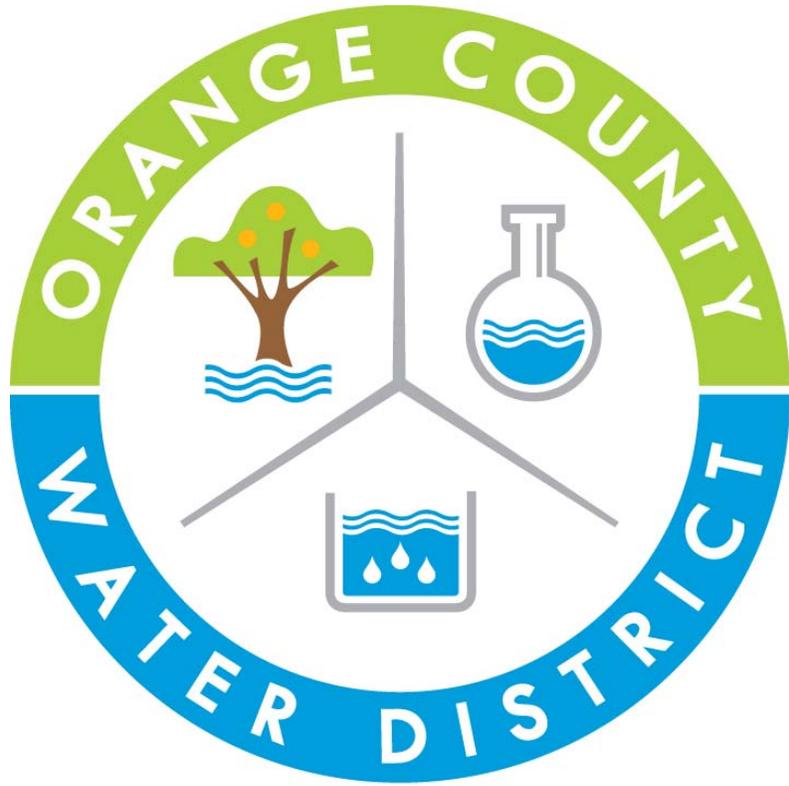
The financial markets continue to do better and the United States economy is performing better. Orange County's economy is also improving and it is expected to grow slowly in the next year. Orange County's unemployment rate in June 2019 is 3.0% versus 4.2% for California and 3.8% for the nation.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

Basic Financial Statements

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



SINCE 1933

ORANGE COUNTY WATER DISTRICT

STATEMENT OF NET POSITION

June 30, 2019
(with prior-year comparative totals)

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2019	2018
CURRENT ASSETS:		
UNRESTRICTED ASSETS:		
Cash and cash equivalents	\$ 61,238,657	\$ 45,522,098
Investments	143,877,204	114,279,249
Accounts receivables	72,664,831	75,453,142
Accrued interest receivable	1,124,534	827,337
Inventory	4,589,914	4,598,849
Prepaid expenses	725,351	774,054
Due from other governments	489,787	5,790,396
Current portion of notes receivable	336,987	84,774
TOTAL UNRESTRICTED ASSETS	285,047,265	247,329,899
RESTRICTED ASSETS:		
Cash and cash equivalents	3,210,433	66,579
Investments	134,622,573	-
Accrued interest and other receivable	487,102	-
Custodial cash and investments	2,442,993	-
Custodial escrow retention	974,530	367,739
TOTAL RESTRICTED ASSETS	141,737,631	434,318
TOTAL CURRENT ASSETS	426,784,896	247,764,217
NONCURRENT ASSETS:		
CAPITAL ASSETS:		
Capital assets, not depreciated	142,964,831	137,992,546
Capital assets, depreciated, net	554,511,293	567,420,288
TOTAL CAPITAL ASSETS	697,476,124	705,412,834
OTHER NONCURRENT ASSETS:		
Notes receivable, less current portion above	4,500,281	101,754
TOTAL OTHER NONCURRENT ASSETS	4,500,281	101,754
TOTAL NONCURRENT ASSETS	701,976,405	705,514,588
TOTAL ASSETS	1,128,761,301	953,278,805
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred amounts from OPEB	7,664,467	1,739,964
Deferred charges on refunding	10,511,103	11,142,020
Derivative instruments	18,117,807	13,331,819
TOTAL DEFERRED OUTFLOWS OF RESOURCES	36,293,377	26,213,803

(Continued)

ORANGE COUNTY WATER DISTRICT

STATEMENT OF NET POSITION
(CONTINUED)

June 30, 2019
(with prior-year comparative totals)

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	2019	2018
LIABILITIES:		
CURRENT LIABILITIES:		
PAYABLE FROM UNRESTRICTED CURRENT ASSETS:		
Accounts payable and accrued expenses	\$ 14,094,764	\$ 25,314,420
Accrued interest payable	4,947,350	5,116,975
Deposits	247,502	600
Retention payable	-	214,090
Current portion of compensated absences	341,880	322,727
Current portion of long-term debt	55,225,375	66,654,084
TOTAL PAYABLE FROM UNRESTRICTED CURRENT ASSETS	74,856,871	97,622,896
PAYABLE FROM RESTRICTED ASSETS:		
Accounts payable and accrued expenses	992,649	-
Retentions payable	1,118,634	367,739
TOTAL PAYABLE FROM RESTRICTED ASSETS	2,111,283	367,739
TOTAL CURRENT LIABILITIES	76,968,154	97,990,635
NONCURRENT LIABILITIES:		
LONG-TERM DEBT:		
Certificates of participation	276,523,244	129,815,000
Revenue refunding bonds	176,749,315	186,765,413
State of California loans payable	230,354,520	235,978,713
Commercial paper	40,713,000	52,913,000
Subtotal	724,340,079	605,472,126
Less: current portion above	(55,225,375)	(66,654,084)
TOTAL LONG-TERM DEBT	669,114,704	538,818,042
OTHER NONCURRENT LIABILITIES:		
Net other post-employment benefits (OPEB) liability	19,575,269	18,929,954
Accrued compensated absences	5,078,446	5,187,403
Derivative instruments	18,117,807	13,331,819
TOTAL OTHER NONCURRENT LIABILITIES	42,771,522	37,449,176
TOTAL NONCURRENT LIABILITIES	711,886,226	576,267,218
TOTAL LIABILITIES	788,854,380	674,257,853
DEFERRED INFLOWS OF RESOURCES:		
Deferred amounts from OPEB	-	21,183
NET POSITION:		
Net investment in capital assets	149,157,213	151,082,728
Restricted for construction of capital assets	136,941,866	-
Restricted for debt service	118,970	-
Restricted for custodial costs	2,565,512	66,579
Unrestricted	87,416,737	154,064,265
TOTAL NET POSITION	\$ 376,200,298	\$ 305,213,572

See accompanying notes to basic financial statements.

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

For the year ended June 30, 2019
(with prior-year comparative totals)

	2019	2018
OPERATING REVENUES:		
Replenishment assessments	\$ 138,779,385	\$ 136,212,805
Basin equity assessments	6,384,640	723,321
Reclaimed water revenue	10,210,332	10,933,858
	155,374,357	147,869,984
OPERATING EXPENSES:		
Water purchases	49,920,482	48,504,350
Water production	35,891,184	37,141,781
Depreciation	35,865,015	36,123,555
General and administrative	34,967,601	32,922,053
	156,644,282	154,691,739
OPERATING INCOME (LOSS)	(1,269,925)	(6,821,755)
NONOPERATING REVENUES (EXPENSES):		
Property taxes	28,276,898	27,060,304
Investment income	3,788,863	2,556,061
Net increase (decrease) in the fair value of investments	1,892,935	(1,277,042)
Rental income, net of expenses	1,549,580	1,488,003
Legal settlements, net of expenses	27,476,135	2,310,325
Other nonoperating revenues, net of expenses	4,139,709	3,269,258
Interest expense	(15,956,940)	(15,809,681)
Gain (loss) on disposal of capital assets	19,190,733	(398,339)
	70,357,913	19,198,889
TOTAL NONOPERATING REVENUES (EXPENSES)	70,357,913	19,198,889
NET INCOME BEFORE CAPITAL CONTRIBUTIONS	69,087,988	12,377,134
CAPITAL CONTRIBUTIONS FROM OTHER PARTIES	4,134,250	6,483,761
CAPITAL CONTRIBUTIONS TO OTHER PARTIES	(2,235,512)	-
	70,986,726	18,860,895
CHANGES IN NET POSITION BEFORE SPECIAL ITEM	70,986,726	18,860,895
SPECIAL ITEM:		
In-lieu water purchased with debt financing	-	(39,999,960)
	70,986,726	(21,139,065)
CHANGE IN NET POSITION	70,986,726	(21,139,065)
NET POSITION - BEGINNING OF YEAR	305,213,572	326,352,637
NET POSITION - END OF YEAR	\$ 376,200,298	\$ 305,213,572

See accompanying notes to basic financial statements.

ORANGE COUNTY WATER DISTRICT

STATEMENT OF CASH FLOWS

For the year ended June 30, 2019
(with prior-year comparative totals)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 155,974,703	\$ 149,289,554
Cash payments to suppliers for goods and services	(101,286,686)	(131,405,279)
Cash payments to employees for services	(34,952,029)	(25,241,788)
Rental income, net of expenses	1,549,580	1,488,003
Legal settlements, net of expenses	27,476,135	2,310,325
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>48,761,703</u>	<u>(3,559,185)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Cash received for property taxes	28,276,898	27,060,304
Proceeds from commercial paper	-	40,000,000
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>28,276,898</u>	<u>67,060,304</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Payments received from notes receivable	334,013	536,366
Payments made for notes receivable	(4,984,753)	-
Acquisition and construction of capital assets	(31,341,524)	(31,575,667)
Proceeds from sale of capital assets	23,402,731	241,994
Payments made to dispose of capital assets	-	(634,350)
Principal paid on commercial paper	(12,200,000)	(3,900,000)
Proceeds from loans payable	18,803,114	627,127
Proceeds from refunding bonds and new bonds	146,708,244	-
Principal paid on long-term debt	(13,741,082)	(13,480,152)
Payment made to refunding escrow agent	(7,685,000)	-
Interest paid on long-term debt	(16,999,856)	(16,443,998)
Payments received from capital contributions	4,134,250	6,483,761
Payments made for capital contributions	(2,235,512)	-
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>104,194,625</u>	<u>(58,144,919)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment purchases	(302,886,443)	(95,338,378)
Proceeds from maturity of investments	138,115,857	73,988,217
Interest on investments	3,004,564	2,146,363
NET CASH USED BY INVESTING ACTIVITIES	<u>(161,766,022)</u>	<u>(19,203,798)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	19,467,204	(13,847,598)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>45,956,416</u>	<u>59,804,014</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 65,423,620</u>	<u>\$ 45,956,416</u>

(Continued)

See accompanying notes to basic financial statements.

ORANGE COUNTY WATER DISTRICT

STATEMENT OF CASH FLOWS
(CONTINUED)

For the year ended June 30, 2019
(with prior-year comparative totals)

	2019	2018
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ (1,269,925)	\$ (6,821,755)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	35,865,015	36,123,555
Other nonoperating revenues, net of expenses	4,139,709	3,269,258
Rental income, net of expenses	1,549,580	1,488,003
Legal settlements, net of expenses	27,476,135	2,310,325
Change in receivable for loan proceeds	(11,882,905)	13,048,599
Capitalized labor	(428,989)	(395,665)
Special item: in-lieu water purchased with debt financing	-	(39,999,960)
Change in assets, deferred outflows of resources, deferred inflows of resources, and liabilities:		
(Increase) decrease in accounts receivables	2,788,311	(10,055,964)
(Increase) decrease in inventory	8,935	(5,347)
(Increase) decrease in prepaid expenses	48,703	111,982
(Increase) decrease in due from other governments	5,300,609	(4,833,070)
(Increase) decrease in deferred outflows of resources - deferred amounts from OPEB	(5,924,503)	(1,739,964)
Increase (decrease) in accounts payable and accrued expenses	(10,227,007)	2,091,956
Increase (decrease) in custodial liability	-	(6,098)
Increase (decrease) in retentions payable	536,805	(760,179)
Increase (decrease) in deposits payable	246,902	(200)
Increase (decrease) in accrued compensated absences	(89,804)	208,993
Increase (decrease) in net OPEB liability	645,315	2,385,163
Increase (decrease) in deferred inflows of resources - deferred amounts from OPEB	(21,183)	21,183
Total Adjustments	50,031,628	3,262,570
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 48,761,703	\$ (3,559,185)
CASH AND CASH EQUIVALENTS - FINANCIAL STATEMENT CLASSIFICATION:		
Unrestricted assets - cash and cash equivalents	\$ 61,238,657	\$ 45,522,098
Restricted assets:		
Cash and cash equivalents	3,210,433	66,579
Custodial escrow retention	974,530	367,739
TOTAL CASH AND CASH EQUIVALENTS - FINANCIAL STATEMENT CLASSIFICATION	\$ 65,423,620	\$ 45,956,416
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Amortization of premiums and deferred amounts on refunding	\$ 503,502	\$ 433,203
Net increase (decrease) in the fair value of investments	\$ 1,892,935	\$ (1,277,042)
Gain (loss) on disposal of capital assets	\$ (1,138,236)	\$ (5,983)

See accompanying notes to basic financial statements.

ORANGE COUNTY WATER DISTRICT

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

June 30, 2019
(with prior-year comparative totals)

	<u>2019</u>	<u>2018</u>
ASSETS:		
Cash and investments held by trust	<u>\$ 18,500,192</u>	<u>\$ 11,136,282</u>
TOTAL ASSETS	<u>18,500,192</u>	<u>11,136,282</u>
NET POSITION:		
Net position restricted for OPEB benefits	<u>18,500,192</u>	<u>11,136,282</u>
TOTAL NET POSITION	<u>\$ 18,500,192</u>	<u>\$ 11,136,282</u>

ORANGE COUNTY WATER DISTRICT

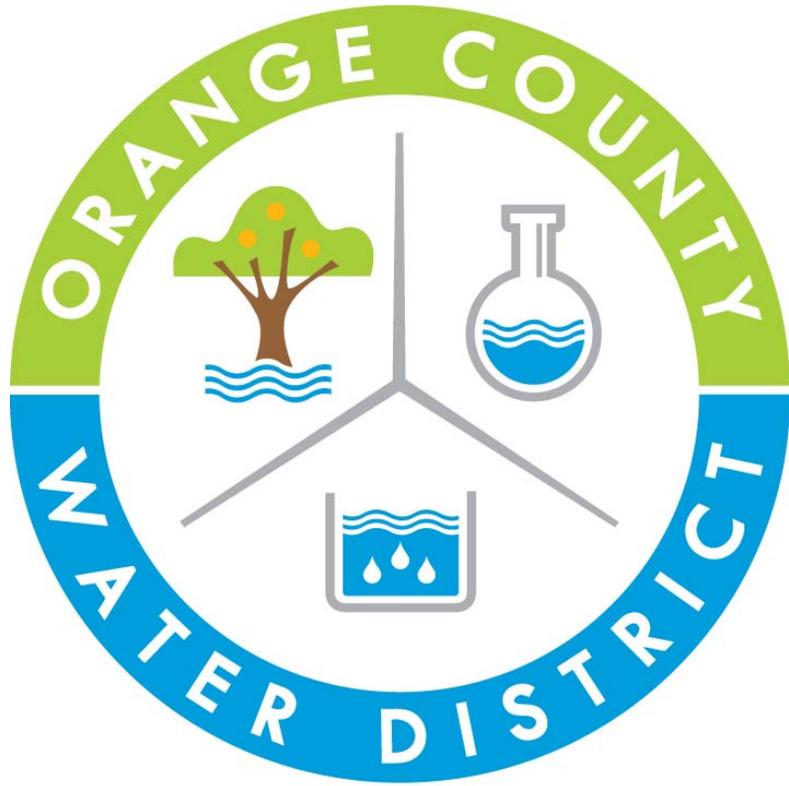
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN

For the years ended June 30, 2019
(with prior-year comparative totals)

	<u>2019</u>	<u>2018</u>
ADDITIONS:		
Employer contributions	\$ 7,303,932	\$ 1,629,915
Investment income	838,367	387,292
	<u>8,142,299</u>	<u>2,017,207</u>
TOTAL ADDITIONS		
DEDUCTIONS:		
Benefits	720,729	600,048
Administrative expense	57,660	53,152
	<u>778,389</u>	<u>653,200</u>
TOTAL DEDUCTIONS		
CHANGE IN NET POSITION	7,363,910	1,364,007
NET POSITION - BEGINNING OF YEAR	<u>11,136,282</u>	<u>9,772,275</u>
NET POSITION - END OF YEAR	<u>\$ 18,500,192</u>	<u>\$ 11,136,282</u>

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Notes to Basic Financial Statements



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ORANGE COUNTY WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Organization and Description of the District

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

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

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

b. Basic Financial Statements

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

c. Measurement Focus and Basis of Accounting

Proprietary Fund

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Measurement Focus and Basis of Accounting (Continued)

Proprietary Fund (Continued)

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

Fiduciary Fund

The fiduciary fund financial statements include the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position. The District's fiduciary other post-employment benefits (OPEB) trust fund is accounted for using the *economic resources measurement focus* and *accrual basis of accounting*. The OPEB trust fund, which is a Section 115 Trust, accounts for the activities of the District's plan for post-retirement medical benefits.

d. Net Position

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

- Net investment in capital assets - This amount is the District's net investment in its various capital assets and includes capital assets net of accumulated depreciation and capital-related deferred outflows of resources and reduced by capital-related borrowings and deferred inflows of resources.
- Restricted for custodial costs - This amount is restricted for custodial costs due to third parties.
- Unrestricted - This amount is all net position that does not meet the definition of "net investment in capital assets" or "restricted."

e. Net Position Flow Assumption

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

ORANGE COUNTY WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f. New Accounting Pronouncements

Current Year Standards

GASB 83 - *Certain Asset Retirement Obligations*, effective for periods beginning after June 15, 2018, and did not impact the District.

