

**NOTICE OF A REGULAR MEETING
OF THE OLIVENHAIN MUNICIPAL WATER
DISTRICT'S FINANCE COMMITTEE
1966 Olivenhain Road, Encinitas, CA 92024
Tel: (760) 753-6466 • Fax: (760) 753-1578**

**Pursuant to AB 3035, effective January 1, 2003, any person who
requires a disability related modification or accommodation in
order to participate in a public meeting shall make such a
request in writing to the District for immediate consideration.**

DATE: THURSDAY, NOVEMBER 2, 2023

TIME: 1:00 P.M.

PLACE: HYBRID REGULAR MEETING VIA ZOOM AND IN-PERSON

The meeting is being held virtually as a convenience to the public. The meeting will not stop or suspend its in-person meeting should a technological interruption occur with respect to the Zoom or call-on options listed on the agenda.

For Zoom Participation:

www.zoom.us/join

Meeting ID: 857 4302 1207

Passcode: 667684

For Zoom Call-in Only:

Call: (669) 900-9128

Meeting ID: 857 4302 1207

Passcode: 667684

Public Participation/Comment: Members of the public can participate in the meeting by emailing your comments on an agenda item to Jared Graffam at jgraffam@olivenhain.com or address the finance committee directly in real-time under the public comment section. If you do not receive a confirmation email that your comment has been received, please call (760) 230-2569 or address the committee under the public comment section to ensure that your comments are heard in real-time. The subject line of your email should clearly state the item number you are commenting on and should include your name and phone number. All comments will be emailed to the finance committee members.

*Note: Items On The Agenda May Be Taken Out Of Sequential Order As Their
Priority Is Determined By The Committee*

1. CALL TO ORDER
2. ROLL CALL (BOARD MEMBERS)
3. ADOPTION OF THE AGENDA
4. PUBLIC COMMENTS
5. CONSIDER APPROVAL OF THE MINUTES OF THE AUGUST 8, 2023 REGULAR FINANCE COMMITTEE MEETING
6. REVIEW AND DISCUSS FISCAL YEAR 2022-23 AUDITED FINANCIAL STATEMENTS AND SINGLE AUDIT
7. REVIEW STAFF'S REPORT ON DISTRICT PENSION PLANS FUNDING STATUS WITH CALPERS AND DISCUSS STAFF'S RECOMMENDED PENSION FUNDING PLANS FOR 2023
8. QUARTERLY REVIEW OF INVESTMENTS AND CASH REPORT (3rd QTR 2023)
9. ANNUAL REVIEW OF INVESTMENT AND BOARD DESIGNATED FUND BALANCES (RESERVES) POLICIES AND PROPOSED CHANGES TO THE POLICY FOR 2024
10. CONSIDER FUTURE AGENDA ITEMS
11. ADJOURNMENT

**MINUTES OF A REGULAR MEETING
OF THE FINANCE COMMITTEE
OF OLIVENHAIN MUNICIPAL WATER DISTRICT**

August 8, 2023

A regular meeting of the Finance Committee of Olivenhain Municipal Water District was held on Tuesday, August 8th, 2023, at the District office, 1966 Olivenhain Road, Encinitas, California.

Director Meyers called the meeting to order at 2:31pm. In attendance were Neal Meyers, Board Treasurer; Lawrence A. Watt, Board Secretary; Kimberly Thorner, General Manager; Rainy Selamat, Finance Manager; Leo Mendez, Accounting Supervisor; Jared Graffam, Financial Analyst II; and Georgeanna Clark, Financial Analyst I. Also in attendance were Kenneth Pun and Coley Delaney from The Pun Group, LLP, and Shannon Ayala from Davis Farr, LLP, for their respective interview portions regarding agenda item 8.

1. CALL TO ORDER

2. ROLL CALL (BOARD MEMBERS)

3. ADOPTION OF THE AGENDA

Director Watt moved to adopt the agenda, seconded by Director Meyers, and carried unanimously.

4. PUBLIC COMMENTS

There were no public comments.

5. CONSIDER APPROVAL OF THE MINUTES OF THE MAY 8, 2023 REGULAR FINANCE COMMITTEE MEETING

Director Meyers moved to approve the May 8, 2023, meeting minutes, seconded by Director Watt and carried unanimously.

6. QUARTERLY REVIEW OF INVESTMENTS REPORT AND CASH REPORT (2nd QTR 2023)

Finance Manager Selamat reviewed the investment report as of June 30, 2023, with the committee. Cash and investments were discussed. Finance Manager Selamat reported that the current yield on the District's investment portfolio has increased since the last quarterly update due to replacing matured securities with higher yields.

Finance Manager Selamat discussed the new California Bank and Trust Money Market account that the District opened in July 2023 to take advantage of current Money Market yields. The account will earn an interest rate of 4.56% on its current \$4 million balance and is in compliance with the District's investment policy.

Director Meyers inquired if staff could provide a report showing the different fund and reserve balances for the last 5 years for comparative purposes. Finance Manager Selamat responded that staff has the data and will compile it into a graphical chart for presentation at the next committee meeting.

Finance Manager Selamat reported that the District's investments are in compliance with the District's Investment policy and that the District has sufficient funds to meet its financial obligations for the next 60 days.

7. CONSIDER AND DISCUSS OPTIONS FOR 2024 WATER RATES AND CHARGES

Finance Manager Selamat presented an overview of the 2024 purchased water wholesale cost increases from San Diego County Water Authority (SDCWA), increases in recycled water costs from the District's recycled water suppliers, and the inflationary pass-through based on the prior year's consumer price index increase for San Diego (SDCPI). Finance Manager Selamat explained that these are pass-through increases included in the Rate Ordinance and adopted by the Board to pay for increased costs of providing water services to OMWD customers.

Included in Finance Manager Selamat's presentation was a graph from SDCWA showing the estimated impact of their 2024 rate increases on the 24 member agencies. Director Watt asked why some agencies show a decrease in purchased water fixed costs while the majority show an increase. General Manager Thorner explained that the allocation of fixed costs to each member agency varies by agency based on rolling averages of historical water purchases. Those agencies that showed a decrease in SDCWA's fixed costs most likely have alternative local water supplies which make them less reliant on SDCWA to meet their demands, especially during wet weather conditions, such as Sweetwater Authority.

Finance Manager Selamat then presented three rate options for passing through the increased cost of purchased water and inflation adjustments based on SDCPI. Option 1 would increase the commodity and system access charge (SAC) not to exceed 9% per the District's Prop 218 notice, Option 2 would pass through the maximum SAC allowed per the District's Prop 218 notice, and Option 3 would increase rates by SDCPI only. Finance Manager Selamat noted that all three options would not fully pass through the combined purchased water wholesale cost increases and inflation increases which exceeds the District's Proposition 218 Notice limit of 9%. Hence, the District will need to use funds available from its reserves to cover the shortfall.

Director Meyers raised concerns about utilizing District's reserves, including the MWD refund of approximately \$500,000, to cover the shortfall in revenue and inquired if cutting costs is an option. Director Watt expressed concern with deviating from District past practices in adjusting its water rates and charges. Finance Manager Selamat and General Manager Thorner addressed the committee's concerns by explaining additional cost cutting measures which lead to a deeper budget cut, will potentially impact the level of services provided by the District to its customers. General Manager Thorner also added that there is currently no plan to use rate stabilization reserve funds, and that the MET litigation refunds of \$500,000 were placed in the District's Operating Reserves to offset unexpected cost increases.

Director Meyers and Director Watt agreed to bring all three options before the full Board for further discussion and consideration at the September 2023 board meeting.

8. CONDUCT INTERVIEW OF AUDITING FIRMS AND SELECT A NEW AUDIT FIRM FOR THE DISTRICT

Finance Manager Selamat informed the committee that staff sent out requests for proposal to six audit firms and received two proposals back. One proposal was from the District's current audit firm, The Pun Group, LLP, and the second was from Davis Farr, LLP. Finance Manager Selamat noted that both firms are present and ready to be interviewed when called upon. Director Watt asked if we heard back from the other four firms. Finance Manager Selamat replied that only two of the other firms replied stating they did not have enough resources to take on new engagements.

The committee received presentations and conducted interviews with each firm separately. Questions were asked by the committee related to auditor independence, Governmental Accounting Standards Board (GASB) compliance and implementation, experience in conducting single audits, use of technology, and the ability to provide key financial ratios with a comparison to other Districts.

The committee discussed the candidate CPA firms and recommended The Pun Group continue as the District's audit firm, with a rotation of the audit staff and partner overseeing the audit, for consideration and approval by the Board at the September 2023 meeting.

9. FUTURE AGENDA ITEMS/INFORMATION

There were no future agenda items requested.

10. ADJOURNMENT

The meeting was adjourned at 4:08pm.

Memo

Date: November 2, 2023
To: Finance Committee
From: Leo Mendez, Accounting Supervisor
Rainy Selamat, Finance Manager
Via: Kimberly Thorner, General Manager
Subject: **REVIEW AND DISCUSS FISCAL YEAR 2022-23 AUDITED FINANCIAL STATEMENTS AND SINGLE AUDIT**

Copies of the fiscal year 2022-23 audited financial statements are included as part of the attached draft Annual Comprehensive Financial Report (ACFR). Draft copies of the District's Single Audit, auditors' letter to the Board, and auditors' presentation are also attached. Staff and the auditor, Mr. Ken Pun with The Pun Group, will be available to review the attachments and to discuss the audit results with the Committee at the meeting.

Following Committee review and approval, the materials presented will be included in the December 13th Board meeting packet in their final form for the Board's consideration and approval. A final copy of the ACFR and the Single Audit will be distributed to the Board prior to the meeting.

Attachments: **Attachment 1** - Auditors' Letter to the Board
Attachment 2 - Auditors' Presentation to the Board
Attachment 3 - DRAFT FY 2022-2023 Audited Financial Statements and Annual Comprehensive Financial Report (ACFR)
Attachment 4 - DRAFT FY 2023 Single Audit and Independent Auditors' Reports



(DATE)

Board of Directors of Directors and Finance Committee
Olivenhain Municipal Water District
Encinitas, California

4660 La Jolla Village Drive, Suite 100
San Diego, California 92122

www.pungroup.cpa

We have audited the financial statements of the business-type activities of the Olivenhain Municipal Water District (the “District”) for the year ended June 30, 2023. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 1, 2023. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 2 to the financial statements.

New Accounting Standards

- In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations* (GASB Statement No. 91), to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. Application of this statement did not have an effect on the District’s financial reporting for the fiscal year ending June 30, 2023.
- In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Application of this statement did not have an effect on the District’s financial reporting for the fiscal year ending June 30, 2023.
- In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. Application of this statement did not have an effect on the District’s financial reporting for the fiscal year ending June 30, 2023.

We noted no other new accounting policies were adopted and the application of existing policies was not changed during 2023. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the District's financial statements were:

- Management's estimate of the investment fair market value is based on information provided by the State of California for its investment in the Local Agency Investment Fund and by the Union Bank, the trustee for the District's investments in municipal bonds and U.S. Government Sponsored Enterprise Securities. We evaluated the key factors and assumptions used to develop the investment fair market value in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the depreciation on capital assets is based on the industry standard and past experience on actual useful life of the asset groups. We evaluated the key factors and assumptions used to develop the depreciation on capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the net pension liability is based on the actuarial valuation on total pension liability and based on audited financial statements on fiduciary net position for CalPERS plans. We evaluated the key factors and assumptions used to develop the net pension liability in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure(s) affecting the financial statements were:

- Note 2 – Summary of Significant Accounting Policies
- Note 4 – Leases Receivable
- Note 10 – Employee Retirement Systems
- Note 15 – Economic Dependency
- Note 16 – Commitments and Contingencies
- Note 17 – Segment Information
- Note 18 – Restatement of Net Position

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated (DATE).

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the Management's Discussion and Analysis, Modified Approach for Steel Water Storage Tanks Infrastructure Capital Assets, Schedule of Contributions – Defined Benefit Pension Plans, and Schedule of Proportionate Share of the Net Pension Liability, as listed in the table of contents, which are Required Supplementary Information ("RSI") that supplement the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were not engaged to report on the Introductory and Statistical Sections, which accompany the financial statements but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Restriction on Use

This information is intended solely for the information and use of the Finance Committee, Board of Directors, and management of the Olivenhain Municipal Water District and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

San Diego, California

DRAFT



OLIVENHAIN MUNICIPAL WATER DISTRICT

Presentation to the Finance Committee
For the Fiscal Year Ended June 30, 2023

November 2, 2023



CONTENTS

- Scope of Work
- Audit Responsibilities
- Approach to the Audit
- Accounting Changes
- Overview of Financial Statements
- Key Financial Indicators
- Single Audit
- Audit Results

SCOPE OF WORK

SCOPE OF WORK

- **Audit of the Annual Comprehensive Financial Report**
 - Financial Section
 - Statement of Net Position
 - Statement of Revenues, Expenses and Changes In Net Position
 - Statement of Cash Flows
 - Notes to the Basic Financial Statements

AUDIT RESPONSIBILITIES

MANAGEMENT'S RESPONSIBILITIES

- Responsible for the financial statements
- Present the financial statements in accordance with accounting principles generally accepted in the United States of America (US GAAP)
- Adopt sound accounting policies
- Establish and maintain internal controls over financial reporting and compliance
- Provide evidence supporting the amounts and disclosures in the financial statements
- Fair presentation of financial statements that are free from material misstatements, whether due to fraud or error
- Prevent and detect fraud

AUDITORS' RESPONSIBILITIES

- Perform the audit in conformity with Auditing Standards Generally Accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States
- Communicate with “Those Charged with Governance”
- Assess audit risk of internal control over financial reporting
- Determine the fairness of the presentation of the financial statements
- Render an opinion on the financial statements
- Issue recommendations to management, if any

APPROACH TO THE AUDIT

THE PUN GROUP'S AUDIT APPROACH FOR OLIVENHAIN MUNICIPAL WATER DISTRICT

- Phase I – Detailed planning
- Phase II – Risk-based review of internal controls over systems and compliance
 - Financial reporting
 - Revenues – billings, revenue recognition, and cash receipts
 - Expenses – purchasing, accounts payable, and cash disbursements
 - Payroll and related liabilities
 - General IT controls
- Phase III – Validation of account balances
- Phase IV – Preparation of financial statements and issuance of audit opinions

ACCOUNTING CHANGES

IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*

- In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding SBITAs.
- Implementation of this Statement had a minor effect on the District's financial statements for the year ended June 30, 2023 and the financial statements for the year ended June 30, 2022 were restated for consistency.