GASB 88 - *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, effective for periods beginning after June 15, 2018, and did not significantly impact the District.

Pending Accounting Standards

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

- GASB 84 - *Fiduciary Activities*, effective for periods beginning after December 15, 2018.
- GASB 87 - *Leases*, effective for periods beginning after December 15, 2019.
- GASB 89 - *Accounting for Interest Cost Incurred before the End of a Construction Period*, effective for periods beginning after December 15, 2019.
- GASB 90 - *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*, effective for periods beginning after December 15, 2018.
- GASB 91 - *Conduit Debt Obligations*, effective for periods beginning after December 15, 2020.

g. Property Taxes and Assessments

Property taxes and assessments are billed by the County of Orange to property owners. The amount apportioned to the District each year is based upon the District's tax receipts for the three-year period ended June 30, 1978, in relation to total County tax receipts and is adjusted annually for area growth. The District's property tax calendar for the fiscal years ended June 30, 2019 and 2018, were as follows:

Lien Date:	January 1
Levy Date:	July 1
Due Date:	First Installment - November 1 Second Installment - February 1
Delinquent Date:	First Installment - December 10 Second Installment - April 10

The County collects the taxes from the property owners and remits the funds to the District periodically during the year. There were no taxes receivable at June 30, 2019 and 2018.

h. Inventory

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

ORANGE COUNTY WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i. Investments

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

j. Capital Assets

Capital assets purchased or acquired are reported at historical cost. Contributed assets are reported at the acquisition value as of the date received. During the fiscal years ended June 30, 2019 and 2018, the District received capital contributions of \$4,134,250 and \$6,483,761, respectively. Capital outlays that cost \$5,000 or more and that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

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

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

Depreciation totaled \$35,865,015 and \$36,123,555 for the years ended June 30, 2019 and 2018, respectively.

k. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until that time. The District has four items that qualify for reporting in this category. The first item is the deferred charge on refunding. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The second item is related to the derivative instruments' interest rate swap agreements reported at fair value. The third item is related to the OPEB equal to the employer's contributions made after the measurement date of the net OPEB liability. The fourth item is related to the OPEB resulting from the difference in projected and actual earnings on plan investments of the OPEB plan's fiduciary net position. This amount is amortized over five years.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The District does not have any items that qualify for reporting in this category.

l. Capitalized Interest

The District incurs interest charges on the Certificates of Participation, Commercial Paper, Revenue Refunding Bonds, and State of California loans payable. Capitalized interest for the years ended June 30, 2019 and 2018, totaled \$369,789 and \$142,254, respectively.

ORANGE COUNTY WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m. Classification of Liabilities

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

n. Compensated Absences

Vested or accumulated vacation and sick leave are expensed as benefits accrue to employees. The following is a summary of the changes in compensated absences for the years ended June 30, 2019 and 2018:

June 30, 2019

	<u>Balances at June 30, 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balances at June 30, 2019</u>	<u>Due Within One Year</u>
Compensated Absences	\$ 5,510,130	\$ 2,708,052	\$ 2,797,856	\$ 5,420,326	\$ 341,880

June 30, 2018

	<u>Balances at June 30, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balances at June 30, 2018</u>	<u>Due Within One Year</u>
Compensated Absences	\$ 5,301,137	\$ 3,023,753	\$ 2,814,760	\$ 5,510,130	\$ 322,727

o. Cash and Cash Equivalents

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

p. Postemployment Benefits Other Than Pensions (OPEB):

For purposes of measuring the net OPEB liability and deferred outflows/inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District’s OPEB plan and additions to/deductions from the OPEB plan’s fiduciary net position has been determined on the same basis as they are reported by the plan. For this purpose, the District’s OPEB plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value.

q. Use of Estimates

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

r. Prior Year Data

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the government’s prior year financial statements, from which this selected financial data was derived.

ORANGE COUNTY WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2019

2. CASH AND INVESTMENTS

Cash and investments held by the District were comprised of the following at June 30, 2019 and 2018:

Financial Statements Classification:	2019	2018
Current:		
Cash and cash equivalents	\$ 61,238,657	\$ 45,522,098
Investments:		
U.S. Government Sponsored Agency Securities	143,877,204	114,279,249
Restricted:		
Cash and cash equivalents	3,210,433	66,579
Investments	134,622,573	-
Custodial cash and investments	2,442,993	-
Custodial escrow retention	974,530	367,739
Total for proprietary fund	346,366,390	160,235,665
 Cash and investments - fiduciary fund	 18,500,192	 11,136,282
 Total for proprietary and fiduciary funds	 \$ 364,866,582	 \$ 171,371,947

Cash and investments as of June 30, 2019 and 2018, consisted of the following:

	2019	2018
Cash on hand	\$ 2,700	\$ 2,700
Deposits with financial institutions	4,016,013	1,980,437
Investments - proprietary fund	342,347,677	158,252,528
Investments - fiduciary fund	18,500,192	11,136,282
 Total cash and investments	 \$ 364,866,582	 \$ 171,371,947

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

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

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

ORANGE COUNTY WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2019

2. CASH AND INVESTMENTS (CONTINUED)

Investments Authorized by the California Government Code and the District's Investment Policy (Continued)

Authorized Investment Type	Maximum Maturity	Percentage of Portfolio	Maximum Investment in One Issuer
United States Treasury Obligations	5 years	No limitation	No limitation
United States Government			
Sponsored Agency Securities	5 years	No limitation	No limitation
Banker's Acceptances	180 days	15%	5%
Commercial Paper	180 days	15%	10%
Collateralized Certificates of Deposit	5 years	15%	No limitation
Negotiable Certificates of Deposit	5 years	15%	No limitation
Fully Insured Deposits	5 years	15%	No limitation
Repurchase Agreements	30 days	10%	No limitation
Medium Term Notes	5 years	15%	5%
Mutual Funds	N/A	15%	10%
Asset-Backed Securities	5 years	15%	No limitation
Local Agency Investment Fund	N/A	No limitation	\$65 Million
County Pooled Investment Fund	N/A	No limitation	\$20 Million
High Grade State Municipal Bonds	N/A	15%	5%

N/A - Not Applicable

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the District's investments (including investments held by bond trustee) to market interest rate fluctuations are provided by the following tables that show the distribution of the District's investments by maturity as of June 30, 2019 and 2018.

ORANGE COUNTY WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2019

2. CASH AND INVESTMENTS (CONTINUED)

Disclosures Relating to Interest Rate Risk (Continued)

June 30, 2019

Investment Type	Remaining Maturity (in Months)			Total
	12 Months or Less	13 to 24 Months	25 to 60 Months	
United States Government Sponsored				
Agency Securities	\$ 48,310,396	\$ 55,493,447	\$ 40,073,361	\$ 143,877,204
Local Agency Investment Fund	38,366,263	-	-	38,366,263
Orange County Pooled Investment Fund	19,950,731	-	-	19,950,731
Held by Bond Trustee:				
United States Treasury Notes	37,358,474	96,691,216	572,883	134,622,573
Money Market Mutual Funds	3,087,913	-	-	3,087,913
Held by SWAP Provider:				
United States Government Sponsored				
Agency Securities	-	2,442,993	-	2,442,993
Held by OPEB Trust:				
Money Market Mutual Funds	18,500,192	-	-	18,500,192
Total	<u>\$ 165,573,969</u>	<u>\$ 154,627,656</u>	<u>\$ 40,646,244</u>	<u>\$ 360,847,869</u>

June 30, 2018

Investment Type	Remaining Maturity (in Months)			Total
	12 Months or Less	13 to 24 Months	25 to 60 Months	
United States Government Sponsored				
Agency Securities	\$ 20,920,750	\$ 30,946,188	\$ 62,412,311	\$ 114,279,249
Local Agency Investment Fund	29,413,332	-	-	29,413,332
Orange County Pooled Investment Fund	14,559,627	-	-	14,559,627
Held by Bond Trustee:				
Money Market Mutual Funds	320	-	-	320
Held by OPEB Trust:				
Money Market Mutual Funds	11,136,282	-	-	11,136,282
Total	<u>\$ 76,030,311</u>	<u>\$ 30,946,188</u>	<u>\$ 62,412,311</u>	<u>\$ 169,388,810</u>

ORANGE COUNTY WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2019

2. CASH AND INVESTMENTS (CONTINUED)

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented in the following tables are the Standard and Poor's credit ratings for the District's investments as of June 30, 2019 and 2018.

June 30, 2019

Investment Type	Minimum Legal Rating	Total as of June 30, 2019	AAA	AA+	Unrated	Not Required to be Rated
United States Government-Sponsored						
Agency Securities	N/A	\$ 143,877,204	\$ -	\$ 143,877,204	\$ -	\$ -
Local Agency Investment Fund	N/A	38,366,263	-	-	38,366,263	-
Orange County Pooled Investment Fund	N/A	19,950,731	19,950,731	-	-	-
Held by Bond Trustee:						
United States Treasury Notes	AAA	134,622,573	-	-	-	134,622,573
Money Market Mutual Funds	AAAAm	3,087,913	3,087,913	-	-	-
Held by SWAP Provider:	N/A					
United States Government-Sponsored						
Agency Securities	N/A	2,442,993	-	2,442,993	-	-
Held by OPEB Trust:						
Money Market Mutual Funds	N/A	18,500,192	-	-	18,500,192	-
Total		<u>\$ 360,847,869</u>	<u>\$ 23,038,644</u>	<u>\$ 146,320,197</u>	<u>\$ 56,866,455</u>	<u>\$ 134,622,573</u>

June 30, 2018

Investment Type	Minimum Legal Rating	Total as of June 30, 2018	AAA	AA+	Unrated	Not Required to be Rated
United States Government-Sponsored						
Agency Securities	N/A	\$ 114,279,249	\$ -	\$ 114,279,249	\$ -	\$ -
Local Agency Investment Fund	N/A	29,413,332	-	-	29,413,332	-
Orange County Pooled Investment Fund	N/A	14,559,627	14,559,627	-	-	-
Held by Bond Trustee:						
Money Market Mutual Funds	AAAAm	320	320	-	-	-
Held by OPEB Trust:						
Money Market Mutual Funds	N/A	11,136,282	-	-	11,136,282	-
Total		<u>\$ 169,388,810</u>	<u>\$ 14,559,947</u>	<u>\$ 114,279,249</u>	<u>\$ 40,549,614</u>	<u>\$ -</u>

ORANGE COUNTY WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2019

2. CASH AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk

Investments in any one issuer that represent 5% or more of total District investments as of June 30, 2019 and 2018, are as follows:

June 30, 2019

Issuer	Investment Type	Amount	Percent of Investments
Federal Home Loan Mortgage Corporation	United States Government Sponsored Agency Securities	\$ 63,957,640	17.72%
Federal Farm Credit Bank	United States Government Sponsored Agency Securities	19,967,045	5.53%
Federal Home Loan Bank	United States Government Sponsored Agency Securities	45,595,043	12.64%

June 30, 2018

Issuer	Investment Type	Amount	Percent of Investments
Federal National Mortgage Association	United States Government Sponsored Agency Securities	\$ 14,171,378	8.37%
Federal Home Loan Mortgage Corporation	United States Government Sponsored Agency Securities	37,342,660	22.05%
Federal Farm Credit Bank	United States Government Sponsored Agency Securities	17,107,355	10.10%
Federal Home Loan Bank	United States Government Sponsored Agency Securities	45,657,856	26.95%

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the District will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, the District will not be able to recover the value of its investment or collateral securities that are in the possession of another party. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as Local Agency Investment Fund (LAIF)) and Orange County Pooled Investment Fund).

2. CASH AND INVESTMENTS (CONTINUED)

Custodial Credit Risk (Continued)

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

As of June 30, 2019 and 2018, all of the District's deposits with financial institutions were covered by federal depository insurance limits or were held in collateralized accounts.

Investment in State Investment Pool and County Investment Pool

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

Fair Value Measurements

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

Deposits and securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. United States Government Sponsored Agency Securities are classified in Level 2 of the fair value hierarchy using institutional bond quotes.

ORANGE COUNTY WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2019

2. CASH AND INVESTMENTS (CONTINUED)

Fair Value Measurements (Continued)

The District has the following recurring fair value measurements as of June 30, 2019 and 2018:

June 30, 2019

Investment Type	Quoted Prices Level 1	Observable Inputs Level 2	Unobservable Inputs Level 3	Total
United States Government Sponsored				
Agency Securities	\$ -	\$ 143,877,204	\$ -	\$ 143,877,204
Held by Bond Trustee:				
United States Treasury Notes	-	134,622,573	-	134,622,573
Held by SWAP Provider:				
United States Government Sponsored				
Agency Securities	-	2,442,993	-	2,442,993
Total Leveled Investments	<u>\$ -</u>	<u>\$ 280,942,770</u>	<u>\$ -</u>	280,942,770
Local Agency Investment Fund*				38,366,263
Orange County Pooled Investment Fund*				19,950,731
Money Market Mutual Funds:				
Held by Bond Trustee*				3,087,913
OPEB Trust*				18,500,192
Total Investment Portfolio				<u>\$ 360,847,869</u>

* Not subject to fair value measurement hierarchy.

June 30, 2018

Investment Type	Quoted Prices Level 1	Observable Inputs Level 2	Unobservable Inputs Level 3	Total
United States Government Sponsored				
Agency Securities	\$ -	\$ 114,279,249	\$ -	\$ 114,279,249
Total Leveled Investments	<u>\$ -</u>	<u>\$ 114,279,249</u>	<u>\$ -</u>	114,279,249
Local Agency Investment Fund*				29,413,332
Orange County Pooled Investment Fund*				14,559,627
Money Market Mutual Funds:				
Held by Bond Trustee*				320
OPEB Trust*				11,136,282
Total Investment Portfolio				<u>\$ 169,388,810</u>

* Not subject to fair value measurement hierarchy.

ORANGE COUNTY WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2019

2. CASH AND INVESTMENTS (CONTINUED)

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

Investment Policy

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

Those guidelines are as follows:

Risk Tolerance:	Balanced
Risk Management:	The portfolio is constructed to control risk through four layers of diversification - asset classes (cash, fixed income, equity), investment styles (large cap, small cap, international, value, growth), managers, and securities. Disciplined mutual fund selection and monitoring process help to drive return potential while reducing portfolio risk.
Investment Objective:	To provide growth of principal and income. While dividend and interest income are an important component of the objective’s total return, it is expected that capital appreciation will comprise a larger portion of the total return.
Strategic Ranges:	0% - 20% Cash 30% - 50% Fixed Income 50% - 70% Equity

Rate of Return

For the years ended June 30, 2019 and 2018, the annual money-weighted rate of return on investments, net of investment expense, was 7.02% and 3.79%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

3. RESTRICTED ASSETS

Restricted assets were provided by, and are to be used for, the following at June 30, 2019:

<u>Funding Source</u>	<u>Use</u>	<u>Amount</u>
Certificates of Participation		
Proceeds and interest earned	Debt service	\$ 138,197,589
Custodial receipts	Custodial costs	<u>3,540,042</u>
		<u>\$ 141,737,631</u>

ORANGE COUNTY WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2019

3. RESTRICTED ASSETS (CONTINUED)

Restricted assets were provided by, and are to be used for, the following at June 30, 2018:

Funding Source	Use	Amount
Certificates of Participation		
Proceeds and interest earned	Debt service	\$ 320
Custodial receipts	Custodial costs	433,998
		<u>\$ 434,318</u>

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

4. CAPITAL ASSETS

A summary of the changes in capital assets for the fiscal year ended June 30, 2019, were as follows:

	Balance at July 1, 2018	Additions	Deletions/ Transfers	Balance at June 30, 2019
Capital assets, not depreciated:				
Land	\$ 74,146,641	\$ -	\$ (470)	\$ 74,146,171
Water rights	6,823,570	-	-	6,823,570
Construction in progress	57,022,335	34,375,814	(29,403,059)	61,995,090
Total capital assets, not depreciated	<u>137,992,546</u>	<u>34,375,814</u>	<u>(29,403,529)</u>	<u>142,964,831</u>
Capital assets, being depreciated:				
Structures and improvements	702,316,773	14,372,152	(153,513)	716,535,412
Infrastructure	73,496,821	6,738,607	-	80,235,428
Equipment	287,384,414	2,983,027	(1,995,115)	288,372,326
Total capital assets, being depreciated	<u>1,063,198,008</u>	<u>24,093,786</u>	<u>(2,148,628)</u>	<u>1,085,143,166</u>
Less accumulated depreciation for:				
Structures and improvements	(373,238,612)	(15,517,102)	142,853	(388,612,861)
Infrastructure	(17,239,362)	(2,118,769)	-	(19,358,131)
Equipment	(105,299,746)	(18,229,144)	868,009	(122,660,881)
Total accumulated depreciation	<u>(495,777,720)</u>	<u>(35,865,015)</u>	<u>1,010,862</u>	<u>(530,631,873)</u>
Total capital assets, being depreciated, net	<u>567,420,288</u>	<u>(11,771,229)</u>	<u>(1,137,766)</u>	<u>554,511,293</u>
Total capital assets, net	<u>\$ 705,412,834</u>	<u>\$ 22,604,585</u>	<u>\$ (30,541,295)</u>	<u>\$ 697,476,124</u>

The deletions in construction in progress exceed the additions in capital assets, being depreciated, by \$5,309,273. This is due to expensing and abandoned capital project totaling \$3,073,761 and making \$2,235,512 of capital contributions to other parties as noted in the Statement of Revenues and Expenses and Changes in Net Position.

ORANGE COUNTY WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2019

4. CAPITAL ASSETS (CONTINUED)

A summary of the changes in capital assets for the fiscal year ended June 30, 2018, were as follows:

	Balance at July 1, 2017	Additions	Deletions/ Transfers	Balance at June 30, 2018
Capital assets, not depreciated:				
Land	\$ 74,146,641	\$ -	\$ -	\$ 74,146,641
Water rights	6,823,570	-	-	6,823,570
Construction in progress	74,097,612	32,113,586	(49,188,863)	57,022,335
Total capital assets, not depreciated	<u>155,067,823</u>	<u>32,113,586</u>	<u>(49,188,863)</u>	<u>137,992,546</u>
Capital assets, being depreciated:				
Structures and improvements	675,882,210	26,434,563	-	702,316,773
Infrastructure	68,297,651	5,199,170	-	73,496,821
Equipment	275,897,048	17,555,130	(6,067,764)	287,384,414
Total capital assets, being depreciated	<u>1,020,076,909</u>	<u>49,188,863</u>	<u>(6,067,764)</u>	<u>1,063,198,008</u>
Less accumulated depreciation for:				
Structures and improvements	(357,588,864)	(15,649,748)	-	(373,238,612)
Infrastructure	(15,432,443)	(1,806,919)	-	(17,239,362)
Equipment	(92,694,639)	(18,666,888)	6,061,781	(105,299,746)
Total accumulated depreciation	<u>(465,715,946)</u>	<u>(36,123,555)</u>	<u>6,061,781</u>	<u>(495,777,720)</u>
Total capital assets, being depreciated, net	<u>554,360,963</u>	<u>13,065,308</u>	<u>(5,983)</u>	<u>567,420,288</u>
Total capital assets, net	<u>\$ 709,428,786</u>	<u>\$ 45,178,894</u>	<u>\$ (49,194,846)</u>	<u>\$ 705,412,834</u>

5. NOTES RECEIVABLE

In February 2018, the District entered into an agreement to provide the City of Buena Park a 0% interest loan of up to \$6,000,000 to construct the Rosecrans Booster Pump Station that will allow the City to increase groundwater utilization and give the City the ability to meet its water demands by pumping groundwater. The principal balance shall be repaid over 20 years in 20 equal installments commencing June 30, 2019. As of June 30, 2019, \$4,984,753 has been paid to the City for this loan.

ORANGE COUNTY WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2019

5. NOTES RECEIVABLE (CONTINUED)

Additionally, the District contracts with other local agencies to provide long-term, low-interest financing for the construction of conjunctive use wells and other facilities' projects owned by the District. Costs incurred for construction of these facilities are recorded as capital assets. Notes receivable are recorded for the project costs with the offsetting amount to contributed capital. The capital assets are depreciated over the life of the corresponding note receivable. Notes receivable consist of the following at June 30, 2019 and 2018:

	2019	2018
Balances at June 30,	\$ 186,528	\$ 722,894
Plus: Notes issued	4,984,753	-
Less: Payments received	(334,013)	(536,366)
Subtotal	4,837,268	186,528
Less: Current portion	(336,987)	(84,774)
Total noncurrent notes receivable	<u>\$ 4,500,281</u>	<u>\$ 101,754</u>

Payment requirements on the notes receivable subsequent to June 30, 2019, are as follows:

Year Ending June 30,	Principal	Interest	Total Payment
2020	\$ 336,987	\$ 3,325	\$ 340,312
2021	263,240	245	263,485
2022	249,238	-	249,238
2023	249,238	-	249,238
2024	249,238	-	249,238
Thereafter	3,489,327	-	3,489,327
	<u>\$ 4,837,268</u>	<u>\$ 3,570</u>	<u>\$ 4,840,838</u>

6. LONG-TERM DEBT

Certificates of Participation and Refunding Revenue Bonds - Other Debt

2003A Certificates of Participation

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

The certificates are obligations of the Public Facilities Corporation payable solely from payments received from the District pursuant to the Installment Purchase Agreement by and between the District and the Public Facilities Corporation.

The 2003 Series A Certificates of Participation are due in annual installments of \$13,755,000 to \$18,535,000 from August 2035 to August 2042 with interest at an adjustable rate calculated weekly and payable monthly. The 2003A Certificates of Participation outstanding totaled \$129,815,000 as of June 30, 2019 and 2018. The interest rate at June 30, 2019 and 2018, was 1.40% and 1.29%, respectively.

ORANGE COUNTY WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2019

6. LONG-TERM DEBT (CONTINUED)

Certificates of Participation and Refunding Revenue Bonds - Other Debt (Continued)

2013A Refunding Revenue Bonds

In June 2013, the District issued \$53,000,000 of 2013A Refunding Revenue Bonds to defease the remaining \$63,170,000 of 2003B Certificates of Participation. The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$1,534,199.

The 2013 Series A Refunding Revenue Bonds consist of \$53,000,000 of serial bonds. The bonds accrue interest at rates between 4.00% and 5.00% and mature between August 2025 and August 2033 in amounts ranging from \$675,000 to \$13,900,000. The 2013A Refunding Revenue Bonds outstanding totaled \$53,000,000 as of June 30, 2019 and 2018.

2017A & B Refunding Revenue Bonds

In February 2017, the District issued \$115,000,000 of 2017A & B Refunding Revenue Bonds to defease the remaining \$125,985,000 of 2009A Certificates of Participation. The issuance proceeds were used to refund the 2009A Certificates of Participation and were placed in an irrevocable trust with an escrow agent. As a result, the 2009A Certificates of Participation are considered to be in substance defeased, and the related liabilities have been removed from the District's financial statements. The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$10,515,560.

During the year ended June 30, 2019, \$7,685,000 of the 2017B Bonds was defeased by the issuance of the 2019B Refunding Revenue Bonds that advance refunded these bonds.

The 2017A & B Refunding Revenue Bonds consist of \$89,735,000 non-taxable and \$17,580,000 taxable (\$25,265,000 original amount less \$7,685,000 defeased by the 2019B Bonds), respectively, of serial bonds. The bonds accrue interest at rates between 0.82% and 5.00%, payable semiannually on August 15 and February 15, commencing August 15, 2017, and maturing on August 15, 2041, in amounts ranging from \$385,000 to \$17,845,000.

The 2017A & B Refunding Revenue Bonds outstanding totaled \$106,095,000 and \$114,380,000 as of June 30, 2019 and 2018, respectively.

2019A & B Certificates of Participation

In June 2019, the District issued \$135,000,000 of 2019A Interim Obligation Revenue Bonds and \$6,505,000 of 2019B Certificates of Participation.

The 2019A Certificates of Participation were issued to finance the GWRS Final Expansion Project, which will expand the Groundwater Replenishment System (recycled water facility) by 31,000 acre-feet. In July 2018, the District entered into the WIFIA Loan to provide financing for the GWRS Final Expansion Project and can draw up to \$135,000,000. Upon substantial completion of the GWRS Final Expansion Project, the District currently expects to draw on the WIFIA Loan to repay the 2019A Interim Obligations at or prior to maturity. If the WIFIA Loan proceeds are not received by the District at or prior to the maturity date of the 2019A Interim Obligations, the District would have to issue and sell refunding obligations prior to the maturity of the 2019A Interim Obligations to pay all or apportion of the 2019A Interim Obligations.

6. LONG-TERM DEBT (CONTINUED)

Certificates of Participation and Refunding Revenue Bonds - Other Debt (Continued)

2019A & B Certificates of Participation (Continued)

The 2019B Certificates of Participation, including an original premium of \$1,813,394, were issued to refund \$7,685,000 of the 2017B Refunding Revenue Bonds. The issuance proceeds were used to refund \$7,685,000 of the 2017B Bonds and were placed in an irrevocable trust with an escrow agent. As a result, the \$7,685,000 of the 2017B Bonds are considered to be in substance defeased, and the related liabilities have been removed from the District's financial statements. The District's refunding of \$7,685,000 of the 2017B Bonds resulted in an economic gain (difference between the present value of the old and new debt) of \$485,580 and an aggregate savings in debt service between the refunding debt and the refunded debt of \$620,839.

The 2019B current refunding of \$7,685,000 of the 2017B Bonds resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$540,031.

The 2019A Certificates of Participation accrue interest at a rate of 2%, payable semiannually on August 15 and February 15, commencing February 15, 2020 and maturing on August 15, 2023, with the entire principal balance of \$135,000,000 due on the maturity date. The 2019B Certificates of Participation accrue interest at rates between 4% and 5%, payable semiannually on August 15 and February 15, commencing February 15, 2020 and maturing on August 15, 2031, in amounts ranging from \$125,000 to \$2,690,000.

The 2019A & B Certificates of Participation outstanding totaled \$141,505,000 as of June 30, 2019.

Covenants and Reserve Requirements

The 2003A, 2013A, 2017A & B, and 2019A & B Installment Purchase Agreements require the District to prescribe, assess, and collect replenishment assessments and additional replenishment assessments which, together with other revenues of the District, are reasonably expected to be at least sufficient to yield net revenues during such fiscal year equal to 125% of debt service payable in such fiscal year. The District's ratio of net revenues to debt service for the fiscal year ended June 30, 2019 and 2018 was 472% and 382%, respectively.

Other Defeased Certificates of Participation

In prior years, the District defeased certain certificates of participation, including the 1999A, 2003B, 2005B, 2007A, and 2009A Certificates, by placing the proceeds of the new bonds or cash with an escrow agent to provide for all future debt service payments on the old bonds. Accordingly, the escrow account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2019 and 2018, \$194,975,000 and \$203,055,000 of bonds outstanding to be paid by the escrow agent, respectively, are considered defeased.

ORANGE COUNTY WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2019

6. LONG-TERM DEBT (CONTINUED)

Certificates of Participation and Refunding Revenue Bonds - Other Debt (Continued)

Summary of Changes

The following is a summary of the changes in Certificates of Participation and Refunding Revenue Bonds for the year ended June 30, 2019:

	Balance at July 1, 2018	Additions	Repayments	Balance at June 30, 2019	Due Within One Year
Certificates of Participation (COP) and Refunding Revenue Bonds:					
2003A COP	\$ 129,815,000	\$ -	\$ -	\$ 129,815,000	\$ -
2013A Refunding Revenue Bonds	53,000,000	-	-	53,000,000	-
2017AB Refunding Revenue Bonds	114,380,000	-	(8,285,000)	106,095,000	595,000
2019AB COP	-	141,505,000	-	141,505,000	-
	<u>297,195,000</u>	<u>141,505,000</u>	<u>(8,285,000)</u>	<u>430,415,000</u>	<u>595,000</u>
Add:					
Unamortized (discount) premium	19,385,413	5,203,244	(1,731,098)	22,857,559	
Total	<u>\$ 316,580,413</u>	<u>\$ 146,708,244</u>	<u>\$ (10,016,098)</u>	<u>\$ 453,272,559</u>	

The following is a summary of the changes in Certificates of Participation and Refunding Revenue Bonds for the year ended June 30, 2018:

	Balance at July 1, 2017	Additions	Repayments	Balance at June 30, 2018	Within One Year
Certificates of Participation (COP) and Refunding Revenue Bonds:					
2003A COP	\$ 129,815,000	\$ -	\$ -	\$ 129,815,000	\$ -
2013A Refunding Revenue Bonds	53,000,000	-	-	53,000,000	-
2017AB Refunding Revenue Bonds	115,000,000	-	(620,000)	114,380,000	600,000
	<u>297,815,000</u>	<u>-</u>	<u>(620,000)</u>	<u>297,195,000</u>	<u>600,000</u>
Add:					
Unamortized (discount) premium	20,418,466	-	(1,033,053)	19,385,413	
Total	<u>\$ 318,233,466</u>	<u>\$ -</u>	<u>\$ (1,653,053)</u>	<u>\$ 316,580,413</u>	

ORANGE COUNTY WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2019

6. LONG-TERM DEBT (CONTINUED)

Certificates of Participation and Refunding Revenue Bonds - Other Debt (Continued)

Summary of Changes (Continued)

Aggregate maturities of the Certificates of Participation, Refunding Revenue Bonds, and interest payments (using 1.40% on the 2003A variable rate debt) subsequent to June 30, 2019, are as follows:

Year Ending June 30,	Principal	Interest	Total Payment
2020	\$ 595,000	\$ 11,005,355	\$ 11,600,355
2021	510,000	12,089,353	12,599,353
2022	550,000	12,062,853	12,612,853
2023	665,000	12,032,478	12,697,478
2024	135,610,000	10,650,603	146,260,603
2025 - 2029	26,560,000	44,458,265	71,018,265
2030 - 2034	70,385,000	31,576,441	101,961,441
2035 -2039	97,485,000	15,478,496	112,963,496
2040 - 2043	98,055,000	3,751,708	101,806,708
	<u>\$ 430,415,000</u>	<u>\$ 153,105,552</u>	<u>\$ 583,520,552</u>

State of California Loans Payable - Direct Borrowing

Groundwater Replenishment System

In May 2006, the District entered into an agreement with the State Water Resources Control Board for the construction of the Groundwater Replenishment System (GWRS) project. The District may borrow up to \$8,659,470 or the eligible costs of the project, whichever is less. At June 30, 2019, the State Water Resources Control Board had disbursed \$7,216,196 under the loan contract. The loan has an interest rate of 1.8% with maturities through 2024. The outstanding balance totaled \$2,267,086 and \$2,694,092 as of June 30, 2019 and 2018, respectively.

GWRS Barrier Facilities

In May 2006, the District entered into an agreement with the State Water Resources Control Board for construction of the new injection wells. The District may borrow up to \$4,491,018 or the eligible costs of the project, whichever is less. At June 30, 2019, the State Water Resources Control Board had disbursed \$3,479,837 under the loan contract. The loan has an interest rate of 1.8% with maturities through 2026. The outstanding balance totaled \$1,427,895 and \$1,616,953 as of June 30, 2019 and 2018, respectively.

GWRS Pipeline Unit 1

In May 2006, the District entered into an agreement with the State Water Resources Control Board for construction of the first portion of the GWRS pipeline. The District may borrow up to \$5,310,891 or the eligible costs of the project, whichever is less. At June 30, 2019, the State Water Resources Control Board had disbursed \$4,425,725 under the loan contract. The loan has an interest rate of 1.8% with maturities through 2026. The outstanding balance totaled \$1,815,703 and \$2,056,063 as of June 30, 2019 and 2018, respectively.

ORANGE COUNTY WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2019

6. LONG-TERM DEBT (CONTINUED)

State of California Loans Payable - Direct Borrowing (Continued)

GWRS Pipeline Unit 2

In May 2006, the District entered into an agreement with the State Water Resources Control Board for construction of the second portion of the GWRS pipeline. The District may borrow up to \$3,452,552 or the eligible costs of the project, whichever is less. At June 30, 2019, the State Water Resources Control Board had disbursed \$2,877,115 under the loan contract. The loan has an interest rate of 1.8% with maturities through 2026. The outstanding balance totaled \$1,179,931 and \$1,336,069 as of June 30, 2019 and 2018, respectively.