OVERVIEW OF THE FINANCIAL STATEMENTS

Olivenhain Municipal Water District

Comparative Summary Statements of Net Position

June 30, 2023 and 2022

	2023	2022	\$ Diff	% Diff
Assets				
Current Assets:				
Unrestricted assets	\$ 89,298,112	\$ 93,308,859	\$ (4,010,747)	-4.30%
Restricted assets	14,570,261	12,899,002	1,671,259	12.96%
Total current assets	103,868,373	106,207,861	(2,339,488)	-2.20%
Noncurrent assets:				
Capital assets	374,715,143	375,213,684	(498,541)	-0.13%
Others	9,372,997	9,991,175	(618,178)	-6.19%
Total noncurrent assets	384,088,140	385,204,859	(1,116,719)	-0.29%
Total assets	487,956,513	491,412,720	(3,456,207)	-0.70%
Deferred Outflows of Resources				
Pension-related deferred outflows	7,296,286	2,731,692	4,564,594	167.10%
Deferred amount on refunding	857,886	1,016,228	(158,342)	-15.58%
Total deferred outflows of resources	8,154,172	3,747,920	4,406,252	117.57%

Olivenhain Municipal Water District

Comparative Summary Statements of Net Position (Continued)

June 30, 2023 and 2022

	2023	2022	\$ Diff	% Diff
Liabilities				
Current Liabilities:				
Accounts payable, accrued expenses, and deposits	8,963,207	8,709,858	253,349	2.91%
Compensated absences, current	961,314	996,839	(35,525)	-3.56%
Long-term debt, current	4,674,149	4,517,542	156,607	3.47%
Liabilities payable from restricted assets	189,507	158,941	30,566	19.23%
Total current liabilities	14,788,177	14,383,180	404,997	2.82%
Noncurrent liabilities:				
Compensated absences	1,189,983	939,187	250,796	26.70%
Net pension liability	16,832,760	7,819,768	9,012,992	115.26%
Long-term debt	42,393,127	47,891,832	(5,498,705)	-11.48%
Total noncurrent liabilities	60,415,870	56,650,787	3,765,083	6.65%
Total liabilities	75,204,047	71,033,967	4,170,080	5.87%
Deferred Inflows of Resources				
Pension-related deferred inflows	720,171	6,995,887	(6,275,716)	-89.71%
Lease-related deferred inflows	8,953,346	9,796,852	(843,506)	-8.61%
Total deferred outflows of resources	9,673,517	16,792,739	(7,119,222)	-42.39%
Net Position				
Net investment in capital assets	332,382,861	328,832,740	3,550,121	1.08%
Restricted	10,503,646	7,727,858	2,775,788	35.92%
Unrestricted	68,346,614	70,773,336	(2,426,722)	-3.43%
Total Net Position	\$ 411,233,121	\$ 407,333,934	\$ 3,899,187	0.96%

Olivenhain Municipal Water District
Comparative Statements of Revenues, Expenses and Change in
Net Position
For the Years Ended June 30, 2023 and 2022

	2023	2022	\$ Diff	% Diff
Operating Revenues				
Water sales	\$ 53,633,877	\$ 57,747,541	\$ (4,113,664)	-7.12%
Sewer charges	5,621,985	5,480,925	141,060	2.57%
Other operating revenues	1,084,666	1,303,126	(218,460)	-16.76%
Total operating revenues	60,340,528	64,531,592	(4,191,064)	-6.49%
Operating Expenses				
Cost of purchased water sold	29,609,781	31,265,804	(1,656,023)	-5.30%
Pumping and water treatment	4,353,775	4,322,820	30,955	0.72%
Transmission and distribution	4,434,815	4,485,962	(51,147)	-1.14%
Sewer collection and treatment	2,026,695	2,170,341	(143,646)	-6.62%
Elfin Forest recreation reserve operations	386,905	428,174	(41,269)	-9.64%
Facilities maintenance	1,274,751	1,387,010	(112,259)	-8.09%
Customer services	1,754,190	2,036,267	(282,077)	-13.85%
General and administrative	6,865,224	7,745,048	(879,824)	-11.36%
Other operating expenses	212,580	304,037	(91,457)	-30.08%
Depreciation and amortization	15,910,790	16,132,953	(222,163)	-1.38%
Total operating expenses	66,829,506	70,278,416	(3,448,910)	-4.91%
Operating (Loss)	(6,488,978)	(5,746,824)	(742,154)	12.91%

Olivenhain Municipal Water District
Comparative Statements of Revenues, Expenses and Changes in Net Position
(Continued)
For the Years Ended June 30, 2023 and 2022

	2023	2022	\$ Diff	% Diff
Nonoperating Revenues (Expenses)				
Fair market value adjustment	(207,285)	(2,467,642)	2,260,357	-91.60%
Investment income	2,105,348	402,702	1,702,646	422.81%
Property taxes	4,577,755	4,242,794	334,961	7.89%
Capacity charges	1,327,295	1,530,925	(203,630)	-13.30%
Benefit assessments	1,045,315	1,058,241	(12,926)	-1.22%
Other nonoperating revenues	1,055,260	2,237,334	(1,182,074)	-52.83%
Interest expenses	(1,220,156)	(1,322,948)	102,792	-7.77%
Other nonoperating expenses	(1,935,949)	(606,602)	(1,329,347)	219.15%
Total nonoperating revenues (expenses)	6,747,583	5,074,804	1,672,779	32.96%
Income before capital contributions	258,605	(672,020)	930,625	-138.48%
Capital contributions	3,640,582	569,745	3,070,837	538.98%
Changes in net position	<u>\$ 3,899,187</u>	<u>\$ (102,275)</u>	<u>\$ 4,001,462</u>	<u>-3912.45%</u>

Olivenhain Municipal Water District **Comparative Statements of Cash Flows** **For the Years Ended June 30, 2023 and 2022**

	2023	2022	\$ Diff	% Diff
Cash Flows from Operating Activities				
Receipts from customers	\$ 61,337,349	\$ 65,848,393	\$ (4,511,044)	-6.85%
Payments for water	(30,212,660)	(30,910,730)	698,070	-2.26%
Payments for services and supplies	(8,878,715)	(10,952,261)	2,073,546	-18.93%
Payments for employee wages, benefits, and related costs	(12,953,543)	(12,569,780)	(383,763)	3.05%
Net cash provided by operating activities	<u>9,292,431</u>	<u>11,415,622</u>	<u>(2,123,191)</u>	<u>-18.60%</u>
Cash Flows from Noncapital Financing Activities				
Property tax assessment received	5,583,500	5,271,677	311,823	5.92%
SDCWA water rebate payment	18,930	2,102,804	(2,083,874)	-99.10%
Net cash provided by noncapital financing activities	<u>5,602,430</u>	<u>7,374,481</u>	<u>(1,772,051)</u>	<u>-24.03%</u>

Olivenhain Municipal Water District **Statements of Cash Flows (Continued)** **For the Years Ended June 30, 2023 and 2022**

	2023	2022	\$ Diff	% Diff
Cash Flows from Capital and Related Financing Activities				
Acquisition and construction of capital assets	(14,493,861)	(8,765,436)	(5,728,425)	65.35%
Proceeds from grants and capital contributions	1,495,622	-	1,495,622	100.00%
Principal payments on long-term debt	(4,862,730)	(8,665,506)	3,802,776	-43.88%
Proceeds from debt issuance	-	8,975,110	(8,975,110)	-100.00%
Interest payments on long-term debt	(1,487,744)	(1,631,765)	144,021	-8.83%
Capacity charges received	1,364,791	1,552,833	(188,042)	-12.11%
Proceeds from sale of capital assets	-	595,875	(595,875)	-100.00%
Other capital financing receipts	1,055,261	1,125,345	(70,084)	-6.23%
Other capital financing expenses paid	(1,655,542)	(699,549)	(955,993)	136.66%
Net cash provided by capital and related financing activities	(18,584,203)	(7,513,093)	(11,071,110)	147.36%
Cash Flows from Investing Activities				
Proceeds from sale and maturities of investments	3,000,000	4,000,000	(1,000,000)	-25.00%
Purchase of investments	(2,957,913)	(9,061,033)	6,103,120	-67.36%
Investment income received	1,121,975	41,812	1,080,163	2583.38%
Net cash provided by investing activities	1,164,062	(5,019,221)	6,183,283	-123.19%
Changes in cash and cash equivalents	\$ (2,525,280)	\$ 6,257,789	\$ (8,783,069)	-140.35%

KEY FINANCIAL INDICATORS

Olivenhain Municipal Water District Key Financial Indicators

	2023	2022	2021	2020
<u>Current Ratio</u>				
Current Assets	\$ 103,868,373	\$ 106,207,861	\$ 98,915,490	\$ 91,849,421
Current Liabilities	\$ 14,788,177	\$ 14,383,180	\$ 13,933,676	\$ 16,678,476
Olivenhain MWD	7.02	7.38	7.10	5.51
Average of 10 Local Districts	not available	5.00	5.48	6.39
<u>Capital Condition Ratio</u>				
Total Depreciable Capital Assets	\$ 576,855,990	\$ 567,586,076	\$ 556,962,450	\$ 533,528,816
Total Accumulated Depreciation	\$ 244,366,290	\$ 230,798,427	\$ 216,571,720	\$ 204,189,400
Olivenhain MWD	42.36%	40.66%	38.88%	38.27%
Average of 10 Local Districts	not available	46.54%	45.12%	44.58%
<u>Pension Liability to Net Position Ratio</u>				
Net Pension Liability	\$ 16,832,760	\$ 7,819,768	\$ 14,608,844	\$ 13,760,678
Net Position	\$ 411,233,121	\$ 407,333,934	\$ 407,436,209	\$ 398,071,764
Olivenhain MWD	4.09%	1.92%	3.59%	3.46%
Average of 10 Local Districts	not available	5.34%	10.65%	11.03%
<u>Water / Sewer Receivable % Change</u>				
Water / Sewer Receivable - Current Year	\$ 8,352,651	\$ 9,453,946	\$ 10,717,152	\$ 10,062,269
Water / Sewer Receivable - Prior Year	\$ 9,453,946	\$ 10,717,152	\$ 10,062,269	\$ 8,079,684
Olivenhain MWD	-11.65%	-11.79%	6.51%	24.54%
Average of 10 Local Districts	not available	14.16%	8.69%	9.73%

Olivenhain Municipal Water District Key Financial Indicators

	2023	2022	2021	2020
<u>Operating Margin</u>				
Operating Revenues	\$ 60,340,528	\$ 64,531,592	\$ 64,758,178	\$ 57,583,293
Operating Expenses	\$ 50,918,716	\$ 54,145,463	\$ 52,683,656	\$ 49,298,110
Olivenhain MWD	1.19	1.19	1.23	1.17
Average of 10 Local Districts	not available	1.06	1.02	1.07
<u>Water / Sewer Sales % Change</u>				
Water / Sewer Sales - Current Year	\$ 59,255,862	\$ 63,228,466	\$ 63,296,949	\$ 55,383,041
Water / Sewer Sales - Prior Year	\$ 63,228,466	\$ 63,296,949	\$ 55,383,041	\$ 53,483,505
Olivenhain MWD	-6.28%	-0.11%	14.29%	3.55%
Average of 10 Local Districts	not available	1.19%	13.89%	2.20%

Olivenhain Municipal Water District
GASB 68 – Sensitivity of NPL to Changes in Discount Rate
CalPERS Miscellaneous Plan
Measurement Date June 30, 2022

Discount Rate	<u>5.90%</u>	<u>6.90%</u>	<u>7.90%</u>
Proportionate share of net pension liability	\$ 25,863,266	\$ 16,832,760	\$ 9,402,895

	<u>2023</u>	<u>2022</u>	<u>Change</u>
Fiduciary net position as % of total pension liability	74.59%	87.14%	-12.55%
Average of 10 local districts	not available	81.18%	

SINGLE AUDIT

Olivenhain Municipal Water District

Single Audit

For the Year Ended June 30, 2023

Federal Grantor/Pass-Through Grantor Program Title	Federal Assistance Listing Number	Federal Expenditures	Amount Provided to Subrecipients
<u>U.S. Department of the Interior</u>			
<i>Direct Programs:</i>			
Title XVI Water Reclamation and Reuse	15.504	\$ 1,744,994	\$ 1,020,928
WaterSMART	15.507	285,391	-
Total U.S. Department of the Interior		\$ 2,030,385	\$ 1,020,928
TOTAL EXPENDITURES OF FEDERAL AWARDS		\$ 2,030,385	\$ 1,020,928

AUDIT RESULTS

AUDIT RESULTS

- **Unmodified Opinion**
 - Financial statements are fairly presented in all material respects
 - Significant accounting policies have been consistently applied
 - Estimates are reasonable
 - Disclosures are properly reflected in the financial statements
- **Other Results**
 - No disagreements with management
 - No material weaknesses or significant deficiencies in internal controls over financial reporting or compliance were noted
 - No accounting issues were noted



HQ - ORANGE COUNTY

200 E. Sandpointe Avenue
Suite 600
Santa Ana, CA 92707

SAN DIEGO

4365 Executive Drive
Suite 710
San Diego, CA 92121

BAY AREA

2121 North California Blvd.
Suite 290
Walnut Creek, CA 94596

LAS VEGAS

1050 Indigo Drive
Suite 110
Las Vegas, NV 89145

PHOENIX

4742 North 24th Street
Suite 300
Phoenix, AZ 85016

Attachment 3

November XX, 2023



Members of the Board of Directors
Olivenhain Municipal Water District
1966 Olivenhain Road
Encinitas, CA 92024-5699

We are pleased to submit the Annual Comprehensive Financial Report of the Olivenhain Municipal Water District (District) for the fiscal year ended June 30, 2023. The purpose of the report is to provide citizens, investors, and other interested parties with reliable financial information about the District.

This Annual Comprehensive Financial Report was prepared by the District's Finance Department in accordance with Generally Accepted Accounting Principles (GAAP). Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with District management. We believe the data, as presented, is accurate in all material respects and that it is presented in a manner designed to fairly set forth the financial position and the results of operations of the District, and that all disclosures necessary to enable readers to gain the maximum understanding of the District's financial activity have been included.

The District's financial statements have been audited by The Pun Group, LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the District for the fiscal year ended June 30, 2023, are free of material misstatements. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the District's financial statements for the fiscal year ended June 30, 2023, are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

This letter of transmittal is designed to complement the Management's Discussion & Analysis (MD&A) and should be read in conjunction with it. The District's MD&A can be found immediately following the report of the independent auditors.

Reporting Entity

The District is a governmental corporation governed by a publicly elected five member Board of Directors. The District was incorporated in 1959 under the provisions of the California Municipal Water District Act of 1911, section 71000 et.seq. of the California Water Code as amended.

In keeping its books and records, the District has established various self-balancing groups of accounts in order to enhance internal control and to further the attainment of other management objectives. These groups of accounts, which are sub-funds of the reporting entity, are identified in the District's books and records as the General Fund, Water Capacity Fee Fund, Reassessment District 96-1 Fund, 4S Ranch Sanitation District Fund, 4S Regional Recycled Water Fund, 2015 Water Revenue Refunding Bond Fund, 2013 Note Payable Fund, 2016 Water Revenue Refunding Bond Fund, 2021A Wastewater (Sewer) Revenue Bond Fund and 2021B Wastewater (Sewer) Revenue Refunding Bond Fund. All significant inter sub-fund transactions and accounts are eliminated in the combination of the accounts of the sub-funds at the end of each fiscal year for the consolidated financial statements of the District as presented in the financial section of this report. More detailed information on the District's accounting policies can be found in note 1 of the Notes to the Basic Financial Statements.

General District Operations

The District is operated as an enterprise fund. The finances of the District are kept on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

As an enterprise fund, the District maintains a self-balancing set of accounts established to record the financial position and results that pertain to each activity. The activities of enterprise funds are similar to regular businesses whereby a governmental agency collects sufficient revenues through rates and user charges to pay for on-going operating expenses and maintaining infrastructure in order to sustain operations.

The District's service area is approximately 48.6 square miles. This service area lies within the northern region of San Diego County and includes portions of incorporated areas such as Encinitas, Carlsbad, San Diego, Solana Beach, San Marcos and large portions of unincorporated areas such as 4S Ranch, Rancho Cielo, Rancho Santa Fe, Elfin Forest, and Santa Fe Valley. All these communities are fairly affluent.

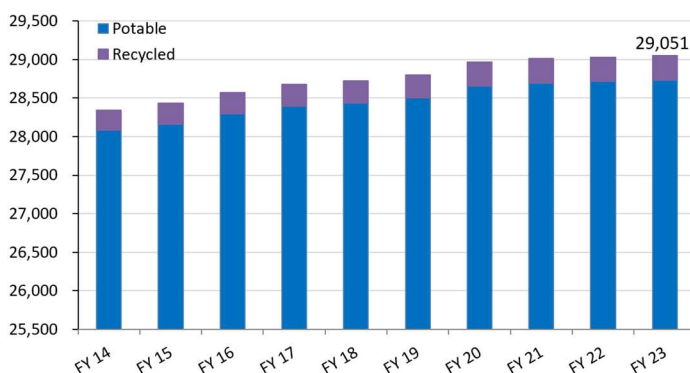
According to recent EDU (Equivalent Dwelling Units) projections, the District has about 1,180 EDUs remaining until it is completely built-out at an estimated 32,929 EDUs. For the fiscal year ended June 30, 2023, 70.7% of water delivered was for domestic use, 28.2% for commercial and irrigation use (including construction and recycled water), and 1.1% for agricultural use. The District relies on the San Diego County Water Authority (SDCWA) as a sole source of untreated water. The District's primary treated water source is the David C. McCollom Water Treatment Plant.

The District provides sewer collection and treatment services to a portion of the District's service area and sells recycled water to golf courses and other customers for irrigation. The District's 4S Ranch Water Reclamation Facility (WRF) collects and treats sewage from two specific areas of the District, Rancho Cielo and 4S Ranch. Sewage is processed in the 4S WRF through various treatment stages to produce California Title 22 tertiary treated recycled water that can be used for unrestricted irrigation purposes. The 4S WRF currently produces approximately 1 million gallons per day (mgd) of its maximum production of 2.0 mgd to meet recycled water demand in the southeast quadrant of the District's service area. In order to meet demand in the southeast, the District also purchases recycled water from Santa Fe Valley Community Services District and City of San Diego.

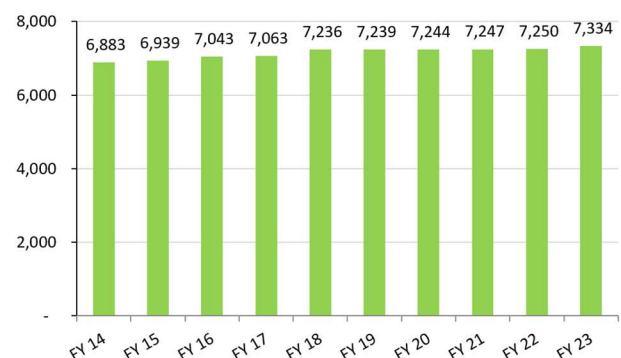
The District also sells recycled water in the northwest of its service area. To meet recycled water demand in the northwest, the District has entered into recycled water purchase agreements with Vallecitos Water District and San Elijo Joint Powers Authority. Recycled water in the northwest is delivered through the utilization of interagency service connections.

During the fiscal year ended June 30, 2023, the District billed 14,841 acre-feet (AF) of potable water through 28,731 active potable water meters and 2,270 AF of recycled water through 320 active recycled meters. The District provided wastewater collection services to 7,334 sewer equivalent dwelling units (EDUs) in 4S Ranch, Rancho Cielo, Santa Luz, and Black Mountain Ranch. Historical information of the District's number of water meters and sewer EDUs is shown in the graphs below.

Active Potable & Recycled Water Meters



Active Sewer EDU's



San Diego Region Water Supply and Diversification Strategy

California's water supply outlook is considerably more positive entering 2024 than just one year prior. After over three consecutive years of extreme drought, 2023 was a remarkably wet year throughout the southwestern United States. Rainstorms not only replenished water levels in California's reservoirs, but also improved water storage conditions in the Colorado River basin. Locally, rainfall in San Diego during the 2022-2023 water year was an astounding 161 percent of normal, according to the National Weather Service. Long-range forecasts from the Climate Prediction Center suggest a high likelihood of continued above-average rainfall well into 2024.

Also beneficial from a water supply standpoint, the states of California, Nevada and Arizona reached an agreement in 2023 to voluntarily use less water from the over-drafted Colorado River through 2026. Conservation-based approaches to shortages on the Colorado River assure that the San Diego County Water Authority's Quantification Settlement Agreement supplies are not subject to mandatory reductions. Given this Colorado River deal as well as dramatic improvements in regional drought conditions, the San Diego County Water Authority has assured its member agencies that no mandatory cutbacks will be necessary to meet water demands through 2026.

Though news has been positive with regard to water supplies, water affordability remains an immense challenge as wholesale water costs continue to skyrocket. The San Diego County Water Authority implemented a 9.5 percent wholesale rate increase for 2024. These higher wholesale costs, coupled with lower demand resulting from wet weather, inevitably impact OMWD's water sales revenue.

In response to wholesale costs increases, OMWD continues to pursue alternative water supplies in order to reduce its imported water demands. One such pursuit is the San Dieguito Valley Brackish Groundwater Desalination Project, which would produce at least 1.3 million gallons per day of potable water from a previously untapped source. OMWD completed a feasibility study for the project, and having found the project feasible, is currently performing environmental investigations and developing a hydrogeological groundwater model. Not only has the project garnered support from the community and U.S. Congress may approve nearly \$960,000 in Community Project Funding for the project in 2024.

OMWD has also continued the aggressive expansion of recycled water in its service area. This has been achieved largely through interagency coordination with the North San Diego Water Reuse Coalition, a group of water and wastewater agencies for which OMWD provides leadership. To date, the Coalition has achieved \$23.9 million in funding from the US Bureau of Reclamation via the Title XVI Water Reclamation and Reuse Program, as well as \$5.0 million in Proposition 84 funding. Individual Coalition members have secured additional funds via Proposition 1 as well. These funding sources have contributed approximately \$900,000 to OMWD's Recycled Water Pipeline Extensions for Calle Barcelona, Village Park, and Summerhill Projects. Altogether, OMWD now meets up to 15 percent of its demands with recycled water each year.

With these proactive measures firmly in place, OMWD remains confidently positioned to provide essential water services to the communities we serve.

Internal Controls

District Management is responsible for establishing and maintaining a system of internal controls designed to safeguard District assets from loss, theft, or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in accordance with generally accepted accounting principles. The internal control structure is designed to provide reasonable assurance that these objectives are met. When establishing or reviewing controls, management must recognize that the cost to implement a control should not exceed the benefits likely to be derived, and that in order to assess cost versus benefit, estimates and judgment on the part of management will be required. All internal control evaluations occur within the above framework.

Management believes the current system of internal controls adequately safeguards District assets and provides reasonable assurance that accounting transactions are properly recorded.

Budget Process

The District has a multi-year operating and capital budget that is approved by the board in June of every other year (biennial budget). The District's Budget is used as a management tool for estimating and planning District revenues and expenditures based on historic and current financial information. Having a two-year budget allows the District to redeploy resources to other activities other than budget preparation, such as putting more emphasis into the budget monitoring process, and promotes a longer-term view to see and measure results greater than a 12-month period. The Finance Department prepares estimates for departmental review. Department managers review and revise the estimates. All managers meet several times to discuss the budgets, after which there is a final review by the General Manager prior to submittal to the Board of Directors for their consideration.

The proposed Budget is submitted to the Board within 45 days prior to July 1st of each budget-approval year. The budget does not go into effect until approved by the Board. Once adopted, the budget becomes the parameter for operating and capital expenditures for each fiscal year.

The District has been the proud recipient of the Government Finance Officers Association (GFOA) Distinguished Budget Presentation Award and the California Society of Municipal Finance Officers (CSMFO) Excellence in Budgeting Award for its budget in previous fiscal years. These awards reflect the commitment of the District's Board of Directors and staff to apply the highest principles of governmental budgeting to satisfy nationally recognized guidelines for effective budget presentation.

The District conducts a mid-term review of its multi-year budget in March of non-budget approval years to analyze actual operating and capital expenditures and compares the numbers to the original budget amounts. The purpose of this review is to present the Board with amended budget amounts when required, due to changes in circumstances that were not anticipated at the time the original budget was developed. Project managers may find after the first half of the budget that some projects need to be accelerated or delayed due to changes in housing development conditions in the District. Progress on status of capital projects is reported to the board during the mid-term budget review.

Designated Fund Balances

The District's Designated Fund Balances Policy is adopted by the District's Board of Directors. This policy represents affirmation of the Board's commitment to financial prudence and careful stewardship of community assets. These funds are designated to carry out specific purposes to ensure prudent management of the District's financial resources. The policy specifies minimum and maximum target balances to be established in each Board-designated fund. All fund balances will be subject to review by the Board when the District's annual financial audit is completed to ensure fund balances meet the goals established in the policy.

To ensure adequate funding to meet the District's short-term and long-term planned capital expenditures and its commitment to the community, the maximum target balance of the District's designated fund balance for capital and equipment for water operations has been adjusted so as not to exceed five fiscal years of approved planned capital expenditures.

Contacting the District's Finance Department

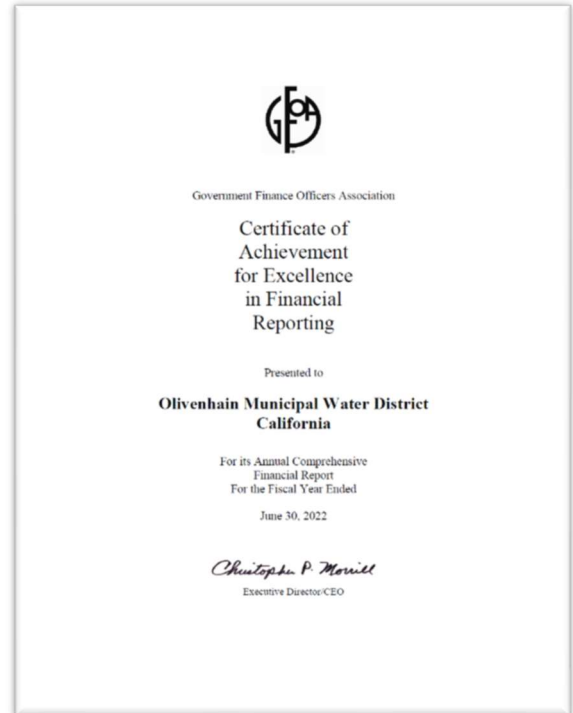
This financial report is designed to provide the Board, customers, creditors and investors with a general overview of the District's financial condition. Should you have any questions regarding the content of this report, please contact Rainy Selamat, OMWD Finance Manager, at (760) 753-6466.