GWRS Pipeline Unit 3

In May 2006, the District entered into an agreement with the State Water Resources Control Board for construction of the third portion of the GWRS pipeline. The District may borrow up to \$4,137,559 or the eligible costs of the project, whichever is less. At June 30, 2019, the State Water Resources Control Board had disbursed \$3,429,338 under the loan contract. The loan has an interest rate of 1.8% with maturities through 2026. The outstanding balance totaled \$1,333,143 and \$1,509,151 as of June 30, 2019 and 2018, respectively.

GWRS Advanced Water Treatment Facility

In June 2006, the District entered into an agreement with the State Water Resources Control Board for construction of the new advanced wastewater treatment facility for the District's GWRS. The District may borrow up to \$136,802,193 or the eligible costs of the project, whichever is less. At June 30, 2019, the State Water Resources Control Board had disbursed \$114,000,776 under the loan contract. The loan has an interest rate of 1.8% with maturities through 2028. The outstanding balance totaled \$56,358,910 and \$62,079,688 as of June 30, 2019 and 2018, respectively.

GWRS Initial Expansion

In August 2011, the District entered into an agreement with the State Water Resources Control Board for construction of the GWRS Initial Expansion project. The District may borrow up to \$137,442,775 or the eligible costs of the project, whichever is less. At June 30, 2019, the State Water Resources Control Board had disbursed \$137,442,775 under the loan contract. The loan has an interest rate of 2.6% with maturities through 2036. The outstanding balance totaled \$128,390,727 and \$134,338,171 as of June 30, 2019 and 2018, respectively.

Fletcher Basin

In November 2013, the District entered into an agreement with the State Water Resources Control Board for the construction of the Fletcher Basin Improvement project. The District may borrow up to \$2,879,342 or the eligible costs of the project, whichever is less. At June 30, 2019, the State Water Resources Control Board had disbursed \$2,879,342 under the loan contract. The loan has an interest rate of 1.9% with a repayment period of 20 years after project completion. The outstanding balance totaled \$2,531,716 and \$2,656,902 as of June 30, 2019 and 2018, respectively.

ORANGE COUNTY WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2019

6. LONG-TERM DEBT (CONTINUED)

State of California Loans Payable - Direct Borrowing (Continued)

Alamitos Barrier

In November 2013, the District entered into an agreement with the State Water Resources Control Board for expansion of the Alamitos Seawater Intrusion Barrier. The District may borrow up to \$14,485,000 or the eligible costs of the project, whichever is less. At June 30, 2019, the State Water Resources Control Board had disbursed \$14,339,534 under the loan contract. In addition, a loan receivable of \$47,228 has been added to the principal. The loan has an interest rate of 1.9% with a repayment period of 20 years after project completion. The outstanding balance totaled \$14,386,762 and \$13,588,587 as of June 30, 2019 and 2018, respectively.

La Palma Basin

In February 2016, the District entered into an agreement with the State Water Resources Control Board for construction of a groundwater recharge basin. The District may borrow up to \$8,570,970 or the eligible costs of the project, whichever is less. At June 30, 2019, the State Water Resources Control Board had disbursed \$5,446,635 under the loan contract. The loan has an interest rate of 1.0% with a repayment period of 30 years after project completion. The outstanding balance totaled \$5,137,274 and \$5,296,380 as of June 30, 2019 and 2018, respectively.

Mid-Basin Centennial Park Injection

In November 2017, the District entered into an agreement with the State Water Resources Control Board for construction of four injection wells and one nested monitoring well in Centennial Park. The District may borrow up to \$18,076,506 or the eligible costs of the project, whichever is less. At June 30, 2019, the State Water Resources Control Board had disbursed \$14,360,631 under the loan contract. In addition, accrued interest of \$46,276 and a loan receivable of \$1,118,466 have been added to the principal. The loan has an interest rate of 1.8% with a repayment period of 30 years after project completion. The outstanding balance totaled \$15,525,373 and \$8,806,657 as of June 30, 2019 and 2018, respectively.

Covenants and Reserve Requirements

The Groundwater Replenishment System, GWRS Barrier Facilities, GWRS Pipeline Unit 1, GWRS Pipeline Unit 2, GWRS Pipeline Unit 3, and GWRS Advanced Water Treatment Facility loans payable require the District to prescribe, assess, and collect replenishment assessments and additional replenishment assessments which, together with other revenues of the District, are reasonably expected to be at least sufficient to yield net revenues during such fiscal year equal to 110% of debt service payable in such fiscal year.

The GWRS Initial Expansion, Fletcher Basin, Alamitos Barrier, La Palma Basin, and Mid-Basin Centennial Park Injection loans payable require the District to prescribe, assess, and collect replenishment assessments and additional replenishment assessments which, together with other revenues of the District, are reasonably expected to be at least sufficient to yield net revenues during such fiscal year equal to 125% of debt service payable in such fiscal year.

The District's ratio of net revenues to debt service for the fiscal year ended June 30, 2019 and 2018 was 472% and 382%, respectively.

The GWRS Initial Expansion, Fletcher Basin, Alamitos Barrier, La Palma Basin, and Mid-Basin Centennial Park Injection loans payable require the District to have a reserve of one year's debt service. The District's reserve of \$10,557,000 as of June 30, 2019 and 2018, included in Statement of Net Position as cash and cash equivalents and investments, meets this requirement.

ORANGE COUNTY WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2019

6. LONG-TERM DEBT (CONTINUED)

State of California Loans Payable - Direct Borrowing (Continued)

Summary of Changes

The following is a summary of the changes in loans payable to the State of California for the year ended June 30, 2019:

	Balance July 1, 2018	Additions	Repayments	Balance June 30, 2019	Within One Year
GWRS	\$ 2,694,092	\$ -	\$ (427,006)	\$ 2,267,086	\$ 435,577
GWRS Barrier Facilities	1,616,953	-	(189,058)	1,427,895	192,649
GWRS Pipeline Unit 1	2,056,063	-	(240,360)	1,815,703	244,938
GWRS Pipeline Unit 2	1,336,069	-	(156,138)	1,179,931	159,126
GWRS Pipeline Unit 3	1,509,151	-	(176,008)	1,333,143	179,478
GWRS Advanced Water Treatment Facility	62,079,688	-	(5,720,778)	56,358,910	5,823,923
GWRS Initial Expansion	134,338,171	-	(5,947,444)	128,390,727	6,102,078
Fletcher Basin	2,656,902	-	(125,186)	2,531,716	127,564
Alamitos Barrier	13,588,587	798,175	-	14,386,762	492,147
La Palma Basin	5,296,380	-	(159,106)	5,137,274	159,895
Mid-Basin Injection	8,806,657	6,718,716	-	15,525,373	-
	<u>\$ 235,978,713</u>	<u>\$ 7,516,891</u>	<u>\$ (13,141,084)</u>	<u>\$ 230,354,520</u>	<u>\$ 13,917,375</u>

The following is a summary of the changes in loans payable to the State of California for the year ended June 30, 2018:

	Balance July 1, 2017	Additions	Repayments	Balance June 30, 2018	Within One Year
GWRS	\$ 3,112,696	\$ -	\$ (418,604)	\$ 2,694,092	\$ 427,006
GWRS Barrier Facilities	1,802,485	-	(185,532)	1,616,953	189,058
GWRS Pipeline Unit 1	2,291,930	-	(235,867)	2,056,063	240,360
GWRS Pipeline Unit 2	1,489,273	-	(153,204)	1,336,069	156,138
GWRS Pipeline Unit 3	1,681,755	-	(172,604)	1,509,151	176,008
GWRS Advanced Water Treatment Facility	67,699,147	-	(5,619,459)	62,079,688	5,720,778
GWRS Initial Expansion	140,134,900	-	(5,796,729)	134,338,171	5,947,444
Fletcher Basin	2,779,753	-	(122,851)	2,656,902	125,186
Alamitos Barrier	8,933,277	4,655,310	-	13,588,587	-
La Palma Basin	5,237,922	213,759	(155,301)	5,296,380	159,106
Mid-Basin Injection	-	8,806,657	-	8,806,657	-
	<u>\$ 235,163,138</u>	<u>\$ 13,675,726</u>	<u>\$ (12,860,151)</u>	<u>\$ 235,978,713</u>	<u>\$ 13,141,084</u>

ORANGE COUNTY WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2019

6. LONG-TERM DEBT (CONTINUED)

State of California Loans Payable - Direct Borrowing (Continued)

Summary of Changes (Continued)

Debt service requirements on the loans payable to the State of California subsequent to June 30, 2019, are as follows:

Year Ending June 30,	Principal	Interest	Total Payment
2020	\$ 13,917,375	\$ 4,834,825	\$ 18,752,200
2021	14,583,272	4,792,631	19,375,903
2022	14,897,252	4,478,652	19,375,904
2023	15,218,226	4,157,678	19,375,904
2024	15,546,351	3,829,550	19,375,901
2025 - 2029	70,859,997	14,113,709	84,973,706
2030 - 2034	48,552,167	7,287,694	55,839,861
2035 - 2039	25,277,246	1,714,904	26,992,150
2040 - 2044	3,651,998	522,853	4,174,851
2045 - 2049	3,525,991	226,325	3,752,316
2050 - 2054	612,677	11,028	623,705
Portion of Alamitos Barrier Principal as of June 30, 2019*	2,547,227	-	2,547,227
Portion of Mid-Basin Injection Principal as of June 30, 2019*	1,164,741	-	1,164,741
	<u>\$ 230,354,520</u>	<u>\$ 45,969,849</u>	<u>\$ 276,324,369</u>

Commercial Paper - Other Debt

The Public Facilities Corporation issued commercial paper from which the proceeds were used to provide capital funds for the District to purchase land and for water purchases. The commercial paper has a maximum maturity of 270 days. The District issues, annually, Tax and Revenue Anticipation Notes (TRANs), which are additionally secured by revenue to service the commercial paper. On July 1, 2019, the District issued 2018-2019 TRANs amounting to \$70 million to the Public Facilities Corporation, \$40 million of this TRAN is taxable and \$30 million tax exempt. The outstanding balance for the commercial paper totaled \$40,713,000 and \$52,913,000 as of June 30, 2019 and 2018, respectively.

ORANGE COUNTY WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2019

6. LONG-TERM DEBT (CONTINUED)

Commercial Paper - Other Debt (Continued)

The following is a summary of the changes in commercial paper for the year ended June 30, 2019:

	Balance July 1, 2018	Additions	Repayments	Balance June 30, 2019	Within One Year
Commercial Paper - Taxable	\$ 40,000,000	\$ -	\$ (12,200,000)	\$ 27,800,000	\$ 27,800,000
Commercial Paper - Tax exempt	12,913,000	-	-	12,913,000	12,913,000
	<u>\$ 52,913,000</u>	<u>\$ -</u>	<u>\$ (12,200,000)</u>	<u>\$ 40,713,000</u>	<u>\$ 40,713,000</u>

The following is a summary of the changes in commercial paper for the year ended June 30, 2018:

	Balance July 1, 2017	Additions	Repayments	Balance June 30, 2018	Within One Year
Commercial Paper - Taxable	\$ -	\$ 40,000,000	\$ -	\$ 40,000,000	\$ 40,000,000
Commercial Paper - Tax exempt	16,813,000	-	(3,900,000)	12,913,000	12,913,000
	<u>\$ 16,813,000</u>	<u>\$ 40,000,000</u>	<u>\$ (3,900,000)</u>	<u>\$ 52,913,000</u>	<u>\$ 52,913,000</u>

Commercial Paper Utilization for Special Item

During the fiscal year ended June 30, 2018, the District had additions to commercial paper obligations of \$40 million for the purchase of in-lieu water. Metropolitan Water District of Southern California was managing a surplus of imported water in fiscal year 2017-2018 due to the exceptionally wet winter that was recently experienced in California and was at risk of not storing all of the water available. Metropolitan Water District of Southern California encouraged groundwater agencies to purchase additional supplies, if possible. Metropolitan Water District of Southern California made excess treated water available to the District member agencies “in lieu” of their normal groundwater pumping at the untreated rate. This water was only available during fiscal year 2017-2018. The District used the \$40 million in proceeds of a taxable commercial paper debt issuance to purchase 60,000-acre feet of treated supplemental water in December of 2017 from the Metropolitan Water District of Southern California through the Metropolitan Water District of Orange County. This purchase is classified on the Statement of Revenues, Expenses, and Changes in Net Position as a special item in the amount of \$39,999,960 for the fiscal year ended June 30, 2018. The District expects to re-issue the taxable commercial paper as due and eventually repay the \$40 million debt from replenishment assessments and other revenues from time-to-time over a period of approximately ten years.

ORANGE COUNTY WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2019

7. DERIVATIVE INSTRUMENTS - INTEREST RATE SWAP AGREEMENTS

Objective

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

Details on the Swap Agreements

Notional Amount	Fixed Rate	Original/ Refunding COP Issue	Termination Date	Initial Effective Date
\$ 58,800,000	3.314%	2003A/2005A	7/25/2037	2/7/2007
23,750,000	3.314%	2003A/2007B	8/1/2029	5/16/2007
<u>\$ 82,550,000</u>				

Terms

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

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

Summary of Activities in Cash Flow Hedging Derivative Instruments

Notional Amount	Fair Value at July 1, 2017	Change in Fair Value	Fair Value at June 30, 2018	Change in Fair Value	Fair Value at June 30, 2019
\$ 58,800,000	\$ (13,362,775)	\$ 3,239,364	\$ (10,123,411)	\$ (3,706,982)	\$ (13,830,393)
23,750,000	(4,406,476)	1,198,068	(3,208,408)	(1,079,006)	(4,287,414)
<u>\$ 82,550,000</u>	<u>\$ (17,769,251)</u>	<u>\$ 4,437,432</u>	<u>\$ (13,331,819)</u>	<u>\$ (4,785,988)</u>	<u>\$ (18,117,807)</u>

As of June 30, 2019 and 2018, the fair value of \$(18,117,807) and \$(13,331,819), respectively, is reported as a deferred outflow of resources and other noncurrent liability in the Statement of Net Position.

ORANGE COUNTY WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2019

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

Credit Risk

As of June 30, 2019 and 2018, the District was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the District would be exposed to credit risk in the amount of the derivative's fair value.

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

	<u>Standard & Poor's</u>	<u>Moody's</u>
Citibank, N.A.	A+	Aa3

Basis Risk

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

Termination Risk

The swaps may be terminated by the District or the counterparty if the other party fails to perform under the terms of the swap agreements. In addition, the District has the option to terminate the swaps upon proper notification to the counterparty. If the swaps are terminated, the District would prospectively pay the variable rates on the portion of 2003A Certificates of Participation related to the swap agreements rather than a fixed rate. The termination of the swap agreements could therefore increase the District's total debt service. Also, if at the time of the termination, the swaps have a negative fair value, the District would be liable to the counterparty for a payment equal to such negative fair value, or be paid an amount equal to a positive fair value. As of June 30, 2019 and 2018, the swaps had a negative fair value of \$18,117,807 and \$13,331,819, respectively.

Swap Payments and Associated Debt

Using a variable rate of 1.40% for the 2003A COP as of June 30, 2019, debt service requirements of the certificates and the swap payments, assuming current interest rates remain the same for their term are as follows. As rates vary, the variable rate interest payments and net swap payments will vary.

Year Ending June 30,	Variable Rate Debt			Interest Rate Swap, Net	Fixed Debt Service
	Principal	Interest	Total		
2020	\$ -	\$ 1,155,700	\$ 1,155,700	\$ 1,435,270	\$ 2,590,970
2021	-	1,155,700	1,155,700	1,435,270	2,590,970
2022	-	1,155,700	1,155,700	1,435,270	2,590,970
2023	-	1,155,700	1,155,700	1,435,270	2,590,970
2024	-	1,155,700	1,155,700	1,435,270	2,590,970
2025 - 2029	28,650,000	5,114,900	33,764,900	35,002,221	40,117,121
2030 - 2034	19,775,000	2,700,250	22,475,250	23,128,454	25,828,704
2035 - 2038	34,125,000	483,350	34,608,350	34,725,275	35,208,625
	<u>\$ 82,550,000</u>	<u>\$ 14,077,000</u>	<u>\$ 96,627,000</u>	<u>\$ 100,032,300</u>	<u>\$ 114,109,300</u>

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

Fair Value Measurement

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

8. JOINT VENTURES

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

As of June 30, 2019, SAWPA has total assets of \$202,595,319 and total net position of \$70,942,205. As of June 30, 2018, SAWPA has total assets of \$180,493,945 and total net position of \$68,676,928. The District does not have a measurable equity interest in SAWPA. The District is also a participant in other joint ventures in which the District does not have a material equity interest or material ongoing financial interest or responsibility. Separate financial statements of SAWPA can be obtained at 11615 Sterling Avenue, Riverside, California 92503.