Certificate of Achievement

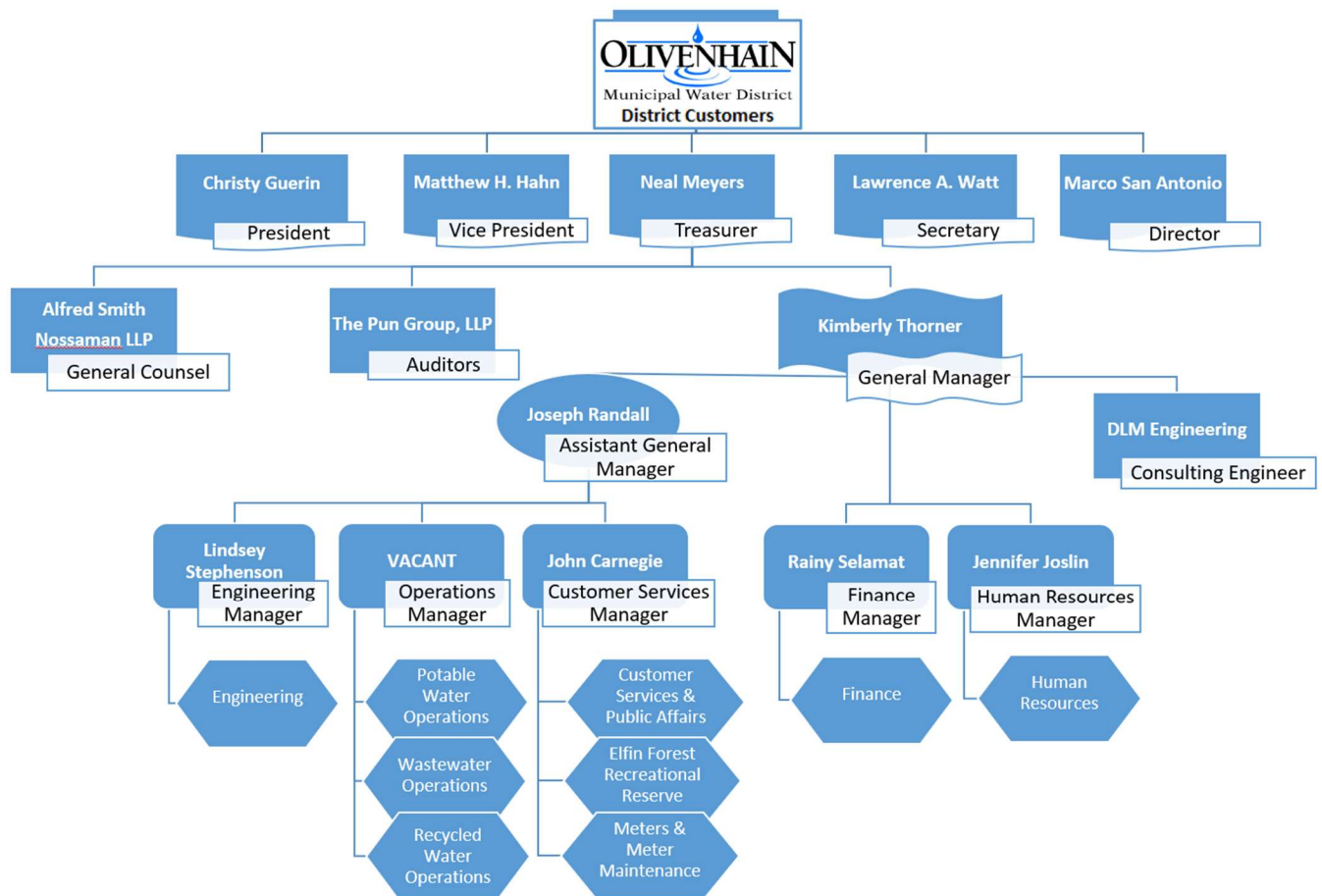
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Olivenhain Municipal Water District for its Annual Comprehensive Financial Report (ACFR) for the fiscal year ended June 30, 2022. This was the 28th consecutive year that the District has received this prestigious award.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Annual Comprehensive Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

The Certificate of Achievement is valid for a period of one year only. We believe that our Annual Comprehensive Financial Report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

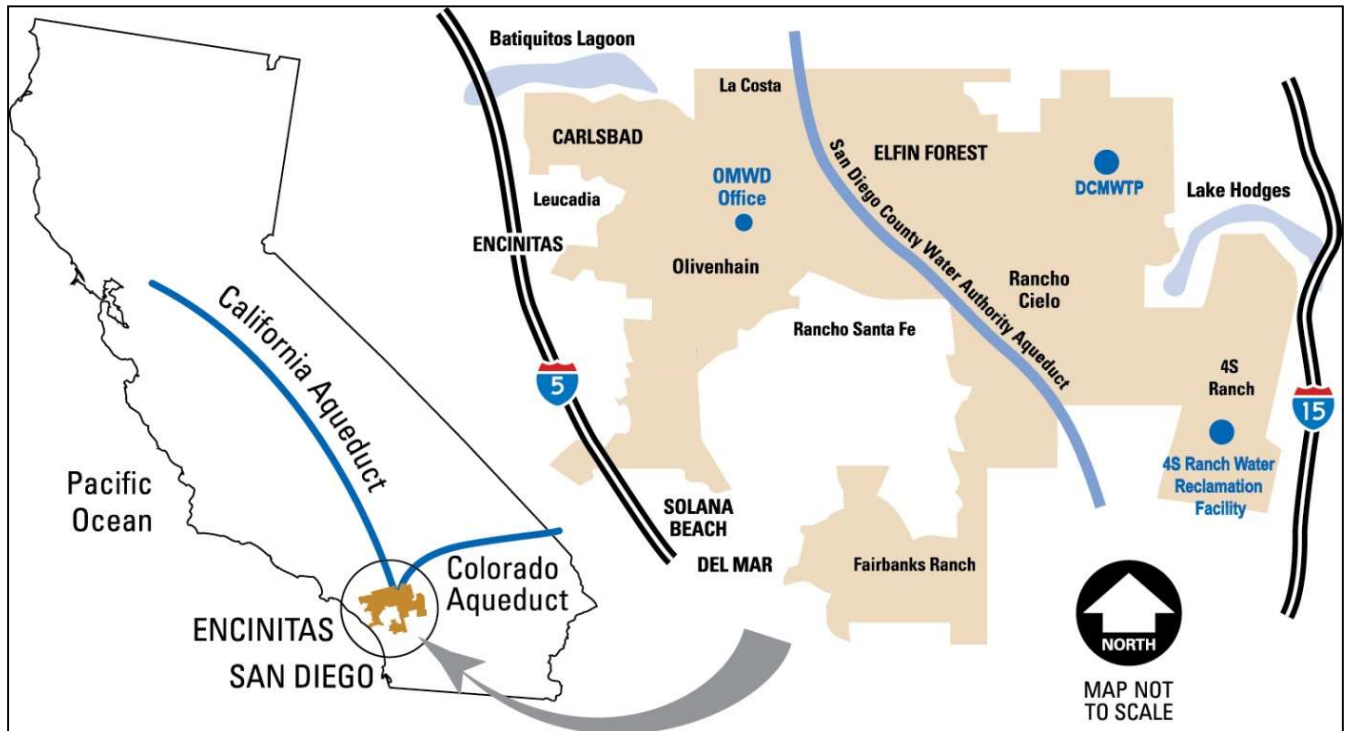


Organization Chart- *Printer to replace with org chart that includes BOD pictures*



The elected five board members delegate management responsibility of the day-to-day operations of the District to an appointed General Manager. The District is an “at will employer.” All of the District’s employees serve at the pleasure of the General Manager.

District Service Area



Acknowledgements

The preparation of this report could not have been accomplished without support and input from all departments and our independent auditor, The Pun Group, LLP. We would also like to particularly thank the Board of Directors for their continued dedication supporting the highest level of prudent fiscal management.

Respectfully Submitted:

Kimberly A. Thorner, Esq.
General Manager

Rainy K. Selamat
Finance Manager

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ended June 30, 2023

Our discussion and analysis of the Olivenhain Municipal Water District's (District) basic financial statements provides general readers with an overview of the District's financial position and results of operations for the fiscal year ended June 30, 2023. Included in this section are:

- Financial highlights;
- Overview of the accompanying basic financial statements;
- Financial analysis of the District as a whole;
- A discussion of financial restrictions, commitments and limitations.

The Management's Discussion and Analysis (MD&A) should be read in conjunction with the audited financial statements. These statements are in the section following the MD&A.

Financial Highlights

During the fiscal year ended June 30, 2023 the following events impacted, or create the potential to impact, the finances of the District:

- On February 15, 2023, the District's Board of Directors approved a 5.9% revenue adjustment to water rates and charges to pass through increases in the District's purchased water wholesale costs from the San Diego County Water Authority (SDCWA) and an inflation adjustment based on a year-over-year percent change in the San Diego County Consumer Price Index for All Urban Consumers (CPI-U). The proposed revenue adjustment resulted in rate increases to the District's rates and fixed charges that became effective with water consumption beginning on March 1, 2023.
- In April of 2023, Fitch reviewed the District's AAA bond rating on the 2015A and 2016A Water System Refunding Revenue Bonds and concluded that there should be no change to its existing rating.
- The District's Board of Directors approved a 3% increase to the District's wastewater (sewer) rates and charges effective July 1, 2023, consistent with the sewer rate ordinance adopted by the board in May 2021.
- The District completed a Single Audit for fiscal year 2023 as a result of grant funds expended for its recycled water and Advanced Metering Infrastructure (AMI) expansion projects. The District reported \$2,030,385 in federal award expenditures and received no findings from its external auditors.

- As of June 2023, the District has refunded \$584,483 to its customers via the Rate Reimbursement Credit (RRC) program, which was established by the Board of Directors in March of 2022. The program stemmed from refund payments received totaling \$3,661,916.91 as a result of settlement proceeds from the SDCWA. The Board voted to pass-on the refunds to District customers via the RRC. More information about the District's RRC is included under the Water Operations section of the Management Discussion and Analysis (MD&A).
- Total Revenues decreased in comparison to the prior year due to fluctuations in the District's water demand from changes in weather conditions, but the decrease was partially offset by increases in investment income, decreases in unrealized losses, and increases in grant revenues earned for the District's recycled water and Advanced Metering Infrastructure (AMI) projects. Other Non-Operating Revenues decreased compared to the prior year due to the following non-recurring revenue items that were recognized in 2022: 1) a refund payment received from the SDCWA and 2) a gain from the selling of a district parcel of land (Gaty parcel).
- Total Expenses decreased primarily due to decreased water demand from wet weather conditions during the year which lead to decreased cost to purchase water from the District's potable and recycled water suppliers. A reduction in pension expense resulting from the District's GASB Statement No. 68 adjustments also contributed to the decrease in total expenses.
- Total Assets decreased primarily due to reductions in cash from lower water sales and a decrease in Net Capital Assets due to depreciation, which decreased the carrying value of the District's Capital Assets.
- Deferred Outflows of Resources increased from the prior year due to amounts from the District's pension that vary from year-to-year based on California Public Employees Retirement System (CalPERS) actuarial assumptions and Governmental Accounting Standards Board (GASB) Statement No. 68 reporting requirements. More information on the District's pension plan can be found in Note 10 of the financial statements.
- Total Liabilities increased due to an increase in Net Pension Liability, which fluctuates from year-to-year based on California Public Employees Retirement System (CalPERS) actuarial assumptions and Governmental Accounting Standards Board (GASB) Statement No. 68 reporting requirements. This increase was partially offset by the District's paydown of its long-term debt.
- Deferred Inflows of Resources decreased from the prior year due to CalPERS actuarial assumptions and GASB Statement No. 68 reporting requirements. The District's lease receivables for leases of land to comply with GASB Statement No. 87 – Leases are also

attributed to the decrease. The District is a lessor for leases of land, primarily cell tower sites, and recognizes leases receivable and deferred inflows of resources related to these leases. Decreases to the District's leases receivable and deferred inflows are recorded as lease payments are received.

- The District's Net Position as of June 30, 2023 increased by \$3.9 million compared to fiscal year 2022. The increase was primarily due to an increase in grant revenues and investment income. The average return on investments increased from 0.97% at the end of fiscal year 2022, to 3.21% at the end of fiscal year 2023, which increased the District's investment income. Throughout the fiscal year, the District's managed its cash flow accordingly to maximize investment income and take advantage of higher yields.
- The District adopted GASB Statement No. 91 "Conduit Debt Obligations", GASB Statement No. 94 "Public-Private and Public-Public Partnerships and Availability Payment Arrangements", GASB Statement No. 96 "Subscription-Based Information Technology Arrangements", and GASB Statement No. 99, "Omnibus 2022".

More information about the overall analysis of the District's financial position and results of operations is provided in the following sections.

Overview of the Financial Statements

For financial statement purposes, the District combines several internally maintained funds into one enterprise fund. The financial statements present the financial position, results of operation, and changes in cash balances using the accrual basis of accounting. This methodology is used to account for operations that are financed and operated in a manner similar to business enterprises, where services provided are paid through user charges.

Required Basic Financial Statements

The required financial statements are reported using the economic resources measurement focus, and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. These statements offer short-term and long-term financial information about the District. Each financial statement is identified, defined, and analyzed in the following sections.

The Statement of Net Position includes the District's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. This statement provides financial information about the nature of investments and ownership (assets), consumption of net position that applies to future periods (deferred outflows), obligations of the District to its bond investors and creditors for all purchases made (liabilities), and acquisition of net position that applies to future periods (deferred inflows). The Statement of Net Position also assesses the liquidity and financial position of the District.

The Statement of Revenue, Expenses, and Changes in Net Position accounts for all activities during the fiscal year. This statement measures the success of the District's operations during the reporting period and can be used to assess whether or not the District has successfully recovered all of its costs through its user fees and other charges. This statement also measures the District's profitability and ability to meet its financial commitments.

The Statement of Cash Flows accounts for the District's cash activities during the reporting period. The primary purpose of this report is to provide information to the general reader about cash inflows and outflows which occurred during the reporting fiscal year. This statement shows cash receipts, cash disbursements, and changes in cash balances based on operating, capital and related financing, noncapital and related financing, and investing activities. The Statement of Cash Flows helps the reader answer the following questions: Where did cash come from? What was cash used for? And, what was the change in cash during the fiscal year?

Financial Analysis of the District as a Whole

The following statements contain a summary of financial information that was extracted from the basic financial statements to assist general readers in evaluating the District's overall financial position and results of operations as described in this MD&A. Increases or decreases in these statements can be used as performance indicators to assess whether the District's overall financial position has improved or deteriorated. At the same time, other external factors such as changes in economic conditions, growth, and legislative mandates should also be considered as part of this assessment.

Net Position

Net Position is the difference between assets acquired, owned, and operated by the District plus its deferred outflows of resources, and its amounts owed (liabilities) plus its deferred inflows of resources. In accordance with Generally Accepted Accounting Principles (GAAP), capital assets acquired through purchase or construction by the District are recorded at historical cost. Capital assets contributed by developers are recorded at developers' bonded cost. Net Position represents the District's net worth including, but not limited to, capital contributions received to date and all investments in capital assets since formation. Net Position helps answer the following question: "Is the District, as a whole, better or worse off as a result of the year's activities?"

Highlights of Statement of Net Position

	Fiscal Year ended June 30		
	<u>2023</u>	<u>2022</u>	<u>2021</u>
Current Assets - unrestricted	\$ 89,298,112	\$ 93,308,859	\$ 91,582,199
Current Assets - restricted	14,570,261	12,899,002	7,333,291
Capital Assets, net	374,715,143	375,213,684	381,987,256
Noncurrent Assets- unrestricted	9,355,778	9,955,712	7,188,378
Other Noncurrent Assets	17,219	35,463	82,997
Total Assets	<u>487,956,513</u>	<u>491,412,720</u>	<u>488,174,121</u>
Deferred amounts on refunding	857,886	1,016,228	1,191,088
Deferred amount from pension	7,296,286	2,731,692	3,585,712
Total Deferred Outflows of Resources	<u>8,154,172</u>	<u>3,747,920</u>	<u>4,776,800</u>
Current Liabilities - unrestricted	14,598,670	14,224,239	13,721,685
Current Liabilities - restricted	189,507	158,941	211,991
Compensated Absences, long-term	1,189,983	939,187	916,576
Unearned Revenue	-	-	-
Net Pension Liability	16,832,760	7,819,768	14,608,845
Long-term Debt	42,393,127	47,891,832	48,280,027
Total Liabilities	<u>75,204,047</u>	<u>71,033,967</u>	<u>77,739,124</u>
Deferred amount on pension	720,171	6,995,887	425,243
Deferred amount on leases	8,953,346	9,796,852	7,350,346
Total Deferred Inflows of Resources	<u>9,673,517</u>	<u>16,792,739</u>	<u>7,775,589</u>
Net Investment in Capital Assets	332,382,861	328,832,740	330,855,961
Restricted Net Position	10,503,646	7,727,858	7,121,300
Unrestricted Net Position	68,346,614	70,773,336	69,458,948
Total Net Position	<u>\$ 411,233,121</u>	<u>\$ 407,333,934</u>	<u>\$ 407,436,209</u>

For a detailed discussion regarding the changes in total net position, please see the section for the Statement of Revenues, Expenses and Changes in Net Position in the following pages.

Current Assets - unrestricted: a decrease in fiscal year 2023 compared to 2022, and an increase in 2022 compared to 2021. This was due to a combination of fluctuations in water sales from changes in water demand due to weather conditions, changes in sewer revenue collected, unrealized losses on the District's investments and settlement proceeds received in 2022 and 2021 from the SDCWA (MWD settlement).

Current Assets - restricted: An increase in fiscal year 2023 compared to 2022, and an increase in fiscal year 2022 compared to 2021. The increase in fiscal year 2023 compared to 2022 was due to an increase in Grant Receivables recognized for the District's Manchester Recycled Pipeline Extension project. The large increase in fiscal year 2022 compared to 2021 was primarily due to an increase in restricted cash from the issuance of the 2021A Wastewater Revenue Refunding bonds to help finance the District's wastewater (sewer) improvement projects.

Capital Assets, net: a decrease between fiscal years 2023 and 2022, and a decrease between fiscal years 2022 and 2021. These decreases are primarily due to increases in accumulated depreciation, which decreased the carrying value of the District's Capital Assets. The decreases were partially offset by increases in capital assets from Construction in Progress (CIP) projects that were capitalized during the fiscal year. See note 6 of the District's financial statements for more details on the District's capital assets.

Noncurrent Assets- unrestricted: a decrease between fiscal years 2023 and 2022, and an increase between fiscal years 2022 and 2021. The decrease between fiscal years 2023 and 2022 is due to a decrease in the District's leases receivable for its cell tower sites, as a result of regular lease payments received throughout the year. The increase between fiscal years 2022 and 2021 was due to an increase in the District's lease receivable resulting from extensions of cell tower site agreements. Governmental Accounting Standards Board Statement (GASB) No. 87 – Leases requires the District to recognize a noncurrent asset for the lease payments that are expected to be received during the lease term of the District's leases, which are primarily composed of cell tower sites. The District has 16 existing lease agreements, which generate other non-operating revenue for the District.

Other Noncurrent Assets: a decrease between fiscal years 2023 and 2022 and a decrease between fiscal years 2022 and 2021. These decreases were due to payments made on loan receivables issued by the District to qualified Home Owners' Associations (HOA) under the Recycled Water Loan Program. The program, which was implemented in fiscal year 2017, offers financial assistance in the form of low-interest loans to qualified HOAs that retrofit their potable water irrigation system to recycled water. All loans were paid off before the end of fiscal year 2023, leaving only the District's prepaid bond insurance amount remaining under Other Non-Current Assets.

Deferred Outflows of Resources: In 2023, the District had Deferred Outflows of Resources of \$8.2 million, an increase of \$4.5 million compared to fiscal year 2022. In 2022, the District had Deferred Outflows of Resources of \$3.7 million, a decrease of \$1.0 million compared to fiscal year 2021. A portion of the change in the District's Deferred Outflows was due to fluctuations in recorded pension amounts as a result of changes in pension contributions subsequent to the measurement date, differences in actual and expected expenses, assumption changes, proportion changes, and net differences between projected and actual earnings on plan investments, as required by GASB Statement No. 68. The remaining change in the District's Deferred Outflows is due to decreases in the deferred loss on refunding recognized for the District's Water System Revenue Bonds. More information on the District's Long-term debt can be found in Note 8 of the basic financial statements.

Current Liabilities – unrestricted: an increase between fiscal years 2023 and 2022, and an increase between fiscal years 2022 and 2021. The increases were due to an increase in the current portion of long-term debt with a larger increase between fiscal years 2022 and 2021 that resulted from the issuance of new Wastewater Revenue Bonds during fiscal year 2022.

Current Liabilities – restricted: an increase in fiscal year 2023 compared to 2022, and a decrease in fiscal year 2022 compared to 2021. The changes were due to fluctuations in restricted payables related to the District's various construction projects.

Compensated Absences, long-term: an increase in fiscal year 2023 compared to fiscal year 2022 and an increase in fiscal year 2022 compared to fiscal year 2021. The increase is primarily due to increases in accrued benefits included in the Memorandum of Understanding between the District and its two bargaining units that was executed in 2021. In fiscal year 2022, the District implemented GASB 101 – Compensated Absences and accrued the Social Security and Medicare portion of the District's compensated absences liability, which contributed to the increase in 2022 and 2023 compared to previous years.

Net Pension Liability: an increase of \$9.0 million in fiscal year 2023 compared to 2022, and a decrease of \$6.8 million in 2022 compared to fiscal year 2021. Net Pension Liability is reported at \$16.8 million for fiscal year 2023 and is based on the District's proportionate share of the net pension liability for the Miscellaneous Classic and Public Employees' Pension Reform Act (PEPRA) plans under the CalPERS retirement program. The District's Net Pension Liability for each fiscal year was recorded based on CalPERS actuarial report as of June 30th of the prior year. The District's Net Pension Liability was \$7.8 million and \$14.6 million for fiscal years 2022 and 2021, respectively.

Long-term Debt: a decrease in fiscal year 2023 compared to 2022 and a decrease in fiscal year 2022 compared to 2021. The decreases were due to the District's regular payments on outstanding debt. The long-term debt decreased every year for the current portion of these debts paid down in each fiscal year. Long-term Debt decreased only slightly between 2022 and 2021 due to the issuance the new 2021A and 2021B bonds during fiscal year 2022, which offset the decrease from payments on the District's outstanding debt. For more information on the District's outstanding bond debts and payment schedules see Note 8 to the financial statements.

Deferred Inflows of Resources: The District's had Deferred Inflows of Resources of \$9.7 million in fiscal year 2023, a decrease of \$7.1 million compared to 2022. The District had Deferred inflow of resources of \$16.8 million in fiscal year 2022, an increase of \$9.0 million compared to fiscal year 2021. The decrease in fiscal year 2023 compared to 2022 and increase in fiscal year 2022 compared to 2021 were due to changes in deferred inflows for the District's pension plan, which vary from year-to-year due to CalPERS actuarial assumptions and GASB 68, as described in the above Net Pension Liability Section.

Total Net Position: Total Net Position increased in fiscal year 2023 compared to 2022 by \$3.9 million and decreased slightly between fiscal years 2022 and 2021 by \$111 thousand. The increase in fiscal year 2023

was primarily due to an increase in grant revenues and investment income. The average return on investments increased from 0.97% at the end of fiscal year 2022, to 3.21% at the end of fiscal year 2023, which increased the District's investment income. The decrease between 2022 and 2021 was primarily due to the large unrealized loss recognized in 2022 from investments as a result of fair market value adjustments on the District's investment portfolio. Fluctuations in the District's Net Pension Liability, Deferred Outflows of Resources, Deferred Inflows of Resources, and pension expense based on California Public Employees Retirement System (CalPERS) actuarial assumptions and Governmental Accounting Standards Board (GASB) Statement No. 68 reporting requirements have also contributed to the year-to-year changes in the District's Total Net Position.

Statement of Revenues, Expenses and Changes in Net Position

While the Statement of Net Position focuses on the District's financial position at June 30 of each year, the Statement of Revenues, Expenses, and Changes in Net Position summarizes the District's operations during the year. Revenues are recognized (recorded) when water or services are provided, and expenses are recorded when incurred. Operating revenues and expenses are primarily related to the District's core activities (potable water, recycled water, and wastewater service). Non-operating revenues and expenses are not directly related to the core activities of the District (investment income, property taxes, and capacity charges).

Water Operations

During fiscal year 2023, the District provided potable water and recycled water services to 29,051 active meters. Water services include reading and billing water meters on a monthly basis, a back-flow prevention program, meter maintenance, water quality services, and other on-site services as requested by District customers, including testing meters for accuracy and checking for water leaks.

The District's five board members have independent rate-setting authority. The District's rate structure for monthly water service fees is comprised of three components: commodity charge, monthly system access charge, and SDCWA Infrastructure Access Charge. The District's rates and charges are set to cover the cost of providing water services, such as system administration costs, operations and maintenance expenses, and capital improvement and replacement needs.

On December 11, 2019, the District's Board of Directors adopted an ordinance that allowed the District to pass through to its water customers, for the following five years: (1) increased costs in Purchased Wholesale Water from the San Diego County Water Authority (SDCWA), (2) increases to the District's Cost of Operations and Maintenance and Capital Facilities based on over-the-year percent change in the San Diego Consumer Price Index for All Urban Customers (CPI-U); and (3) any increases in water rates or any other charges mandated and imposed by the State of California. A 2019 Water Cost of Service Study was the basis for allocating costs and calculating the proposed adjustments and increases to the District's water services charges, and a Proposition 218 hearing was held on November 13, 2019 to consider public comment. Per the ordinance, the District's total of annual pass-through increases shall not exceed 9%

per year through December 31, 2024.

About 75% of the District's water revenues are collected from commodity charges. The District's commodity charge for domestic customers consists of a tiered rate structure with higher rates per unit of water as the level of consumption increases, a water conservation-based pricing. Commodity revenues vary from month to month depending on water consumption. Commodity rates for domestic customers range from \$3.92 to \$7.55 per unit (one unit equals 748 gallons of water).

About 25% of the District's water revenues are collected from fixed monthly system access charges. The District's fixed monthly system access charge is established on the basis of meter size of the property receiving water service. Average customers with a ¾ inch meter pay a typical bill of \$41.94 per month for their monthly system access charge. SDCWA Infrastructure Access Charge is imposed by SDCWA on District water meters for the purpose of recovering certain SDCWA infrastructure costs. Average customers pay a typical bill of \$4.24 per month for their monthly SDCWA Infrastructure Access Charge.

In March of 2022, the District's Board of Directors established the District's Rate Reimbursement Credit (RRC) Program, which helps reduce the impact of current and future OMWD water rate increases on customers' monthly water bills. The program stemmed from a refund payment received totaling \$3,661,916.91 from the SDCWA for the District's share of settlement proceeds resulting from lawsuits between 2010 and 2018, where SDCWA challenged the Metropolitan Water District's (MWD) Water Stewardship Rate. The District's Board of Directors voted to return the \$3,661,916.91 to all District potable water customers (excluding construction users) as a credit on their monthly water bills equaling 6.9 cents per unit of water billed over the next 6 years, in line with the period that overpayments were made (from 2011 to 2017). As of June 2023, the District has refunded \$584,483 to District customers via the RRC program.

The District's water pricing remains competitive compared to other water districts in the County.

Wastewater (Sewer) Operations

The District's 4S Ranch Water Reclamation Facility (4S WRF) collects and treats sewage effluent from two areas within its boundaries, 4S Ranch and Rancho Cielo. These service areas, comprised of a wide variety of commercial, industrial, and residential uses, encompass a total of approximately 4,000 acres.