9. DEFINED CONTRIBUTION PENSION PLAN

The Money Purchase Plan for employees of Orange County Water District (Money Purchase Plan) is a defined contribution pension plan administered by a committee of the Board of Directors and District employees. The Money Purchase Plan covers all employees, except part-time or temporary employees, immediately upon date of hire. For the first layer, the Money Purchase Plan requires each employee, upon date of hire, to contribute monthly to a mandatory contributions account, by payroll deduction, an amount equal to the current FICA rate not limited to the FICA wage cap. For the first layer, the District may elect in any year to contribute any portion or all of the participant's first layer contribution and the participant's first layer contribution shall be reduced by the amount so contributed by the District. The District is required to make a contribution in an amount equal to the then current Social Security contribution requirement (7.65% for the years ended December 31, 2019 and 2018) for the employer contribution. In addition, the District may elect in any year to contribute any portion or all of the participant's first layer contribution and the participant's first layer contribution shall be reduced by the amount so contributed by the District. The District elected to contribute 3% for the years ended December 31, 2019 and 2018, of the participant's mandatory contribution.

9. DEFINED CONTRIBUTION PENSION PLAN (CONTINUED)

Each eligible employee becomes a participant in the second layer of contribution as of the first day of the month following the completion of 12 months of covered service. The District is required to contribute 6% of the participant's total monthly compensation each month.

Employees are required to make a mandatory contribution of 4.65% of compensation. Employees may elect to contribute to a voluntary contribution account in the Money Purchase Plan. Voluntary contributions may be an amount not less than 2% of compensation, nor more than an amount that would cause all contributions to exceed the lesser of (a) \$55,000 for 2018 or \$56,000 for 2019 or (b) 25.00% of his or her paid compensation for the year. In addition, the District may elect in any year to contribute any portion or all of each employee's Money Purchase Plan contribution, thereby reducing the employee's Money Purchase Plan contribution by the amount contributed by the District.

The Money Purchase Plan may be amended by resolution of the Board of Directors, subject to limitations obtained in the Money Purchase Plan document. Total contributions to the Money Purchase Plan for the years ended June 30, 2019 and 2018, were \$4,022,521 and \$3,984,799, respectively.

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

10. OTHER POST-EMPLOYMENT BENEFITS

a. General Information about the OPEB Plan

Plan Description and Benefits Provided

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

ORANGE COUNTY WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2019

10. OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

a. General Information about the OPEB Plan (Continued)

Plan Description and Benefits Provided (Continued)

The District also elected to join the Public Agency Retirement System OPEB Trust (PARS OPEB Trust) as a means to fund the Annual Determined Contribution (ADC). The District makes quarterly contributions to the PARS OPEB Trust and pays benefits directly to the insurance provider. The PARS OPEB Trust issues a publicly available financial report for the fiduciary net position that is available upon request. The PARS OPEB Trust is reported as a fiduciary fund. The plan itself does not issue a separate financial report.

Employees Covered

The following current and former employees were covered by the benefit terms under the plan as of years ended June 30:

	2019	2018
Inactive plan members currently receiving benefit payments	82	70
Inactive plan members entitled to but not yet receiving benefit payments	-	-
Active plan members	212	219
Total plan participants	294	289

Accounting for the Plan

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

Method Used to Value Investments

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

ORANGE COUNTY WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2019

10. OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

a. General Information about the OPEB Plan (Continued)

Contributions

The contribution requirements of plan members and the District are established and may be amended by the District, District’s Board of Directors, and/or the employee associations. Currently, contributions are not required from plan members. Administrative costs of the OPEB plan are financed through investment earnings. The annual contribution is based on the actuarially determined contribution. For the fiscal year ended June 30, 2019, the District’s cash contributions were \$7,303,932 in payments to the trust, \$6,550 in payments to retirees, and the estimated implied subsidy was \$122,000, resulting in total payments of \$7,432,482. For the fiscal year ended June 30, 2018, the District’s cash contributions were \$1,629,915 in payments to the trust, \$54,460 in payments to retirees, and the estimated implied subsidy was \$100,000, resulting in total payments of \$1,784,375.

b. Total OPEB Liability

The District’s net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2017. A summary of the principal assumptions and methods used to determine the total OPEB liability is shown below.

Actuarial Assumptions

The total OPEB liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless other specified:

Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Actuarial Cost Method	Entry age, level percentage of payroll
Actuarial Assumptions:	
Discount Rate	6.5% at June 30, 2018 and 2017
Long-Term Expected Rate of Return on Investments	6.5%, net of investment expenses
General Inflation	2.75%
Payroll Increases	Aggregate increase - 3%
Medical Trend	Merit increase - CalPERS 1997-2015 experience Pre-Medicare: 7.5% for 2019, decreasing to 4.0% for 2021 and later Medicare: 6.5% for 2019, decreasing to 4.0% for 2021 and later
Mortality, Disability, Termination, Retirement Mortality Improvement	CalPERS 1997-2015 experience study Mortality projected fully generational with Society of Actuaries mortality improvement Scale MP-17

ORANGE COUNTY WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2019

10. OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

b. Total OPEB Liability (Continued)

Actuarial Assumptions (Continued)

The actuarial assumptions used in the June 30, 2017, valuation were based on a standard set of assumptions the actuary has used for similar valuations, modified as appropriate for the District.

The long-term expected rates of return are Bartel Associates estimates and are presented as geometric means developed over a 20-year period. The long-term expected real rates of return for each major asset class included in the OPEB plan's target asset allocation as of June 30, 2017, are summarized in the following table:

Asset Class	Target Allocation for PARS Balanced Fund	Long-Term Expected Real Rate of Return
PARS OPEB Trust:		
Global Equity	58.00%	4.82%
Fixed Income	35.00%	1.47%
Cash	5.00%	0.06%
REITs	2.00%	3.76%
Total	100.00%	

Discount Rate

The discount rate used to measure the total OPEB liability was 6.5%. The projection of cash flows used to determine the discount rate assumed that the District's contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on the PARS OPEB Trust investments was applied to all periods of the projected benefit payments to determine the total OPEB liability.

Change of Discount Rate

The discount rate utilized in the June 30, 2015 valuation, which was based on the requirements of GASB 45, was 5.5% as compared to the June 30, 2017 valuation, which was based on the requirements of GASB 75, discount rate of 6.5%. The discount rate was changed due to expected levels of investment returns.

ORANGE COUNTY WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2019

10. OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

c. Changes in the net OPEB liability

The changes in the net OPEB liability are as follows:

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability (Asset)
Balance at June 30, 2017 (Measurement Date)	\$ 28,702,229	\$ 9,772,275	\$ 18,929,954
Changes in the Year:			
Service cost	866,392	-	866,392
Interest on the total OPEB liability	1,897,438	-	1,897,438
Contributions - employer	-	1,784,375	(1,784,375)
Net investment income	-	360,155	(360,155)
Benefit payments	(754,508)	(754,508)	-
Administrative expenses	-	(26,015)	26,015
Net Changes	2,009,322	1,364,007	645,315
Balance at June 30, 2018 (Measurement Date)	\$ 30,711,551	\$ 11,136,282	\$ 19,575,269

Change of Assumptions

The assumptions used in the June 30, 2017 actuarial valuation, based on the requirements of GASB 75, are significantly different from the July 1, 2015 actuarial valuation, which was based on the requirements of GASB 45. In the July 1, 2015, actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 5.50% investment rate of return (net of administrative expenses), a 5% inflation rate, and that the District's share of premium cost will increase at a rate of 4% per year for all future years. The healthcare trend rates range from 8% in year one decreasing annually by 1% until holding constant at 5% for future years. See Note 10b for the assumptions used in the June 30, 2017 actuarial valuation.

10. OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

c. Changes in the net OPEB liability (Continued)

Change of Benefit Terms

There were no changes of benefit terms.

Subsequent Events

There were no subsequent events that would materially affect the results presented in this disclosure.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (5.5%) or one percentage point higher (7.5%) than the current discount rate (6.5%):

	1% Decrease (5.5%)	Discount Rate (6.5%)	1% Increase (7.5%)
Net OPEB Liability	\$ 24,115,502	\$ 19,575,269	\$ 15,844,919

Sensitivity of the Net OPEB Liability to Changes in the Health-Care Cost Trend Rates

The following presents the net OPEB liability of the District as well as what the District's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (6.5% Pre-Medicare/5.5% Medicare decreasing to 3.0%) or one percentage point higher (8.5% Pre-Medicare/7.5% Medicare decreasing to 5.0%) than the current discount rate (7.5% Pre-Medicare/6.5% Medicare decreasing to 4.0%):

	1% Decrease (6.5% Pre-Medicare/ 5.5% Medicare decreasing to 3.0%)	Current Healthcare Cost Trend Rates (7.5% Pre-Medicare/ 6.5% Medicare decreasing to 4.0%)	1% Increase (8.5% Pre-Medicare/ 7.5% Medicare decreasing to 5.0%)
Net OPEB Liability	\$ 15,155,307	\$ 19,575,269	\$ 25,097,087

ORANGE COUNTY WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2019

10. OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

d. OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended June 30, 2019, the District recognized OPEB expense of \$2,176,522. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to the OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	\$ 7,432,482	\$ -
Differences between projected and actual earnings	231,985	-
Total	\$ 7,664,467	\$ -

The net difference between projected and actual earnings on plan investments is amortized over a five-year period.

An amount of \$7,432,482 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows:

Year Ending June 30,	Amount
2020	\$ 56,672
2021	56,672
2022	56,673
2023	61,968
2024	-
Thereafter	-

e. Payable to the OPEB Plan

At June 30, 2019, the District had no outstanding amount of contributions to the OPEB plan required for the year ended June 30, 2019.

ORANGE COUNTY WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2019

11. RISK MANAGEMENT

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

At June 30, 2019 and 2018, the District participated in the self-insurance programs of the Insurance Authority as follows:

Property Loss - The Insurance Authority has pooled self-insurance up to \$100,000 per occurrence and has purchased excess insurance coverage up to \$500,000,000 (total insurable value of \$387,778,401). The District has a \$25,000 deductible for buildings, personal property and fixed equipment, and mobile equipment and licensed vehicles. Boiler and machinery is \$25,000 or \$50,000 depending on type of equipment.

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

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

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

Crime - The Insurance Authority has pooled self-insurance up to \$100,000 per occurrence and the District has purchased excess insurance coverage up to \$5,000,000. The District has a \$1,000 deductible.

Cyber Liability - The Insurance Authority has excess insurance coverage up to \$3,000,000 per occurrence and \$5,000,000 in the aggregate.

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

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

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

ORANGE COUNTY WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2019

12. COMMITMENTS AND CONTINGENCIES

The District has entered into various contracts for the purchase of material and construction of the Mid Basin Injection Project. The amounts contracted for are based on the contractor's estimated cost of construction. At June 30, 2019 and 2018, the total unpaid amounts on these contracts are approximately \$3,951,395 and \$12,551,530, respectively. During fiscal years ended June 30, 2019 and 2018, the District has entered into various contracts for the construction and rehabilitation of various wells and basins throughout the region. At June 30, 2019 and 2018, the total unpaid amounts on these contracts are approximately \$67,193,074 and \$13,539,997, respectively. The large increase for the fiscal year ended June 30, 2019 is due to the new GWRS Final Expansion capital project. These commitments may be funded from restricted assets.

The District recently learned that the California Water Resources Control Board Division of Drinking Water (the "Division of Drinking Water") is considering establishing a response level of 10 parts per trillion for perfluorooctanoic acid ("PFOA"). PFOA's are a fluorinated organic chemical which is part of a larger family of compounds referred to as perfluoroalkyl substances. These substances are synthetic compounds that are unique for being water and lipid resistant and are useful for a variety of manufacturing processes and industrial applications. The District expects that the Division of Drinking Water will recommend that water exceeding the response level not be served to customers. If the Division of Drinking Water sets the response level in the future, it is possible that some number of producer wells will need to be taken out of service until such time as additional treatment is in place. If the response level for PFOA is set at levels that impact the amount of groundwater production in the basin, the District will review the potential impact and take action as appropriate at that time.

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

13. LEASING ARRANGEMENTS

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

The following is a schedule of future minimum rentals under leases at June 30, 2019, not including renewal option increases:

<u>Year Ending</u>	<u>Amount</u>
2020	\$ 1,583,789
2021	1,514,661
2022	<u>1,523,016</u>
	<u>\$ 4,621,466</u>

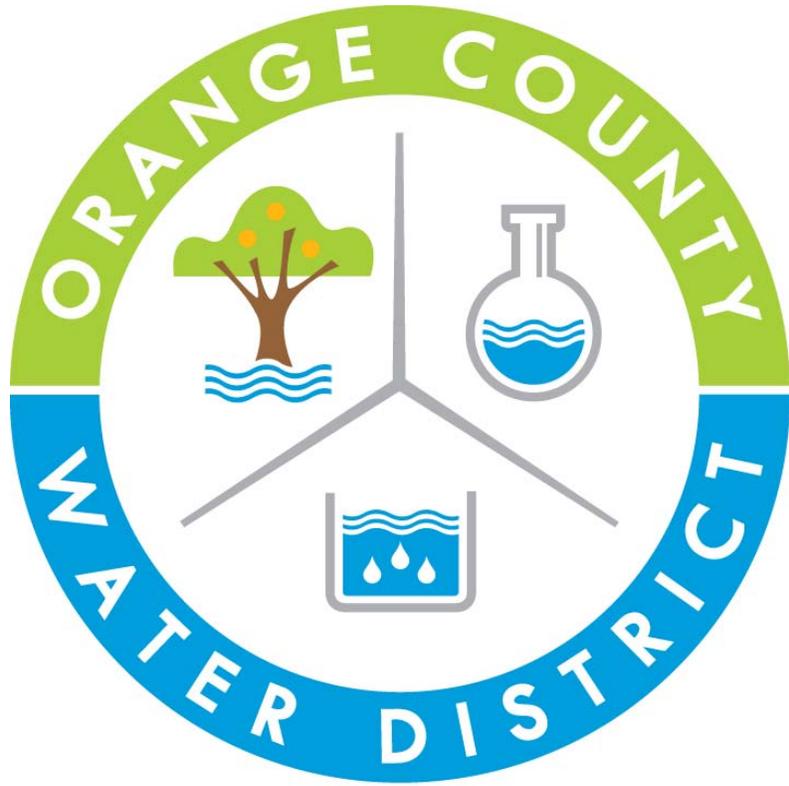
14. SUBSEQUENT EVENTS

Events occurring after June 30, 2019, have been evaluated for possible adjustments to the financial statements or disclosure as of October 16, 2019, which is the date these financial statements were available to be issued.

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Required Supplementary Information

Other Post-Employment Benefits (OPEB)
Annual Money-Weighted Rate of Return on Investments
Schedule of Changes in the Net OPEB Liability and Related Ratios
Schedule of Contributions - OPEB



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ORANGE COUNTY WATER DISTRICT

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

For the year ended June 30, 2019

Retiree Health Plan

<u>Fiscal Year Ended</u>	<u>Annual Money-Weighted Rate of Return, Net of Investment Expense (1)</u>
6/30/17	6.75%
6/30/18	3.79%
6/30/19	7.02%

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

ORANGE COUNTY WATER DISTRICT

SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS

Last Ten Fiscal Years*

Fiscal year end	<u>6/30/2019</u>	<u>6/30/2018</u>
Measurement date	<u>6/30/2018</u>	<u>6/30/2017</u>
Total OPEB Liability:		
Service cost	\$ 866,392	\$ 841,157
Interest on total OPEB liability	1,897,438	1,770,648
Benefit payments, including refunds and the implied subsidy benefit payments	<u>(754,508)</u>	<u>(618,306)</u>
Net Change in Total OPEB Liability	2,009,322	1,993,499
Total OPEB Liability - Beginning of Year	<u>28,702,229</u>	<u>26,708,730</u>
Total OPEB Liability - End of Year (a)	<u>30,711,551</u>	<u>28,702,229</u>
Plan Fiduciary Net Position:		
Contributions - employer	1,784,375	1,381,609
Net investment income	360,155	575,402
Administrative expenses	(26,015)	(22,777)
Benefit payments, including refunds and the implied subsidy benefit payments	<u>(754,508)</u>	<u>(618,306)</u>
Net Change in Plan Fiduciary Net Position	1,364,007	1,315,928
Plan Fiduciary Net Position - Beginning of Year	<u>9,772,275</u>	<u>8,456,347</u>
Plan Fiduciary Net Position - End of Year (b)	<u>11,136,282</u>	<u>9,772,275</u>
Net OPEB Liability - Ending (a)-(b)	<u>\$ 19,575,269</u>	<u>\$ 18,929,954</u>
Plan fiduciary net position as a percentage of the total OPEB liability	36.26%	34.05%
Covered payroll	\$ 25,040,896	\$ 23,452,614
Net OPEB liability as percentage of covered payroll	78.17%	80.72%

Notes to Schedule:

Benefit Changes:

There were no changes in benefits.

Changes in Assumptions:

The fiscal year ended June 30, 2018 is the first year of implementation and the fiscal year ended June 30, 2019 utilized the same actuarial report; therefore, there are no previous GASB 75 actuarial reports for comparison.