In May of 2021, the District's Board of Directors adopted an ordinance that authorized the District to pass through to its sewer customers, for the next five fiscal years (fiscal year 2022 – fiscal year 2026), cost increases to collect, treat, and dispose of sewage and cost to maintain the 4S Ranch Wastewater and Reclamation Facilities within the 4S Ranch Sanitation District. These increases were also necessary for the planned construction of wastewater capital improvements needed to replace and refurbish the District's aging wastewater facilities. The Board of Directors adopted a 2% revenue increase adjustment effective July 1, 2021 and 3% increases thereafter on July 1st of each fiscal year for fiscal years 2023-2026.

The District's sewer rate consists of two components: a system access charge, which is a fixed charge;

and a commodity charge, which reflects each customer's wintertime water use. The wintertime water use (December through March) for each single family residential customer is capped at 10 hundred cubic feet (HCF). The cap of 10 HCF was based on the 90th percentile of minimum wintertime water usage. Other sewer customer types (multi-family and commercial) are billed commodity charges based on their monthly water usage, as these customers have separate irrigation meters. Revenue derived from the rates and charges is used for the recovery of operations and maintenance costs of the District's sewer operations, as well as capital improvement expenditures.

Sewer service fees are billed via the property tax roll and collected by the County of San Diego Property Tax Services Division. Currently, the District bills approximately 7,334 equivalent dwelling units (EDUs) for wastewater discharged from residential and commercial customers.

Recycled Water Operations

The 4S Ranch Water Reclamation Facility (4S WRF) is capable of treating wastewater effluent to California Administrative Code Title 22 levels so that treated water from this plant can be used for irrigation purposes in the southeast portion of the District's service area. The District also buys recycled water from other agencies to supply its recycled water demand in the southeast as well as the northwest portion of the District's service area. Recycled water sold by the District to its retail customers is either produced at the 4S Ranch Water Reclamation Facility or purchased from Rancho Santa Fe Community Services District, the City of San Diego, San Elijo Joint Powers Authority, and Vallecitos Water District.

Recycled water revenues are collected from commodity rates and a monthly system access charge. The District adopted a uniform rate structure for collecting recycled water user fees based on monthly water consumption, and adjusts this fee annually to ensure it covers the costs of operation. On February 15th the District Board of Directors approved a 6.6% increase to the recycled commodity rate. The recycled commodity rate is currently billed at \$4.04 per unit (one unit equals 748 gallons of water).

The District continues to expand its recycled water system in the southeast and northwest recycled water service areas. The board approved the Recycled Water Retrofit Loan Program in 2017. This program offers financial assistance in the form of low-interest loans to qualified Homeowners' Associations' (HOA) that retrofit their potable water irrigation system to recycled water.

Highlights of Statement of Revenues, Expenses, and Changes in Net Position

	Fiscal Year ended June 30		
	<u>2023</u>	<u>2022</u>	<u>2021</u>
<u>Revenues</u>			
<i>Operating Revenues:</i>			
Water Sales	\$53,633,877	\$57,747,541	\$58,169,813
Sewer Charges	5,621,985	5,480,925	5,127,136
Other Operating Revenues	1,084,666	1,303,126	1,461,229
Total Operating Revenues	<u>60,340,528</u>	<u>64,531,592</u>	<u>64,758,178</u>

Non-Operating Revenues:

Property Tax Revenues	4,577,755	4,242,794	4,027,357
Capacity Charges	1,327,295	1,530,925	2,754,730
Benefit Assessment Revenues	1,045,315	1,058,241	1,177,302
Investment Income	2,105,348	402,702	454,962
Fair Market Value Adjustment	(207,285)	(2,467,642)	(562,019)
Other Non-Operating Revenues	1,055,260	2,237,334	6,592,672
Total Non-Operating Revenues	9,903,688	7,004,354	14,445,004
Total Revenues	70,244,216	71,535,946	79,203,182

Expenses*Operating Expenses:*

Cost of water sold	29,609,781	31,265,804	30,601,983
Depreciation	15,910,790	16,132,953	15,559,523
General and administrative	6,865,224	7,745,048	7,041,160
Pumping and water treatment	4,353,775	4,322,820	4,378,418
Transmission and distribution	4,434,815	4,485,962	4,220,269
Sewer collection and treatment	2,026,695	2,170,341	2,085,237
Customer services	1,754,190	2,036,267	2,348,700
Facilities maintenance	1,274,751	1,387,010	1,363,564
Elfin Forest Recreational Reserves	386,905	428,174	415,386
Other Operating Expenses	212,580	304,037	228,939
Total Operating Expenses	66,829,506	70,278,416	68,243,179

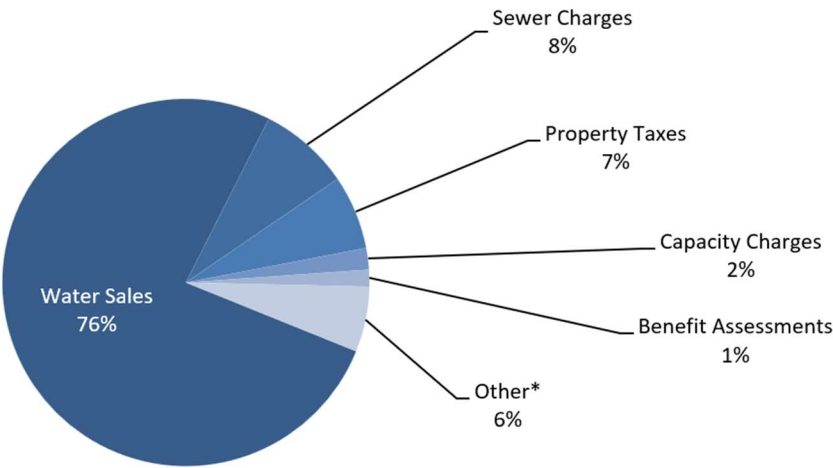
Non-Operating Expenses:

Interest Expense, net	1,220,156	1,322,948	1,419,009
Other Non-Operating, net	1,935,949	606,602	1,076,547
Total Non-Operating Expenses	3,156,105	1,929,550	2,495,556
Total Expenses	69,985,611	72,207,966	70,738,735

Income (loss) before Capital Contributions	258,605	(672,020)	8,464,447
Capital Contributions	3,640,582	569,745	899,998
Changes in Net Position	3,899,187	(102,275)	9,364,445
Beginning Net Position	407,333,934	407,436,209	398,071,764
Ending Net Position	\$ 411,233,121	\$407,333,934	\$407,436,209

Revenues

Sources of Revenues
Fiscal Year Ended June 30, 2023



*includes Other Operating Revenues, Other Non-operating Revenues, Investment Income, and the fair market value adjustment on the District's investments.

Total Revenues: as reported on the Statement of Revenues, Expenses and Changes in Net Position for fiscal year ended June 30, 2023, total revenues were \$70.2 million, a 1.8% decrease compared to fiscal year 2022. Total revenues in fiscal year 2022 were \$71.5 million, a 9.7% decrease compared to fiscal year 2021. The change in fiscal year 2023 compared to 2022 was due to a decrease in operating revenue from lower-than-average water demand caused by wet weather conditions during the year. Water demand varies year to year based on weather conditions and other factors. This was partially offset by an increase in investment income compared to the prior year as a result of an increase in investment yields. The change in 2022 compared to 2021 was due to a decrease in capacity fees collected due to a slowdown in housing activities, large unrealized losses on the District’s investments from the fair market value adjustment, and a decrease in other non-operating revenue. This decrease is due to significant revenues recognized in 2021 as a result of the sale of a district parcel to pay for a portion of the administrative and building improvement project costs (Building D) and settlement proceeds received from the Metropolitan Water District of Southern California (MWD), which the district is passing through to the customers through the Rate Reimbursement Credit (RRC).

Operating Revenues: a decrease in fiscal year 2023 compared to 2022, and a slight decrease between fiscal years 2022 and 2021 due to lower water consumption. This decrease in water consumption was offset by the 5.9% revenue adjustment in fiscal year 2023 and 4.3% revenue adjustment in 2022 water rates and charges. Fluctuations in water sales are due to year-to-year changes in customers’ water consumption behaviors which vary depending on weather conditions. Revenues from sewer charges increased in fiscal years 2023 and 2022 due to increases in sewer rates and charges by 3% each year.

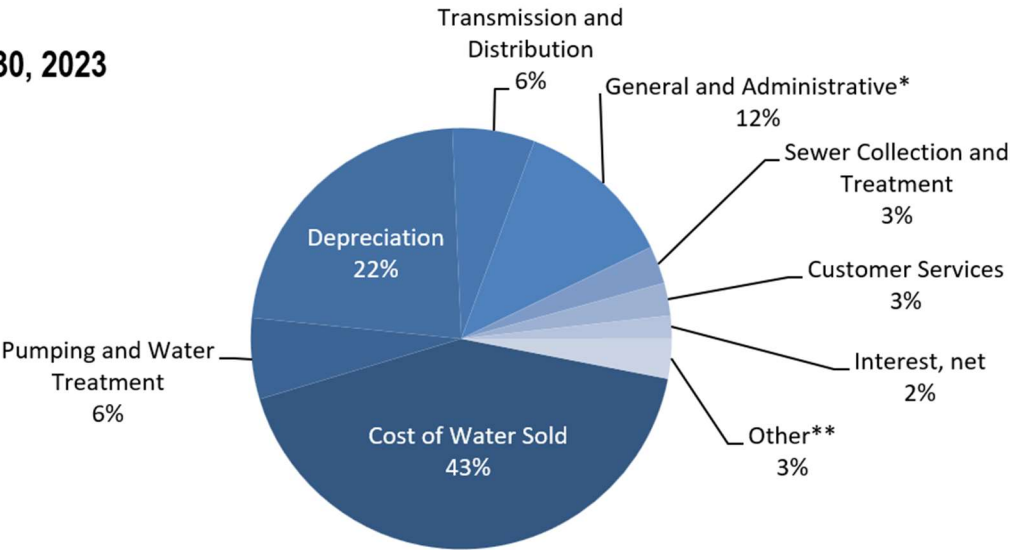
Other Operating Revenues: a decrease in fiscal year 2023 compared to 2022, and a slight decrease in fiscal year 2022 compared to 2021. The decreases are due to lower sales from selling excess treatment services to Vallecitos Water District from the David C. McCollom Water Treatment Plant (DCMWTP). The lower sales are a result of Vallecitos’ temporary shutdown of its pipeline for planned repairs during the

last three months of fiscal year 2022 and first six months of fiscal year 2023.

Non-operating Revenues: an increase in fiscal year 2023 compared to 2022, and a decrease in fiscal year 2022 compared to 2021. The increase in fiscal year 2023 is due to higher investment income during the year and a lower fair market value adjustment for unrealized losses compared to the prior year. The average return on investments increased from 0.97% at the end of fiscal year 2022, to 3.21% at the end of fiscal year 2023. The decrease in fiscal year 2022 compared to 2021 is due to an increase in unrealized losses on investments. During fiscal year 2022, as short-term U.S. treasury yields increased, the fair market value of existing investments held by the District, with lower yields than currently available, decreased resulting in an unrealized loss for the District. The District did not realize the losses because its holdings are held to maturity and are highly rated securities. The decrease in 2022 compared to 2021 is also due to a decrease in capacity fee receipts from a slow down in the housing market, and a decrease in other non-operating revenues from the sale of one of the District’s parcels of land (Gaty) and Metropolitan Water District settlement proceeds recognized in 2021. Fluctuations in the amounts collected from the District’s property tax revenues, and benefit assessment revenues from the 96-1 Reassessment District Limited Obligation Improvement Bonds also contributed to the changes in Non-operating revenues over the years.

Expenses

Sources of Expenses
Fiscal Year Ended June 30, 2023



*includes Facilities Maintenance and Elfin Forest Recreational Reserve Expenses.

Total Expenses: fiscal year ended June 30, 2023 reported expenses were \$70 million. Included in Total Expenses were \$66.8 million in Operating Expenses and \$3.2 million in Non-operating Expenses. Total Expenses reported in fiscal years 2022 and 2021 were \$72.2 and \$70.7 million, respectively.

Operating Expenses: decreased in fiscal year 2023 compared to fiscal year 2022 and increased in fiscal year 2022 compared to fiscal year 2021. This decrease was primarily due to the decreased cost to purchase water from the District's potable and recycled water suppliers due to reduced water consumption in 2023. The District also recorded a reduction in pension expense as a result of adjustments required by GASB Statement No. 68. These reductions were partially offset by higher costs of power, fuel, and chemicals to operate the treatment plants due to rising costs. The increase in costs in fiscal year 2022 is due to an increased cost to purchase water and an increase in salary and wages based on the 2021 Memorandum of Understanding between the District, its District Employee Association, and the Bargaining Unit Members Associations, and the impact of higher inflation on District water and sewer operating expenses.

Other Non-operating Expenses, net: increased in fiscal years 2023 compared to fiscal year 2022 and decreased in fiscal year 2022 compared to fiscal year 2021. The increase in 2023 is due to about \$1 million of pass-through grant funds that were disbursed to sub-recipient members of the North San Diego Water Reuse Coalition (NSDWRC) as part of its Title XVI grant. A corresponding revenue amount was recorded as income under the Capital Contributions section of the District's Statement of Revenues, Expenses, and Changes in Net Position. Pursuant to the District's Board of Directors' established Rate Reimbursement Credit (RRC) program, the District passed on \$444,688 and \$139,795 to the District's customers in 2023 and 2022, respectively, and recognized these amounts as Other Non-operating Expenses. More information on the District's Rate Reimbursement Credit (RRC) program is included under the Water Operations section earlier in the Management Discussion and Analysis (MD&A).

Income (loss) before Capital Contributions & Capital Contributions

Income (loss) before Capital Contributions: increased in fiscal year 2023 compared to 2022 and decreased in fiscal year 2022 compared to fiscal year 2021. These fluctuations were primarily due to changes in water sales, investment income, unrealized gains and losses on the District's investments, and capacity fees received from developers. Revenue recognized in 2021 due to the sale of the District's parcel of land (Gaty), and the District's portion of the Metropolitan Water District (MWD) legal settlement received in 2021 contributed to the decrease in Income (loss) before Capital Contributions in fiscal year 2022.

Capital Contributions: increased in fiscal year 2023 compared to fiscal year 2022 and decreased in fiscal year 2022 compared to fiscal year 2021 from year over year fluctuations in grants received and capital contributions from developers. In fiscal year 2023, the District recognized \$1 million in revenue as part of the NSDWRC Title XVI grant. These funds were recorded as capital contributions, then paid out to grant sub-recipients and recorded in Other Non-operating Expenses, in accordance with Generally Accepted Accounting Principles. The District also recognized \$2.2 million in grant revenue for its share of funds earned as part of its Title XVI, Proposition 1, Proposition 84, and AMI grants. The funds are being used to help finance the District's recycled water projects and its Advanced Metering Infrastructure (AMI). The District's also recognized Contributed revenue for assets received from major developers also contributed to the fluctuations over the years. Being mostly built out, the District is receiving fewer contributed assets from developers.

Changes in Net Position

Changes in Net Position for the fiscal year ended June 30, 2023, amounted to an increase of \$3.9 million. The Changes in Net Position for the fiscal years ended June 30, 2022, and June 30, 2021, amounted to a decrease of \$102 thousand and an increase of \$9.4 million, respectively. The fluctuations over the last three fiscal years were primarily attributed to the changes in Total Revenues from water sales, capacity charges collected, the parcel of land sale (Gaty), and the Metropolitan Water District (MWD) legal settlement recognized in 2021. Fair market value adjustments to the District's investments and depreciation expense on the District's capital assets. Fluctuations in the District's Net Pension Liability, Deferred Outflows of Resources, Deferred Inflows of Resources, and pension expense based on California Public Employees Retirement System (CalPERS) actuarial assumptions and Governmental Accounting Standards Board (GASB) Statement No. 68 reporting requirements have also contributed to the year-to-year changes in the District's Net Position.

Restrictions, Commitments, and Limitations

Capital Assets and Improvement Program

Condensed Schedule of Capital Assets

	As of June 30, 2023	As of June 30, 2022	As of June 30, 2021
Description			
Capital Assets, net of depreciation	\$ 332,489,700	\$ 336,787,649	\$ 340,390,744
Land and Steel Tanks	30,866,760	30,866,760	30,866,760
Construction In Progress	11,358,683	7,559,275	10,729,766
Net Capital Assets	<u>\$ 374,715,143</u>	<u>\$ 375,213,684</u>	<u>\$ 381,987,270</u>

The District's capital assets were financed through a combination of cash and debt financing. Construction in Progress (CIP) is currently being funded using cash accumulated in unrestricted funds and restricted cash for construction. The District's CIP fluctuated from year-to-year depending on the construction cost of infrastructure projects that are currently under construction or are in the planning stages. The District has a Ten (10) Year Capital Spending Plan for its Water and Sewer Capital Improvement Program to address its water and sewer infrastructure needs. The District is currently estimated at 95% build out. The District's ten-year financial projections for water and sewer are included in the Long-Term Financial section of the General Manager's Recommended Biennial Budget document which is available on the District's website, www.olivenhain.com.

The District's Net Capital Assets in service as of June 30, 2023, were \$374.7 million, net of \$244.4 million in accumulated depreciation and amortization. Included in the total Net Capital Assets is \$11.4 million in Construction in Progress (CIP), which includes: the San Elijo Valley Groundwater Project, Neighborhood 1 Sewer Pump Station Replacement, and other capital improvement projects that are in various stages of construction. More information on the District's Capital Assets can be found in Note 6 of this report.

The District elected to use the Modified Approach as defined by GASB Statement No. 34 for infrastructure reporting for its Steel Water Storage Tanks System starting in September 2007. Under GASB Statement No. 34, eligible infrastructure capital is not required to be depreciated if all requirements are met.

The Tank Assessment Index (TAI) minimum established by the District is 5.0. The average TAI for fiscal year 2023 is 9.2, well above the established index. The average TAI for both fiscal years 2022 and 2021 was 9.0. The current lowest TAI is 8.2, and the highest is 9.9. It cost about \$40 thousand less than expected to maintain and preserve infrastructure assets at target conditions during the current period.

More detailed information regarding the modified approach can be found in note 1 of the Required Supplementary Information.

Debt Administration

The District has one (1) note payable and five (5) bond issues outstanding: the 2013 State Revolving Fund, the 2019 Reassessment 96-1 Limited Obligation Improvement Bonds, the 2015 Water System Refunding Revenue Bonds Payable, the 2016 Water System Refunding Revenue Bonds Payable, and the 2021A and 2021B Wastewater Revenue Bonds Payable. The District's outstanding bonded indebtedness as of June 30, 2023 is as follows:

Schedule of Bond Indebtedness For fiscal year ended 2023

Description	Year Issued	Total Sold	Final Maturity Date	Interest Rate Range		Bonds Outstanding As of June 30, 2021		
				From	To	Current	Long Term	Total
2019 Reassessment 96-1 Limited Obligation Improvement Bonds	2019	\$ 7,130,000	9/2/2027	2.09%	2.09%	\$ 883,019	\$ 3,711,672	\$ 4,594,691
2013 State Revolving Fund	2013	17,069,309	7/1/2035	2.30%	2.30%	415,868	9,929,472	10,345,340
2015 Water System Refunding Revenue Bonds Payable	2015	23,455,000	6/1/2028	2.00%	5.00%	1,935,000	8,745,000	10,680,000
2016 Water System Refunding Revenue Bonds Payable	2016	15,990,000	6/1/2039	2.13%	5.00%	585,000	11,745,000	12,330,000
2021A Wastewater Revenue Bonds Payable	2021	5,042,140	6/1/2041	2.14%	2.14%	211,680	4,377,480	4,589,160
2021B Wastewater Revenue Refunding Bonds Payable	2021	3,932,970	6/1/2028	1.14%	1.14%	575,630	2,368,430	2,944,060

For the fiscal year ended June 30, 2023 the ratio of 2019 Reassessment 96-1 Limited Obligation Improvement Bonds to assessed value was 0.02% and the net bonded debt per capita was \$62.

In April of 2023, Fitch Ratings reviewed the District's 2015A Water System Refunding Revenue Bonds and 2016 Water Revenue Refunding Bonds "AAA" rating and concluded that there should be no change to its

existing rating. These revenue bonds are secured by the District's net water system revenues after payment of water operations and maintenance (O&M) expenses.

For more details regarding the District's existing long-term debt, please see Note 7 of the Basic Financial Statements.

Economic Factors and Next Year's Budgets and Rates

California has experienced significant rain and snowfall over the past 12 months which helped to mitigate drought conditions throughout the state. Despite the recent wet weather conditions, longer-term weather forecasts indicate a hotter and drier southwest climate in future years as the El Niño weather conditions continue to strengthen. In October 2023, San Diego County Water Authority, the potable water wholesaler for the San Diego region, announced that the County has reliable supplies to meet demands in 2024.

Meanwhile, higher than expected inflation continues to keep the Federal Reserve in a defensive position even as core Consumer Price Index (CPI) showed signs of slowing down compared to the pace of price inflation. According to the Bureau of Labor Statistics, food prices increased 0.2%, pretty much unchanged from August 2023, while energy prices increased by 1.5% after surging 5.6% in August. Most of the increase in energy prices stemmed from a 2.1% increase in gasoline prices, an 8.5% increase in fuel oil prices, and a 1.3% increase in electric prices.

The impact of high inflation has put pressure on the District's operating and capital budget over the last two years. High energy, fuel, and chemical prices have been the drivers for increased operating costs to operate the District's water treatment plants; the David McCollom Water Treatment Plant and the 4S Wastewater Treatment Plant and Reclamation Facility. Additionally, purchased water costs from the District's water suppliers have increased. The District buys all untreated water from San Diego County Water Authority (SDCWA). The cost of purchased water from the SDCWA is the District's largest operating expense. At their June 2023 meeting, the SDCWA Board of Directors adopted an 11.8% all-inclusive untreated water wholesale price per acre foot increase effective January 1, 2024.

Due to the impact of higher purchased water costs and inflation on the District's budget, the District's Board of Directors is considering a 7.4% revenue adjustment for 2024 water rates and charges to pass through increases in purchased water wholesale costs and annual inflation adjustments, based on San Diego Consumer Price Index (SDCPI), effective March 1, 2024. The unusual wet and cool weather conditions in San Diego continue to persist in 2023. Water sales for fiscal year 2024 are projected to be the same as fiscal year 2023 actual sales due to the anticipated reduction in water consumption during last quarters in calendar 2023. To help offset the proposed 7.4% revenue adjustment on water rates and charges for 2024, the Board is also considering an acceleration to the existing Rate Reimbursement Credit (RRC) program by increasing the existing credit of 6.9 cents for each unit of water billed up to 11 cents per unit of water billed to customers.

The District has also experienced higher employee turnover after due to high inflation and a tight labor market. Based on the 2020 Memorandum of Understanding (MOU) between the District and its Employee Association and Bargaining Unit Member Association, annual increases in District salaries and wages are projected between 3.5% and 6% depending on the year-over-year change in inflationary adjustments based on SDCPI. Increases in SDCPI have been as high as 8% over the last two years. To minimize employee turnover costs and as an employee retention strategy, the District's Board revised its compensation policy to be more competitive with other public agencies in the County.

The District continues to take steps to diversify its water supply through expansion of its recycled water system to reduce reliance on San Diego County Water Authority for water supplies. The District also has been proactive in pursuing grants to help reduce capital expenditures. The District is currently finalizing an agreement for a grant award from the US Bureau of Reclamation's Title XVI Water Reclamation and Reuse Program, which will amount to roughly 25% of total project cost.

On the capital budget side, several bids received on public work contracts for water and wastewater infrastructure projects were higher than estimates due to labor and material cost increases stemming from the tight labor market and supply chain issues. The water and wastewater capital spending plans for fiscal year 2024 have been revised upward to reflect current cost estimates as part of the District's midterm budget review process, which were approved by the Board of Directors in June 2023. With the District' being mostly built out, its Capital Improvement Program is primarily focused on infrastructure replacement projects.

The next water rate study update will commence in Spring 2024. The 2024 rate study results will be brought to the District's Board of Directors for consideration and approval in late summer/early fall of 2024. The 2024 water rate study will include the planned rate increases for the next five years, 2025 to 2029.

The District collects and treats wastewater from 4S Ranch Sanitation District and Rancho Cielo Sanitation District. Annual sewer service fees are collected by the District on each property owner's property tax bill. Sewer service fees are due and payable at the same time when a property owner's tax bill is due to the San Diego County Tax Assessor's Office in April and in December of each year.

In 2022, the Board adopted a five-year sewer rate ordinance that allows the District to automatically increase sewer rates and charges by 3% on July 1st of each year (fiscal year 2022-fiscal year 2026.) A 2020 Wastewater Rate Study was completed and used as the basis for allocating costs and calculating the sewer rate increases for five years. Due to actual higher inflation adjustments than projected in the 2020 Wastewater Rate Study, the District is updating its long-range financial plan to evaluate the impact of higher inflation and increased capital expenditures on its wastewater rates and charges. Pending results of this year's rate study update, the District's Board of Directors may consider rescinding its existing sewer rate ordinance and conducting a sewer rate hearing process in 2024 to set wastewater rates and charges for the next five years.

Contacting the District's Financial Management

This financial report is designed to provide the District's rate payers, bond investors and other interested parties with a general overview of the District's finances, and to demonstrate the District's accountability for the money it receives and the stewardship of the facilities it maintains. If you have questions about this report or need additional information, contact the Olivenhain Municipal Water District's Finance Department at 1966 Olivenhain Road, Encinitas, California 92024, call the District at (760) 753-6466, or send inquiries to our website at www.olivenhain.com.