* Fiscal year 2018 was the first year of implementation; therefore, only two years are shown.

ORANGE COUNTY WATER DISTRICT
SCHEDULE OF CONTRIBUTIONS - OPEB

Last Ten Fiscal Years*

Fiscal year ended	<u>6/30/2019</u>	<u>6/30/2018</u>
Actuarially determined contribution	\$ 1,303,932	\$ 1,300,000
Contributions in relation to the actuarially determined contributions	<u>(7,432,482)</u>	<u>(1,739,964)</u>
Contribution deficiency (excess)	<u>\$ (6,128,550)</u>	<u>\$ (439,964)</u>
Covered payroll	\$ 24,456,567	\$ 25,040,896
Contributions as a percentage of covered payroll	30.39%	6.95%

Notes to Schedule:

Valuation Date	6/30/2017	6/30/2017
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Methods and Assumptions Used to Determine Contribution Rates:

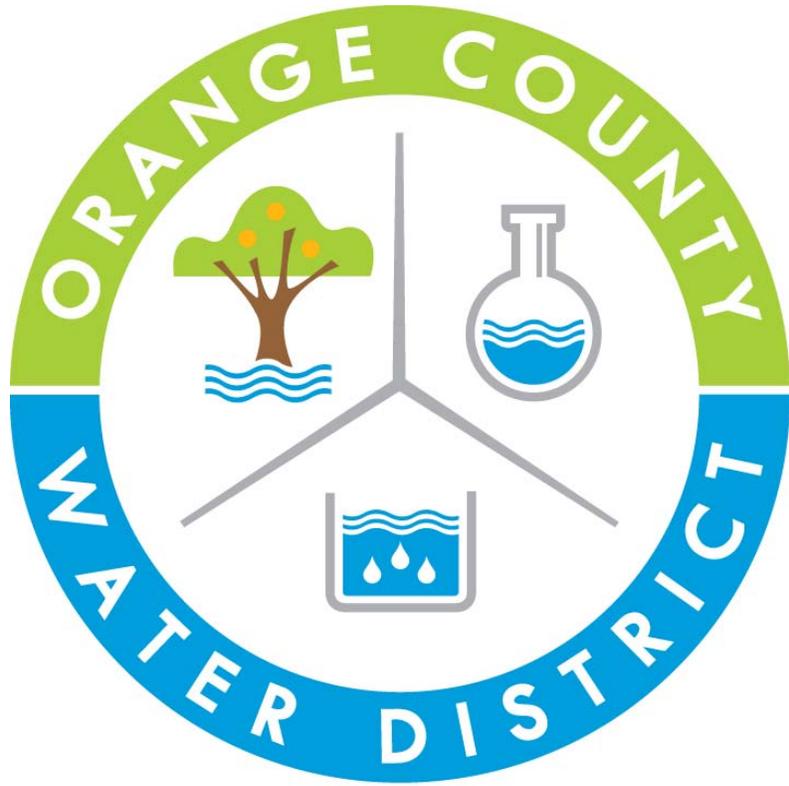
Actuarial cost method	Entry age, level percentage of payroll
Amortization method	Level dollar over closed 25 year period; 5-year phase-in from \$1.3 million to full ADC
Asset valuation method	Investment gains/losses spread over 5-year rolling period with 20% market value corridor
Discount rate	6.50%
General inflation	2.75%
Mortality, disability, termination, retirement	CalPERs 1997-2015 experience study
Medical trend	Pre-Medicare: 7.0% for 2017, decreasing to 5.0% for 2021 and later. Medicare: 7.2% for 2017, decreasing to 5.0% for 2021 and later.

* Fiscal year 2018 was the first year of implementation; therefore, only two years are shown.

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Statistical Section

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



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ORANGE COUNTY WATER DISTRICT
Description of Statistical Section Contents
June 30, 2019

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

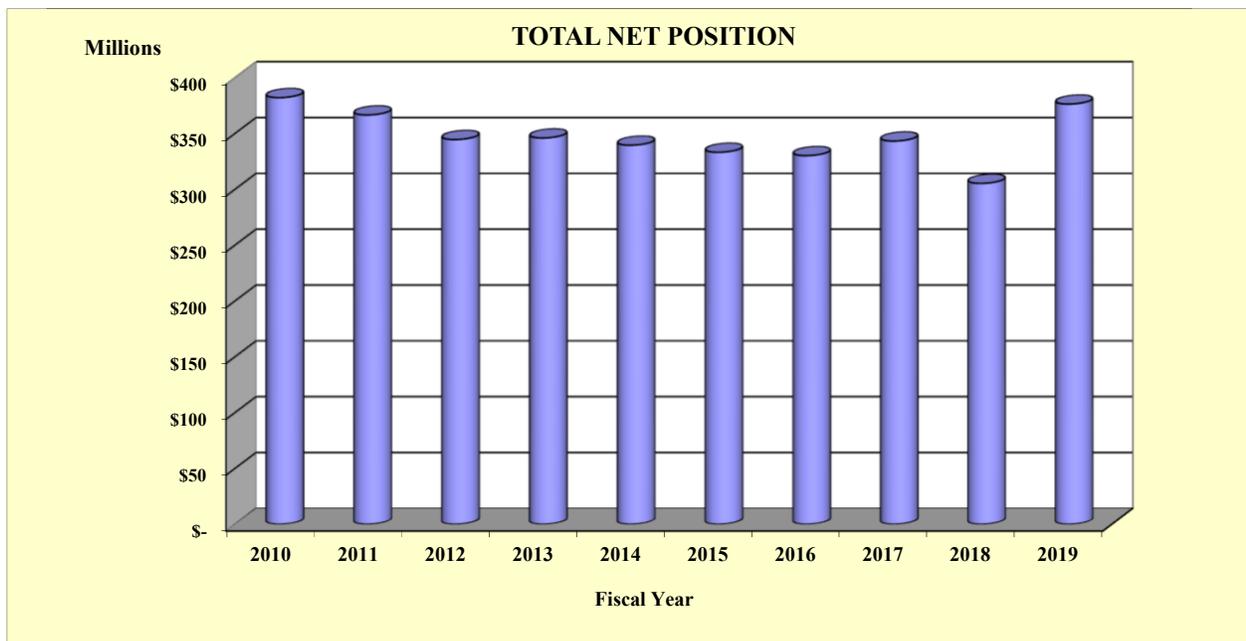
Contents:	<u>Pages</u>
<u>Financial Trends</u> these schedules contain trend information to help the reader understand how the District’s financial performance and well-being have changed over time.	66
<u>Revenue Capacity</u> these schedules contain information to help the reader assess the District’s most significant local revenue source, the property tax.	70
<u>Debt Capacity</u> these schedules present information to help the reader assess the affordability of the District’s current levels of outstanding debt and the District’s ability to issue additional debt in the future.	73
<u>Demographic and Economic Information</u> these schedules offer demographic and economic indicators to help the reader understand the environment within which the District’s financial activities take place.	77
<u>Operating Information</u> these schedules contain service and infrastructure data to help the reader understand how the information in the District’s financial report relates to the services the District provides and the activities it performs.	79



Orange County Water District

Net Position by Component Last Ten Fiscal Years

Fiscal Year	Net Investment in Capital Assets	Restricted	Unrestricted	Total Net Position
2010	\$ 125,709,435	\$ 50,790,670	\$ 205,481,065	\$ 381,981,170
2011	116,111,449	43,270,828	207,082,254	366,464,531
2012	111,571,069	39,078,897	193,794,385	344,444,351 (1)
2013	99,650,065	21,514,322	224,686,841	345,851,228
2014	95,168,906	17,540,437	226,680,734	339,390,077
2015	122,056,713	22,760,913	188,235,624	333,053,250
2016	135,271,635	21,404,577	173,374,582	330,050,794
2017	150,961,053	5,370,190	186,797,840	343,129,083
2018	151,082,728	66,579	154,064,265	305,213,572 (2)
2019	149,157,213	139,626,348	87,416,737	376,200,298



- (1) Implementation of GASB Statement 68 resulted in a net prior period adjustment of \$6,436,627.
- (2) Implementation of GASB Statement 75 resulted in a net prior period adjustment of \$16,776,446. See Note 14 in Notes to Basic Financial Statements.

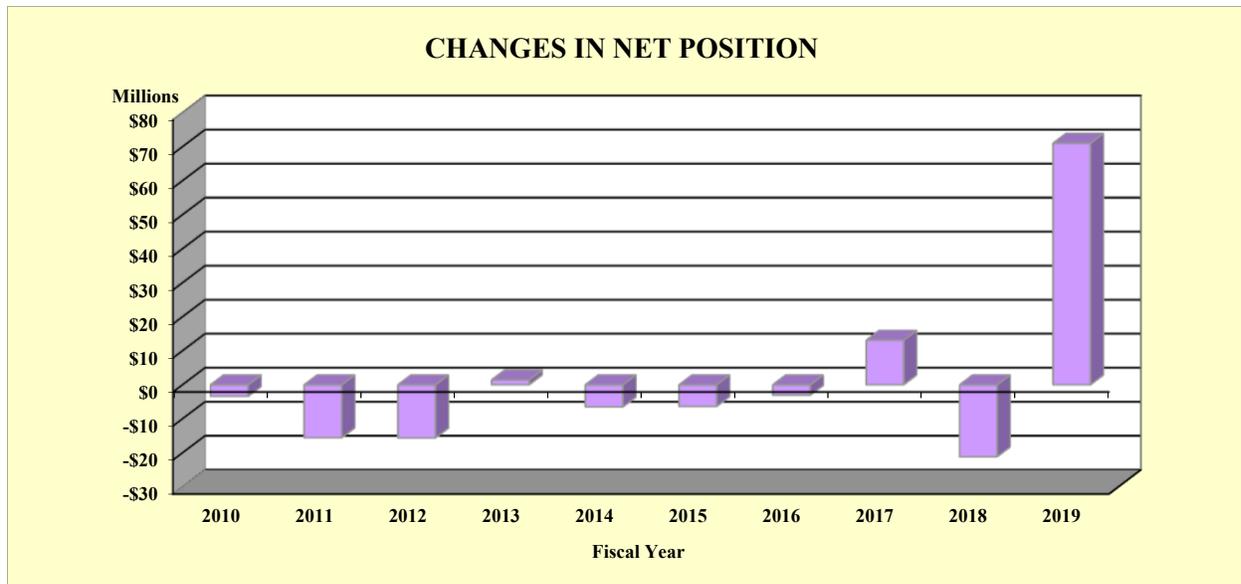
Source: OCWD Finance Department



Orange County Water District

Changes in Net Position Last Ten Fiscal Years

Fiscal Year	Operating Revenues	Operating Expenses	Operating Income (Loss)	Total Non-Operating Revenues (Expenses)	Net Income (Loss) Before Capital Contributions	Capital Contributions/Special Item	Change in Net Position
2010	\$ 83,794,246	\$ 96,157,265	\$ (12,363,019)	\$ 7,103,633	\$ (5,259,386)	\$ 1,896,385	\$ (3,363,001)
2011	78,110,405	98,315,531	(20,205,126)	3,522,527	(16,682,599)	1,165,960	(15,516,639)
2012	86,014,152	115,240,940	(29,226,788)	12,864,561	(16,362,227)	778,674	(15,583,553)
2013	93,756,691	98,781,253	(5,024,562)	6,372,002	1,347,440	59,437	1,406,877
2014	105,293,285	128,519,418	(23,226,133)	15,735,304	(7,490,829)	1,029,678	(6,461,151)
2015	103,318,416	125,845,408	(22,526,992)	15,521,237	(7,005,755)	668,928	(6,336,827)
2016	105,016,764	128,327,208	(23,310,444)	14,200,225	(9,110,219)	6,107,763	(3,002,456)
2017	137,601,758	139,491,432	(1,889,674)	13,185,798	11,296,124	1,782,165	13,078,289
2018	147,869,984	154,691,739	(6,821,755)	19,198,889	12,377,134	(33,516,199) (1)	(21,139,065)
2019	155,374,357	156,644,282	(1,269,925)	70,357,913	69,087,988	1,898,738	70,986,726



(1) In-lieu water purchased with debt financing.

Source: OCWD Finance Department



Orange County Water District

Operating Revenues By Source Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Replenishment Assessments</u>	<u>Basin Equity Assessments</u>	<u>Reclaimed Water Revenue</u>	<u>Conjunctive Use Program Revenue</u>	<u>Total</u>	<u>Percent Change</u>
2010	\$ 71,682,764	\$ 2,292,388	\$ 9,819,094	\$ -	\$ 83,794,246	-
2011	66,799,060	1,771,328	9,540,017	-	78,110,405	-6.8%
2012	72,961,431	2,219,153	10,833,568	-	86,014,152	10.1%
2013	80,694,951	2,082,761	10,978,979	-	93,756,691	9.0%
2014	90,550,510	2,733,128	9,714,520	2,295,127	105,293,285	12.3%
2015	89,137,337	184,679	10,656,130	3,340,270	103,318,416	-1.9%
2016	88,464,251	2,767,818	10,699,469	3,085,226	105,016,764	1.6%
2017	120,120,803	6,833,449	10,606,006	41,500	137,601,758	31.0%
2018	136,212,805	723,321	10,933,858	-	147,869,984	7.5%
2019	138,779,385	6,384,640	10,210,332	-	155,374,357	5.1%



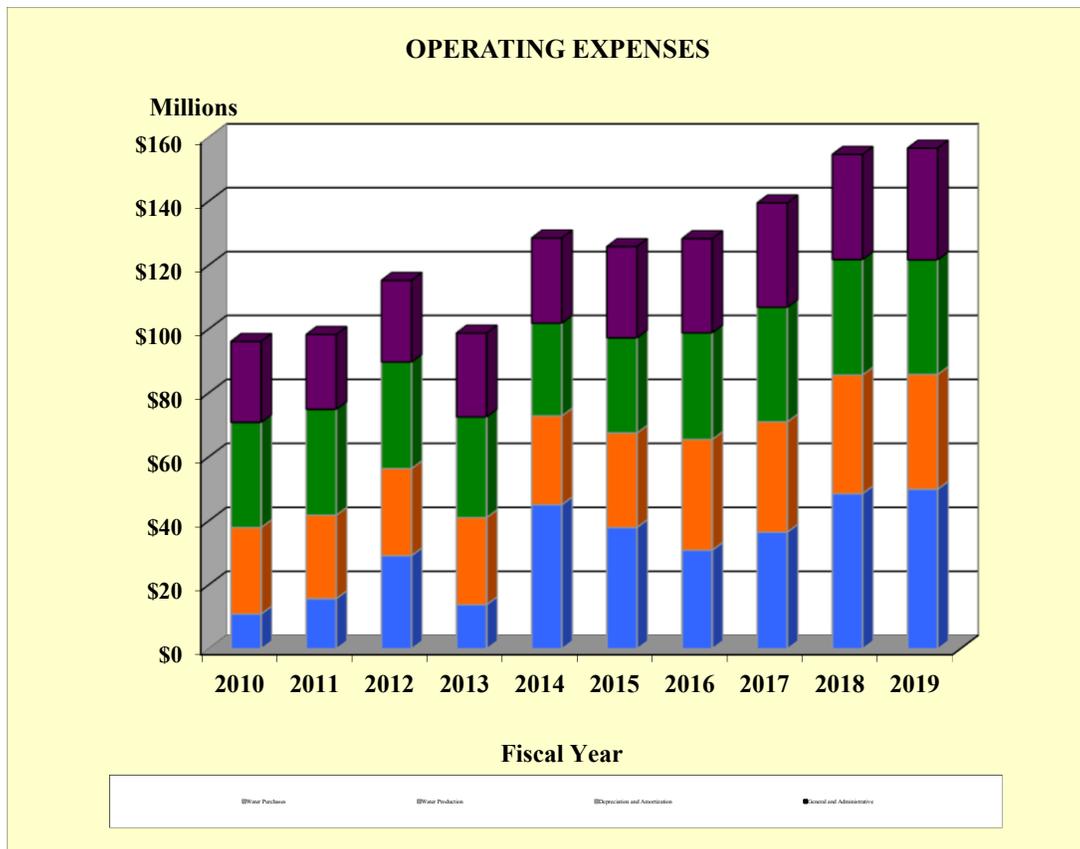
Source: OCWD Finance Department



Orange County Water District

Operating Expenses by Function Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Water Purchases</u>	<u>Water Production</u>	<u>Depreciation and Amortization</u>	<u>General and Administrative</u>	<u>Total</u>	<u>Percent Change</u>
2010	\$ 10,892,330	\$ 27,041,080	\$ 32,878,812	\$ 25,345,043	\$ 96,157,265	-
2011	15,708,425	26,116,735	33,069,585	23,420,786	98,315,531	2.2%
2012	29,139,553	27,222,877	33,346,141	25,532,369	115,240,940	17.2%
2013	13,825,244	27,242,617	31,453,784	26,259,608	98,781,253	-14.3%
2014	45,072,626	27,765,955	29,010,580	26,670,257	128,519,418	30.1%
2015	37,973,313	29,532,369	29,760,297	28,579,429	125,845,408	-2.1%
2016	30,831,126	34,630,579	33,362,509	29,502,994	128,327,208	2.0%
2017	36,507,292	34,461,866	35,862,620	32,659,654	139,491,432	8.7%
2018	48,504,350	37,141,781	36,123,555	32,922,053	154,691,739	10.9%
2019	49,920,482	35,891,184	35,865,015	34,967,601	156,644,282	1.3%

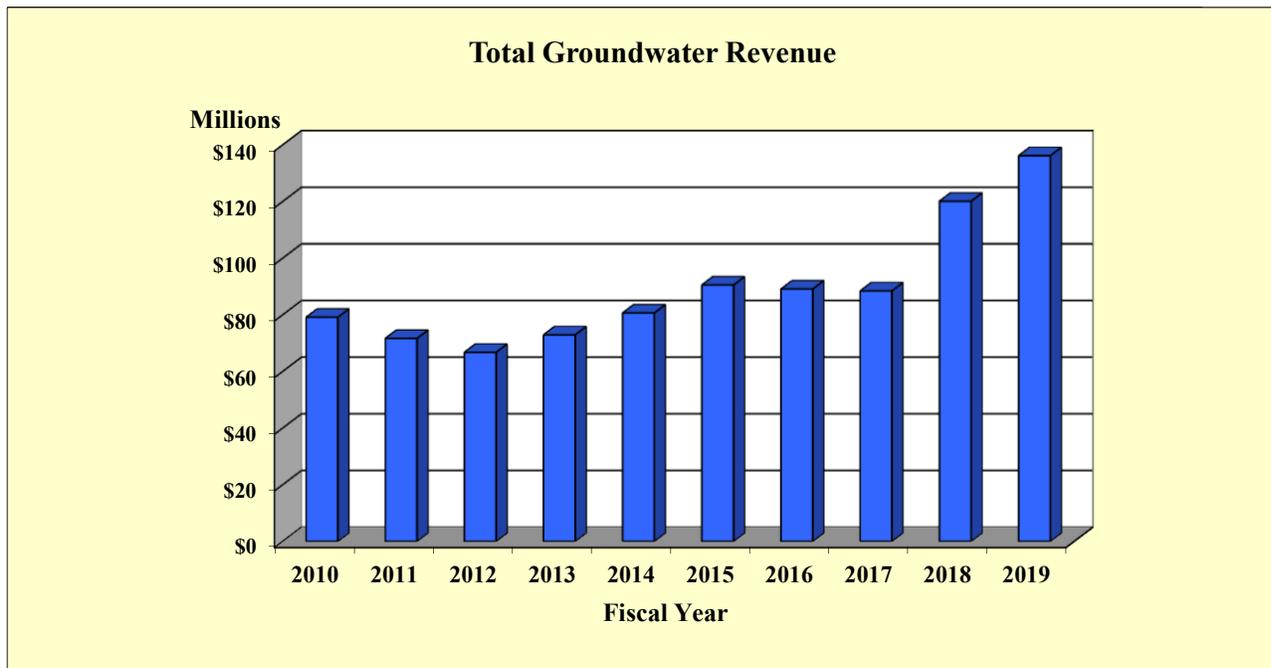




Orange County Water District

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

Fiscal Year	Irrigation (Acre-Feet)	Domestic (Acre-Feet)	In-Lieu Delivery (Acre-Feet)	Replenishment Assessment Revenue
2010	1,222.6	284,352.3	0.0	\$ 71,682,764
2011	3,684.2	256,176.3	10,435.4	66,799,060
2012	4,455.5	236,626.1	40,563.5	72,961,431
2013	4,181.7	305,113.5	0.0	80,694,951
2014	3,066.9	327,715.4	0.0	90,550,510
2015	2,624.6	302,634.5	0.0	89,137,337
2016	2,047.8	275,042.2	0.0	88,464,251
2017	1,589.6	300,047.8	0.0	120,120,803
2018	1,771.2	235,145.2	73,108.6	136,212,805
2019	1,347.1	301,873.7	0.0	138,779,385

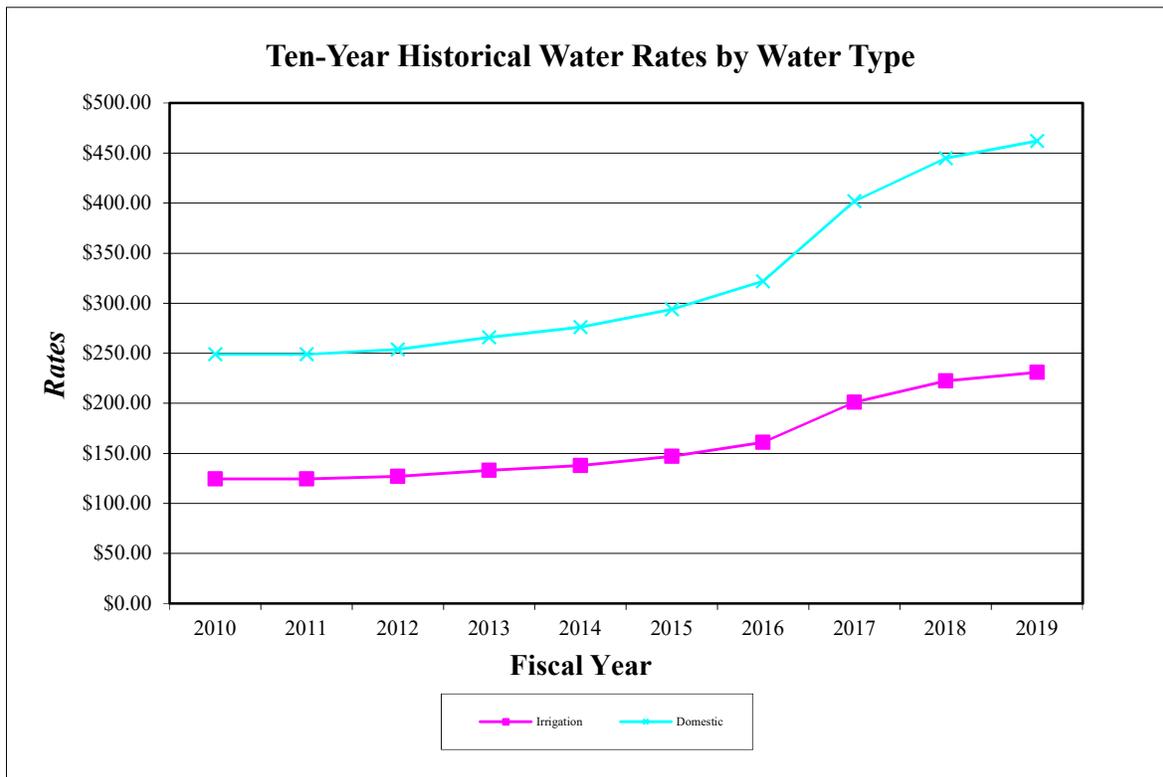




Orange County Water District

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

Fiscal Year	Irrigation	Domestic
2010	\$ 124.50	\$ 249.00
2011	124.50	249.00
2012	127.00	254.00
2013	133.00	266.00
2014	138.00	276.00
2015	147.00	294.00
2016	161.00	322.00
2017	201.00	402.00
2018	222.50	445.00
2019	231.00	462.00



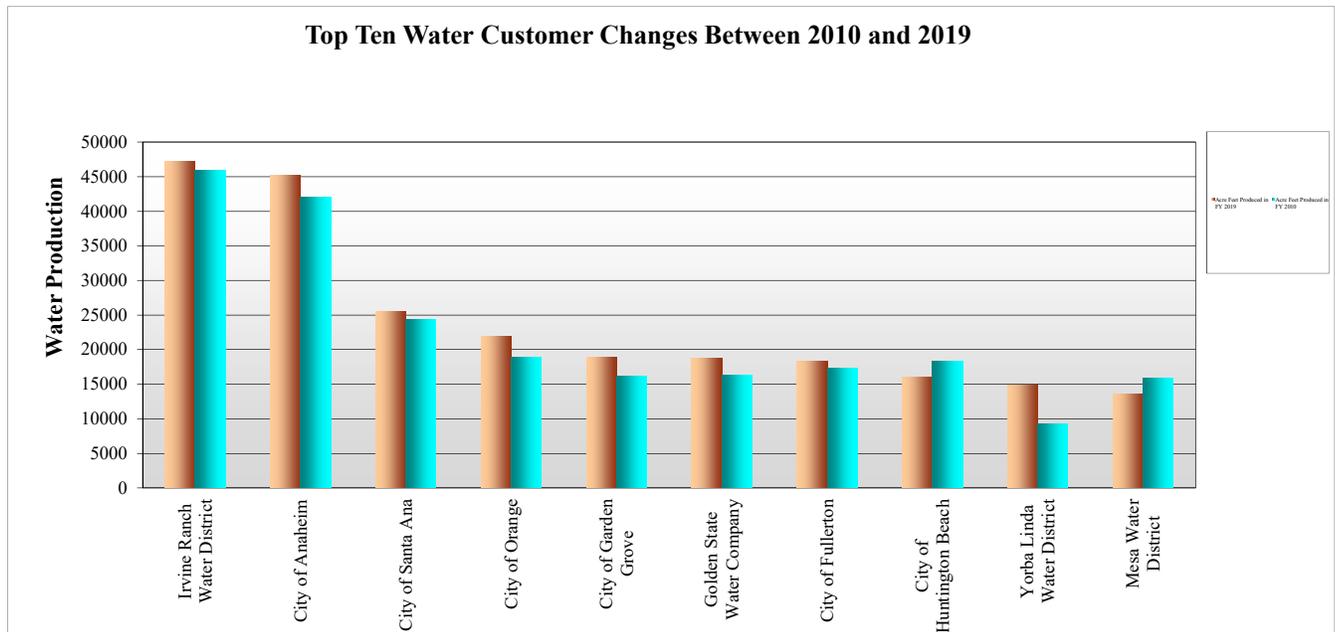
Source: OCWD Finance Department



Orange County Water District

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

Member Cities & Agencies	Acre Feet Produced in FY 2019	% of Water Produced in FY 2019	Acre Feet Produced in FY 2010	% of Water Produced in FY 2010
Irvine Ranch Water District	47,168.7	19.63%	45,853.6	20.45%
City of Anaheim	45,277.1	18.83%	42,048.6	18.74%
City of Santa Ana	25,512.4	10.61%	24,292.5	10.83%
City of Orange	21,843.2	9.09%	18,857.0	8.41%
City of Garden Grove	18,886.6	7.86%	16,129.4	7.19%
Golden State Water Company	18,783.0	7.81%	16,339.0	7.29%
City of Fullerton	18,377.1	7.65%	17,305.3	7.72%
City of Huntington Beach	16,031.7	6.67%	18,271.4	8.15%
Yorba Linda Water District	14,919.8	6.21%	9,316.4	4.15%
Mesa Water District	13,572.6	5.65%	15,841.0	7.06%
Totals	240,372.2	100%	224,254.2	100%



Source: OCWD Finance Department



Orange County Water District

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

Fiscal Year	Real Secured	Real Unsecured	Total	Total Direct Tax Rate Percent (1)
2010	\$ 206,556,983,619	\$ 4,066,318,613	\$ 210,623,302,232	1.00
2011	206,226,283,216	4,108,102,919	210,334,386,135	1.00
2012	208,722,653,628	3,972,740,372	212,695,394,000	1.00
2013	213,779,477,681	3,899,614,817	217,679,092,498	1.00
2014	221,507,329,588	4,038,705,285	225,546,034,873	1.00
2015	234,453,148,467	4,557,572,558	239,010,721,025	1.00
2016	253,073,090,395	4,339,622,163	257,412,712,558	1.00
2017	265,209,156,713	4,287,352,070	269,496,508,783	1.00
2018	279,177,420,172	4,576,957,093	283,754,377,265	1.00
2019	294,837,523,641	4,690,290,747	299,527,814,388	1.00



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

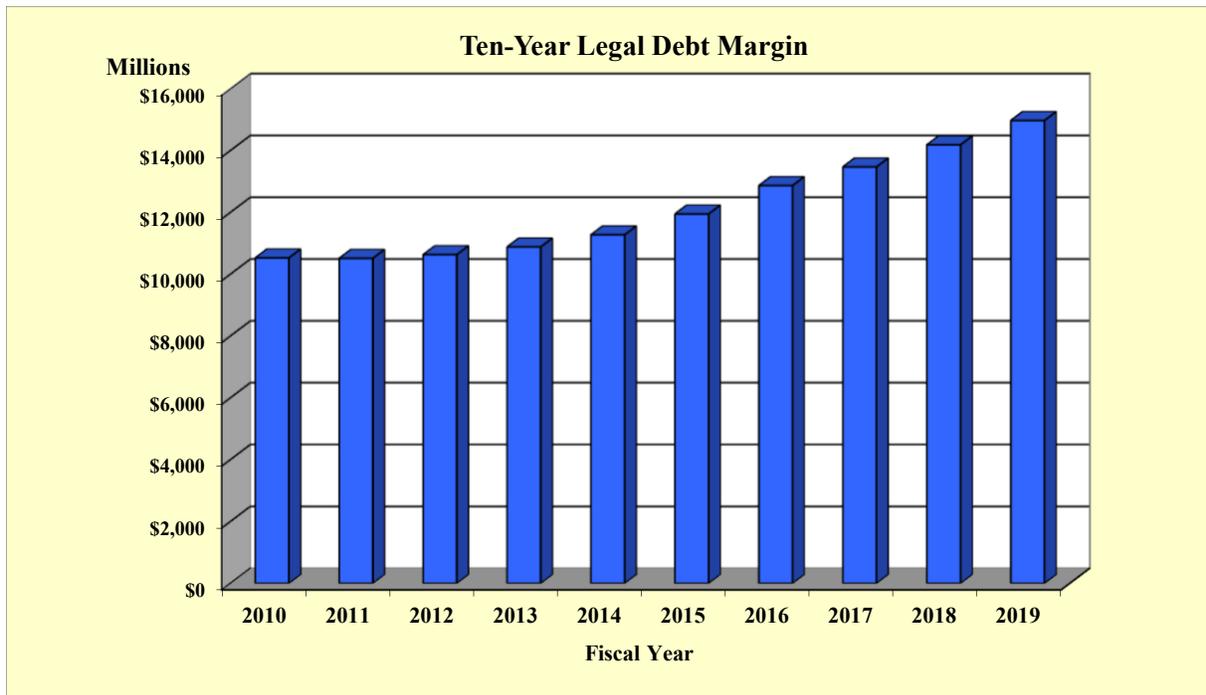
Source: County of Orange Office of Auditor/Controller-Property Tax Unit



Orange County Water District

Ten-Year Computation of Legal Debt Margin Fiscal Year 2010 Through 2019

Fiscal Year	Total Real Secured & Real Unsecured Assessed Value (1)	Legal Debt Limit (2)	Net Bonded Debt (3)	Legal Debt Margin (4)
2010	\$ 210,623,302,232	\$ 10,531,165,112	0	\$ 10,531,165,112
2011	210,334,386,135	10,516,719,307	0	10,516,719,307
2012	212,695,394,000	10,634,769,700	0	10,634,769,700
2013	217,679,092,498	10,883,954,625	0	10,883,954,625
2014	225,546,034,873	11,277,301,744	0	11,277,301,744
2015	239,010,721,025	11,950,536,051	0	11,950,536,051
2016	257,412,712,558	12,870,635,628	0	12,870,635,628
2017	269,496,508,783	13,474,825,439	0	13,474,825,439
2018	283,754,377,265	14,187,718,863	0	14,187,718,863
2019	299,527,814,388	14,976,390,719	0	14,976,390,719



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

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



Orange County Water District

*Pledged-Revenue Coverage
One Fiscal Year
Debt Service*

Fiscal Year	Revenue (1)	Less Operating & Maintenance Expenses (2)	Net Revenue	Senior Debt Service	Senior Debt Coverage	Net Revenues Available for Junior Debt Service	Junior Debt Service	Junior Debt Coverage	Total Debt Service (3)	Total Coverage
2019	227,244,766	83,882,663	143,362,103	20,715,798	6.92	122,646,305	9,655,349	12.70	30,371,147 ⁽⁴⁾	4.72

- (1) Revenues include replenishment assessment, reclaimed water revenues, conjunctive use program revenues, property tax revenue, investment income (excluding fair market value adjustment), rental income, and other revenues.
- (2) Expenses exclude depreciation, amortization, water purchases, and interest expenses.
- (3) The District has executed, in total, fifteen Certificates of Participation and Revenue Refunding Bonds issuances since 1989. Only four debt issuances are outstanding (2003A, 2013A, 2017A&B and 2019A&B) as of June 30, 2019. Other COP's are either advanced refunded, defeased, or refinanced with the help of the State loans, current COP's and Revenue Refunding Bonds.
- (4) Commercial paper principal payment of \$4,000,000 was made in July 2018 and \$8,200,000 made in March 2019.
These principal payments were not included in total principal payments because these were not scheduled District debt service payments.
- (5) The District has elected to show only one year of data for its pledged-revenue coverage.

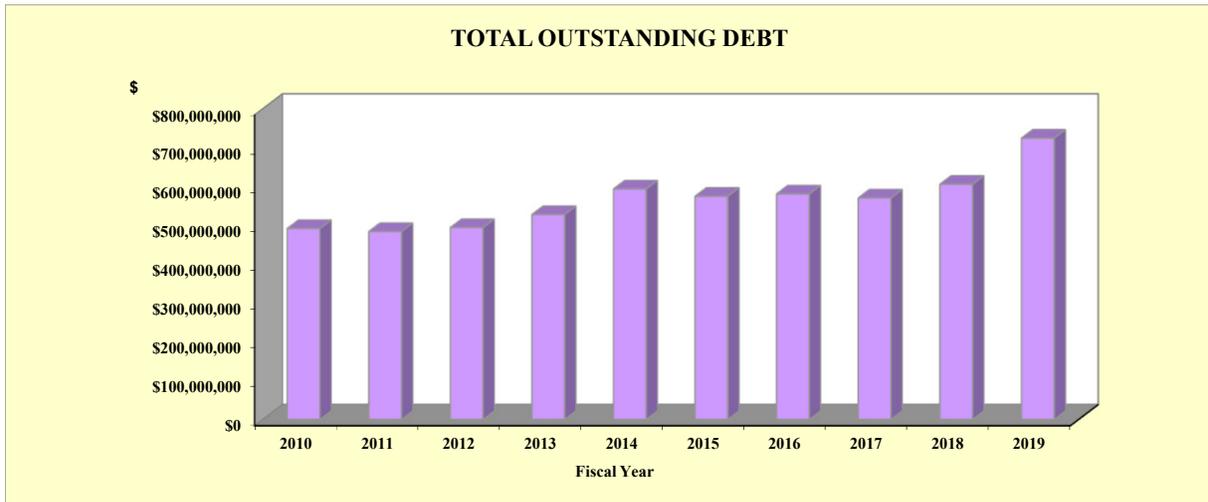
Source: OCWD Finance Department



Orange County Water District

Ratios of Outstanding Debt Last Ten Fiscal Years

Fiscal Year	COP Debt (2)	Revenue Refunding Bonds (2)	Commercial Paper (2)	State of California Loans (2)	Total Outstanding Debt (2)	Per Capita (1) (3)	Percentage of Personal Income (1) (3)
2010	\$ 351,597,368	\$ -	\$ 15,050,000	\$ 124,893,464	\$ 491,540,832	\$ 163	0.328%
2011	350,269,778	-	15,050,000	118,439,002	483,758,780	159	0.308%
2012	357,673,503	-	-	136,313,916	493,987,419	161	0.290%
2013	302,731,085	53,000,000	-	171,706,235	527,437,320	170	0.310%
2014	299,672,360	53,000,000	27,280,000	213,365,966	593,318,326	189	0.331%
2015	268,478,377	53,000,000	24,613,000	228,473,759	574,565,136	182	0.297%
2016	267,280,690	53,000,000	20,723,000	239,600,805	580,604,495	183	0.291%
2017	129,815,000	188,418,466	16,813,000	235,163,138	570,209,604	178	0.273%
2018	129,815,000	186,765,413	52,913,000	235,978,713	605,472,126	188	0.284%
2019	276,523,244	176,749,315	40,713,000	230,354,520	724,340,079	225	0.334%



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

Source: OCWD Finance Department



Orange County Water District

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

Fiscal Year	Population Estimates (2)	Total Personal Income (in Thousands)	Per Capita Personal Income	Median Family Income (4)	Unemployment Rate (5)
2010	3,010,232	\$ 150,072,420 (3)	\$ 49,854	\$ 79,146	9.8%
2011	3,040,125	157,160,243 (3)	51,695	81,663	9.4%
2012	3,076,373	170,609,148 (3)	55,458	81,653	8.3%
2013	3,109,213	169,986,956 (3)	54,672	82,861	6.9%
2014	3,131,411	179,141,029 (3)	57,208	85,313	5.6%
2015	3,155,578	193,358,936 (3)	61,275	87,942	4.6%
2016	3,174,945	199,441,555 (3)	62,817	92,063	4.3%
2017	3,199,509	208,653,019 (3)	65,214	97,012	3.7%
2018	3,213,275	212,826,079 (6)	66,233	98,952 (6)	3.2%
2019	3,222,498	217,082,601 (6)	67,365	100,931 (6)	3.0%

Notes and Data Sources

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

Source: OCWD Finance Department



Orange County Water District

Principal Employers Last Year and Nine Years Ago

2018

Employer	Number of Employees	Rank	Percentage of Total County Employment
Walt Disney Co.	30,000	1	1.92%
University of California, Irvine	23,884	2	1.53%
County of Orange	17,271	3	1.10%
St. Joseph Health	14,000	4	0.89%
Kaiser Permanente	8,178	5	0.52%
Albertsons Southern California Division	7,670	6	0.49%
Target Corp	6,300	7	0.40%
Walmart Inc.	6,200	8	0.40%
Hoag Memorial Hospital Presbyterian	6,100	9	0.39%
Boeing Co.	6,000	10	0.38%

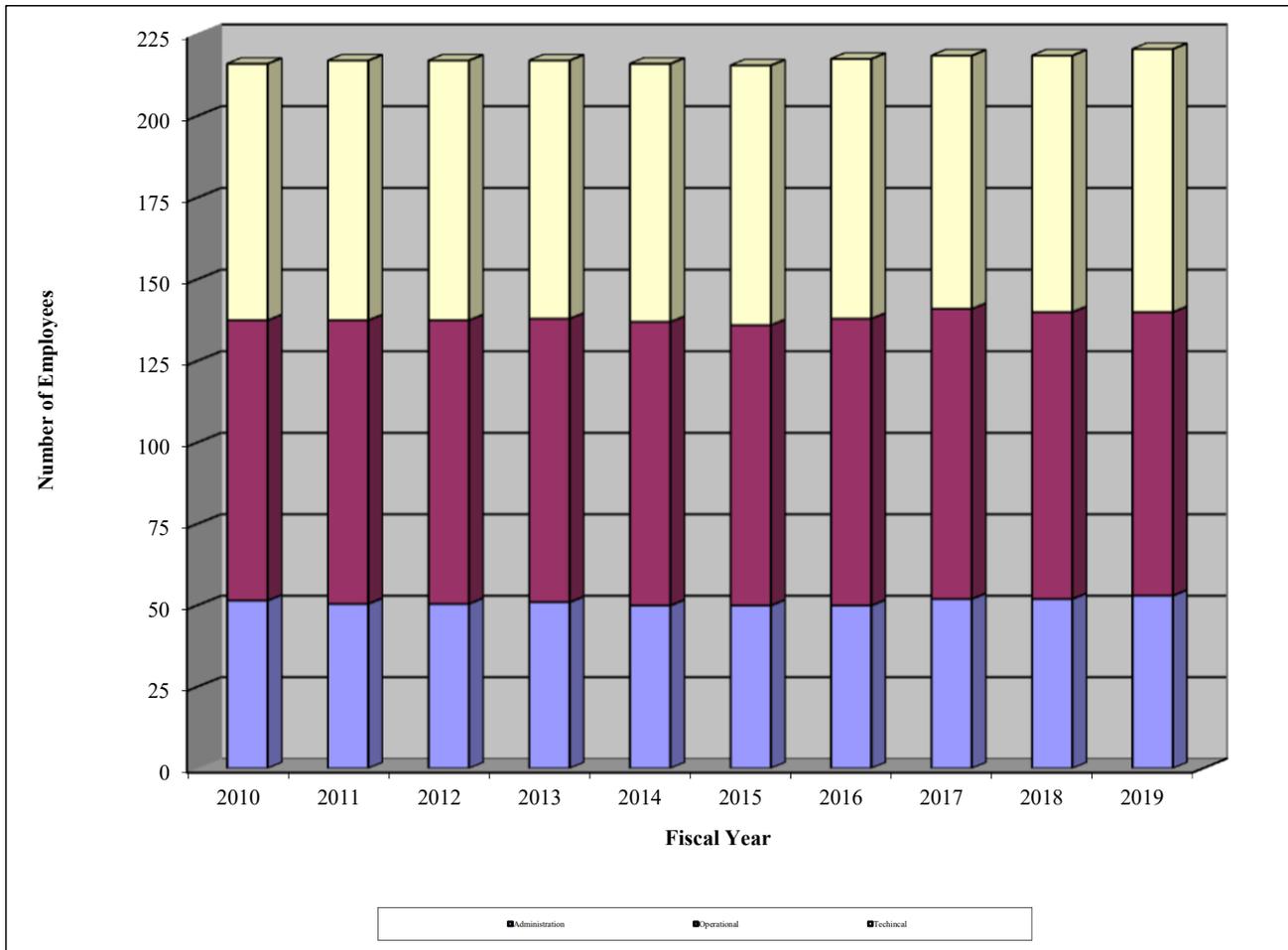
2010

Employer	Number of Employees	Rank	Percentage of Total County Employment
Walt Disney Co.	19,800	1	1.43%
University of California, Irvine	19,279	2	1.40%
County of Orange	17,895	3	1.29%
St. Joseph Health System	10,929	4	0.79%
Boeing Co.	8,477	5	0.61%
Yum Brands Inc.	7,000	6	0.51%
Target Corp.	6,226	7	0.45%
Supervalu Inc.	5,923	8	0.43%
Kaiser Permanente	5,598	9	0.41%
Memorial Health Services Inc.	5,533	10	0.40%

**Personnel Trends
Last Ten Fiscal Years**

FUNCTIONS

<u>Fiscal Year</u>	<u>Administration</u>	<u>Operations</u>	<u>Technical</u>	<u>Total</u>
2010	50.5	87.0	79.5	217.0
2011	50.5	87.0	79.5	217.0
2012	51.0	87.0	79.0	217.0
2013	50.0	87.0	79.0	216.0
2014	50.0	86.0	79.5	215.5
2015	50.0	88.0	79.5	217.5
2016	52.0	89.0	77.5	218.5
2017	52.0	88.0	78.5	218.5
2018	53.0	87.0	80.5	220.5
2019	53.0	87.0	80.5	220.5



Source: OCWD Finance Department



Orange County Water District

Fiscal Year 2018-19 Groundwater Production By Agency (Acre-Feet)

City/Agency	Irrigation	Domestic	Total	% of water sold
Anaheim, City of		45,277.1	45,277.1	14.92%
Buena Park, City of		9,475.6	9,475.6	3.12%
County of Orange		123.1	123.1	0.04%
E.O.C.W.D.		565.8	565.8	0.19%
Fountain Valley, City of		8,194.9	8,194.9	2.70%
Fullerton, City of	9.9	18,367.2	18,377.1	6.06%
Garden Grove, City of		18,886.6	18,886.6	6.23%
Golden State Water Company		18,783.0	18,783.0	6.19%
Huntington Beach, City of		16,031.7	16,031.7	5.29%
Irvine Ranch Water District	595.7	46,573.0	47,168.7	15.57%
La Palma, City of		1,853.2	1,853.2	0.61%
Mesa Water District		13,572.6	13,572.6	4.48%
Newport Beach, City of		10,877.4	10,877.4	3.59%
Orange County Water District		1,022.1	1,022.1	0.34%
Orange, City of		21,843.2	21,843.2	7.20%
Santa Ana, City of		25,512.4	25,512.4	8.41%
Seal Beach, City of		2,400.6	2,400.6	0.79%
Serrano Water District		1,927.6	1,927.6	0.64%
Tustin, City of		8,982.0	8,982.0	2.96%
Westminster, City of		8,219.6	8,219.6	2.71%
Yorba Linda Water District	1.4	14,918.4	14,919.8	4.92%
All Operations Other Than Above	740.1	8,466.6	9,206.7	3.04%
Totals	1,347.1	301,873.7	303,220.8	100%

Source: OCWD Finance Department



Orange County Water District

Demographic and Production Indicators Last Ten Fiscal Years

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Demographics										
Service Area (Square Miles)	381	381	381	381	381	358	358	358	358	358
Population Estimate (1), (2)	3,222,498	3,213,275	3,199,509	3,174,945	3,155,578	3,131,411	3,109,213	3,076,373	3,040,125	3,010,232
Median Family Income (1), (3)	\$ 100,931 (6)	\$ 98,952	\$ 97,012	\$ 92,063	\$ 87,942	\$ 85,313	\$ 82,861	\$ 81,653	\$ 81,663	\$ 79,146
Production Data (A.F.) (4)										
Groundwater										
Non-Irrigation Pumping	301,873.7 (6)	235,145.2	300,047.8	275,042.2	302,634.5	327,715.4	305,113.5	236,626.1	256,176.3	284,352.3
In-lieu Delivery	-	73,108.6	-	-	-	-	-	40,563.5	10,435.4	-
Irrigation Pumping	1,347.1 (6)	1,771.2	1,589.6	2,047.8	2,624.6	3,066.9	4,181.7	4,455.5	3,684.2	1,222.6
Supplemental Water										
Non-Irrigation Delivery	65,641.4 (6)	87,019.2	68,580.9	70,624.9	98,501.9	103,907.4	111,097.8	119,864.6	123,854.9	127,535.0
Conservation Credit	- (6)	2,460.7	2,613.7	2,007.1	1,731.8	1,448.9	1,401.5	1,386.8	1,372.0	1,383.4
Irrigation Delivery	-	242.2	-	-	-	-	-	-	-	-
Non-Local Water Purchased by OCWD (A.F.) (5)										
Western Municipal Water District	-	-	-	-	-	-	-	-	-	-
Alamitos Barrier	1,971.6 (6)	912.2	1,166.1	2,398.9	2,236.3	2,370.2	1,721.8	1,198.7	1,689.1	1,321.9
Talbert Barrier - Fountain Valley	-	-	-	-	-	-	-	-	-	-
Talbert Barrier - Mesa Water District	16.6 (6)	18.4	7.8	7.0	17.7	6.2	3.7	1.9	100.5	176.9
Forebay Recharge	40,344.9 (6)	66,113.5	48,918.1	45,118.0	48,616.8	50,700.5	39,926.9	48,940.4	27,538.6	20,535.7
In-lieu Program	- (6)	73,108.6	-	-	-	-	-	40,563.5	10,435.4	-
Basin Water Supply Management Program	-	-	-	-	-	-	-	-	-	-
Arlington Desalter	-	-	-	-	-	-	-	-	-	106.2
San Bernadino Valley MWD	-	-	-	-	-	-	-	-	-	-

Notes and Data Sources:

- (1) The Orange County Water District services 381 square miles or 48% of the total 799 square miles that make up the boundaries of the County of Orange.
- (2) Data Source: Demographic Research Unit, California Department of Finance.
- (3) Data Source: Bureau of Economic Analysis, U.S. Department of Commerce.
- (4) Data Source: Appendix I, OCWD Engineer's Reports, from WY 2010 to WY 2018.
- (5) Data Source: Appendix 4, OCWD Engineer's Reports, from WY 2010 to WY 2018.
- (6) Preliminary data for WY 2019

Source: OCWD Finance Department



Orange County Water District

Capital Asset Statistics by Function Last Ten Fiscal Years

Function	2019	2018	2017	2016	2015
Water Treatment					
Facilities (million gallons per day)					
Groundwater Replenishment System (GWRS)	100	100	100	100	100
Pipeline (miles)					
Green Acre Project Pipeline	33	33	33	33	33
GWRS Pipeline	15	15	15	15	15
Recharge					
Recharge Facilities	28	28	28	26	26
Recharge System Storage (acre feet)	26,402	26,402	26,402	26,278	26,278
Basin Management					
Groundwater Monitoring Wells	478	467	430	424	397
Injection Wells	78	79	81	64	60
Soil Gas Monitoring Wells	10	10	10	10	10
Other Wells	16	16	16	16	16
Function	2014	2013	2012	2011	2010
Water Treatment					
Facility (million gallons per day)					
Groundwater Replenishment System (GWRS)	70	70	70	70	70
Pipeline (miles)					
Green Acre Project Pipeline	33	33	33	33	33
GWRS Pipeline	15	15	15	15	15
Recharge					
Recharge Facilities	26	26	26	25	25
Recharge System Storage (acre feet)	26,278	26,278	26,278	26,000	26,000
Basin Management					
Groundwater Monitoring Wells	395	391	401	398	398
Injection Wells	61	61	62	61	61
Soil Gas Monitoring Wells	10	10	10	21	21
Other Wells	16	16	4	4	4



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