Olivenhain Municipal Water District

Encinitas, California

Annual Comprehensive Financial Report and Independent Auditors' Report

For the Years Ended June 30, 2023 and 2022

Prepared by:
Finance Department

DRAFT 10.23.2023

**Olivenhain Municipal Water District
Annual Comprehensive Financial Report
For the Years Ended June 30, 2023 and 2022**

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**Olivenhain Municipal Water District
Annual Comprehensive Financial Report
For the Years Ended June 30, 2023 and 2022**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Olivenhain Municipal Water District
Encinitas, California

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Olivenhain Municipal Water District, California (the "District"), which comprise the statements of net position as of June 30, 2023 and 2022, and the related statements of revenues, expenses, and changes in net position, and cash flows, for the years then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District, as of June 30, 2023 and 2022, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Emphasis of a Matter

Implementation of GASB Statement No. 96

As described in Note 2L, Note 2W, and Note 18 to the financial statements, the District implemented GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. The implementation of GASB Statement No. 96 requires the District to record "right-to-use" subscription assets and a corresponding subscription liability for all information technology subscription agreements in excess of one year. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with auditing standards generally accepted in the United States of America and the *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Modified Approach for Steel Water Storage Tanks Infrastructure Capital Assets, the Schedule of Contributions – Defined Benefit Pension Plans, and the Schedule of Proportionate Share of the Net Pension Liability as listed in the 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 required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the Introductory and Statistical Sections but does not include the basic financial statements and our auditors' report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated (DATE) 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

San Diego, California
(DATE)

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BASIC FINANCIAL STATEMENTS

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Olivenhain Municipal Water District
Statements of Net Position
June 30, 2023 and 2022

	2023	2022 as restated
ASSETS		
Current assets:		
Unrestricted assets:		
Cash and cash equivalents	\$ 43,744,879	\$ 45,761,554
Investments	33,451,454	34,421,737
Accounts receivable - water and sewer, net	8,352,651	9,453,946
Interest receivable	337,527	144,127
Taxes receivable	210,021	184,365
Leases receivable, due within one year	403,389	394,170
Other receivables	384,301	245,308
Inventories	1,659,616	1,514,905
Prepaid expenses	754,274	1,188,747
Total unrestricted assets	89,298,112	93,308,859
Restricted assets:		
Cash and cash equivalents	9,676,866	10,185,471
Investments	2,761,401	2,331,719
Taxes receivable	53,206	39,292
Grants receivable	2,078,788	342,520
Total restricted assets	14,570,261	12,899,002
Total current assets	103,868,373	106,207,861
Noncurrent assets:		
Capital assets, nondepreciable	42,225,443	38,426,035
Capital assets, depreciable/amortizable, net	332,489,700	336,787,649
Capital assets, net	374,715,143	375,213,684
Leases receivable, due in more than one year	9,355,778	9,955,712
Other receivables	-	14,742
Prepaid bond insurance	17,219	20,721
Total noncurrent assets	384,088,140	385,204,859
Total assets	487,956,513	491,412,720
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on refunding	857,886	1,016,228
Pension-related deferred outflows of resources	7,296,286	2,731,692
Total deferred outflows of resources	8,154,172	3,747,920

(Continued)

Olivenhain Municipal Water District
Statements of Net Position (Continued)
June 30, 2023 and 2022

	2023	2022 as restated
LIABILITIES		
Current liabilities:		
Liabilities payable from unrestricted assets:		
Accounts payable	\$ 7,808,544	\$ 7,725,598
Accrued payroll	580,760	442,835
Customer deposits	374,833	355,058
Payable related to work in progress	199,070	186,367
Compensated absences, current portion	961,314	996,839
Current portion of long-term debt:		
Wastewater revenue bonds	787,310	777,080
Water revenue refunding bonds	2,520,000	2,405,000
Special assessment debt with government commitment	883,019	863,064
Notes payable	415,868	406,452
Subscription liability	67,952	65,946
Total liabilities payable from unrestricted assets	14,598,670	14,224,239
Liabilities payable from restricted assets:		
Accounts payable	74,242	26,732
Interest payable	115,265	132,209
Total liabilities payable from restricted assets	189,507	158,941
Total current liabilities	14,788,177	14,383,180
Noncurrent liabilities:		
Compensated absences	1,189,983	939,187
Net pension liability	16,832,760	7,819,768
Long-term debt, excluding current portion:		
Wastewater revenue bonds	6,745,910	7,533,220
Water revenue refunding bonds	21,958,273	24,891,695
Special assessment debt with government commitment	3,711,672	4,594,691
Notes Payable	9,929,472	10,756,474
Subscription liability	47,800	115,752
Total noncurrent liabilities	60,415,870	56,650,787
Total liabilities	75,204,047	71,033,967
DEFERRED INFLOWS OF RESOURCES		
Pension-related deferred inflows of resources	720,171	6,995,887
Lease-related deferred inflows of resources	8,953,346	9,796,852
Total deferred inflows of resources	9,673,517	16,792,739
NET POSITION		
Net investment in capital assets	332,382,861	328,832,740
Restricted for:		
Debt service	2,258,202	2,106,867
Construction	8,245,444	5,620,991
Total restricted	10,503,646	7,727,858
Unrestricted	68,346,614	70,773,336
Total net position	\$ 411,233,121	\$ 407,333,934

See accompanying Notes to the Basic Financial Statements.

(Concluded)

Olivenhain Municipal Water District
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2023 and 2022

	2023	2022 as restated
OPERATING REVENUES		
Water sales	\$ 53,633,877	\$ 57,747,541
Sewer charges	5,621,985	5,480,925
Other water operating revenues	1,084,666	1,303,126
Total operating revenues	60,340,528	64,531,592
OPERATING EXPENSES		
Cost of purchased water sold	29,609,781	31,265,804
Pumping and water treatment	4,353,775	4,322,820
Transmission and distribution	4,434,815	4,485,962
Sewer collection and treatment	2,026,695	2,170,341
Elfin Forest recreation reserve operations	386,905	428,174
Facilities maintenance	1,274,751	1,387,010
Customer services	1,754,190	2,036,267
General and administrative	6,865,224	7,745,048
Other operating expenses	212,580	304,037
Depreciation and amortization	15,910,790	16,132,953
Total operating expenses	66,829,506	70,278,416
Operating (loss)	(6,488,978)	(5,746,824)
NONOPERATING REVENUES (EXPENSES)		
Fair market value adjustment	(207,285)	(2,467,642)
Investment income (loss)	2,105,348	402,702
Property taxes	4,577,755	4,242,794
Capacity charges	1,327,295	1,530,925
Benefit assessments	1,045,315	1,058,241
Other nonoperating revenues	1,055,260	2,237,334
Interest expense, net	(1,220,156)	(1,322,948)
Other nonoperating expenses	(1,935,949)	(606,602)
Total nonoperating revenues (expenses)	6,747,583	5,074,804
Income (loss) before capital contributions	258,605	(672,020)
Capital Contributions	3,640,582	569,745
Changes in net position	3,899,187	(102,275)
Net position, beginning of year, as restated (Note 18)	407,333,934	407,436,209
Net position, end of year	\$ 411,233,121	\$ 407,333,934

Olivenhain Municipal Water District
Statements of Cash Flows
For the Years Ended June 30, 2023 and 2022

	2023	2022 as restated
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from water and sewer customers	\$ 61,337,349	\$ 65,848,393
Payments for water	(30,212,660)	(30,910,730)
Payments for services and supplies	(8,878,715)	(10,952,261)
Payments for employee wages, benefits, and related costs	(12,953,543)	(12,569,780)
Net cash provided by operating activities	9,292,431	11,415,622
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property taxes and benefit assessments received	5,583,500	5,271,677
SDCWA water rebate payment	18,930	2,102,804
Net cash provided by noncapital financing activities	5,602,430	7,374,481
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(14,493,861)	(8,765,436)
Proceeds from grants and capital contributions	1,495,622	-
Principal paid on long-term debt	(4,862,730)	(8,665,506)
Proceeds from debt issuance	-	8,975,110
Interest paid on long-term debt	(1,487,744)	(1,631,765)
Capacity charges received	1,364,791	1,552,833
Proceeds from sale of capital assets	-	595,875
Other capital financing receipts	1,055,261	1,125,345
Other capital financing expenses paid	(1,655,542)	(699,549)
Net cash (used in) capital and related financing activities	(18,584,203)	(7,513,093)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale and maturities of investments	3,000,000	4,000,000
Purchases of investments	(2,957,913)	(9,061,033)
Investment income received	1,121,975	41,812
Net cash (used in) investing activities	1,164,062	(5,019,221)
Net increase (decrease) in cash and cash equivalents	(2,525,280)	6,257,789
Cash and cash equivalents, beginning of year	55,947,025	49,689,236
Cash and cash equivalents, end of year	\$ 53,421,745	\$ 55,947,025
FINANCIAL STATEMENT PRESENTATION		
Cash and cash equivalents	\$ 43,744,879	\$ 45,761,554
Cash and cash equivalents - restricted assets	9,676,866	10,185,471
Total cash and cash equivalents	\$ 53,421,745	\$ 55,947,025

(Continued)

Olivenhain Municipal Water District
Statements of Cash Flows (Continued)
For the Years Ended June 30, 2023 and 2022

	2023	2022 as restated
RECONCILIATION OF OPERATING (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating (loss)	\$ (6,488,978)	\$ (5,746,824)
Adjustments to reconcile operating (loss) to net cash provided by operating activities:		
Depreciation and amortization	15,910,790	16,132,953
GASB 68 adjustment to pension expense	(1,827,310)	635,588
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Receivables	977,045	1,320,055
Inventories	(144,711)	(449,525)
Prepaid expenses and deposits	434,473	(504,688)
Increase (decrease) in liabilities:		
Accounts payable	58,151	(290,575)
Accrued payroll and compensated absences	353,196	321,893
Customer deposits	19,775	(3,255)
Net cash provided by operating activities	\$ 9,292,431	\$ 11,415,622
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Contributions of capital assets	\$ 386,344	\$ 569,745
Amortization of premiums	\$ (413,422)	\$ (469,828)
Unrealized gains (losses) on investments	\$ (207,285)	\$ (2,467,642)

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NOTES TO THE BASIC FINANCIAL STATEMENTS

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Olivenhain Municipal Water District

Notes to the Basic Financial Statements

For the Years Ended June 30, 2023 and 2022

Note 1 – Reporting Entity

The Olivenhain Municipal Water District (the “District”) is a governmental corporation governed by an elected five-member board of directors. The District was incorporated in 1959 under the provisions of the California Municipal Water District Act of 1911. The District’s 48 square mile service area lies in northern San Diego County and the majority of its sales are to domestic and business users. The District’s offices are located in Encinitas, California.

The basic financial statements of the District include the blended financial activities of the District and the Olivenhain Municipal Water District Financing Corporation (the “Corporation”).

The Corporation was formed in 1997 under the California Nonprofit Public Benefit Corporation Law. Its sole purpose is to assist the District in acquiring and financing various public facilities.

The criteria used in determining the inclusion of a component unit in the reporting entity for financial reporting purposes are: (1) appointment of voting majority of the component unit board, (2) ability to impose its will, (3) financial benefit or burden, and (4) fiscal dependency.

In keeping its books and records, the District has established various self-balancing groups of accounts in order to enhance internal control and to further the attainment of other management objectives. These groups of accounts, which are sub funds of the reporting entity, are identified in the District’s books and records as the General Fund, Recycled Water Capacity Fee Fund, Treated Water Capacity Fee Fund, Reassessment District 96-1 Fund, 4S Sanitation District Fund, Rancho Cielo Sanitation District Fund, 2015 Water System Revenue Refunding Bond Fund, 2016 Water System Revenue Refunding Bond Fund, 2018 Wastewater Revenue Bond Fund, 2021A Revenue Bond Fund, 2021B Revenue Bond Fund, and 2013 State Revolving Fund Note Payable. All significant inter sub-fund transactions and accounts are eliminated in the combination of the accounts of the sub-funds for the basic financial statements of the District.

Note 2 – Summary of Significant Accounting Policies

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for governmental accounting financial reporting purposes. The more significant of the District’s accounting policies are described below:

A. Financial Statements

The financial statements (i.e., the statement of net position, the statement of revenues, expenses and changes in net position, and statement of cash flows) report information on all of the activities of the District. The statement of revenues, expenses, and changes in net position demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment.

B. Measurement Focus, Basis of Accounting, and Financial Statements Presentation

The financial statements are reported using the “*economic resources*” measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as all eligibility requirements have been met. Interest associated with the current fiscal period is considered to be susceptible to accrual and so has been recognized as revenue of the current fiscal period.

Olivenhain Municipal Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2023 and 2022

Note 2 – Summary of Significant Accounting Policies (Continued)

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

In accordance with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, the Statement of Net Position reports separate sections for Deferred Outflows of Resources, and Deferred Inflows of Resources, when applicable.

Deferred Outflows of Resources represent a consumption of net assets that applies to future periods and that, therefore, will not be recognized as an expense until that time.

Deferred Inflows of Resources represent an acquisition of net assets that applies to future periods and that, therefore, will not be recognized as revenue until that time.

The District distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering water in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. Capital contributions are reported as a separate line item in the Statement of Revenues, Expenses and Changes in Net Position.

C. Use of Restricted/Unrestricted Assets

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Cash, Cash Equivalents, and Investments

Cash and Cash Equivalents – For purposes of the statement of cash flows, cash and cash equivalents include petty cash, demand deposits with financial institutions, deposits in money market mutual funds (SEC registered), and deposits in external investment pools, and marketable securities that mature within 90 days of purchase. Such marketable securities and deposits in money market funds are carried at fair value.

Risk Disclosures – Certain disclosure requirements, if applicable for deposit and investment risk, are specified for the following areas:

- Interest Rate Risk
- Credit Risk
 - Overall
 - Custodial Credit Risk
 - Concentration of Credit Risk

Olivenhain Municipal Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2023 and 2022

Note 2 – Summary of Significant Accounting Policies (Continued)

D. Cash, Cash Equivalents, and Investments (Continued)

Investment Valuation – GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value, establishes a framework for measuring fair value and establishes disclosures about fair value measurement. Investments, unless otherwise specified, recorded at fair value in the Statements of Net Position, are categorized based upon the level of judgement associated with the inputs used to measure their fair value. Levels of inputs are as follows:

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

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

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

E. Restricted Assets

Amounts shown as restricted assets have been restricted by debt agreements, by law or regulations, or by contractual obligations to be used for specified purposes, such as service of debt and construction of capital assets.

F. Water and Wastewater (Sewer) Sales

Water sales revenue is recorded when water is delivered and service is rendered, including an estimated amount for unbilled service. Wastewater (sewer) service fees are collected on each property owner's property tax bill on an annual basis. Sewer bills are due and payable at the same time when a property owner's tax bill is due to the San Diego County Tax Assessor's Office, April and December of each year.

G. Allowance for Doubtful Accounts

The District recognizes bad debt expense relating to water and sewer receivables when it is probable that the accounts will be uncollectible. Water and sewer accounts receivable at June 30, 2023 and 2022 have been reduced by an allowance for doubtful accounts of \$110,000 and \$210,000, respectively.

H. Leases Receivable

Lessor

The District is a lessor for leases of land, primarily cell tower sites, and recognizes leases receivable and deferred inflows of resources related to leases in the financial statements as required by GASB Statement No. 87 *Leases*. At the commencement of a lease, the lease receivable is measured at the present value of payments expected to be received during the lease term. As lease revenue is earned, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflows of resources are initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflows of resources are reduced in a straight-line method over the life of the lease term as revenue is recognized.

Olivenhain Municipal Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2023 and 2022

Note 2 – Summary of Significant Accounting Policies (Continued)

H. Leases Receivable (Continued)

Lessor (Continued)

Key estimates and judgments include how the District determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts.

- The District used U.S. Treasury rates at the time of GASB Statement No. 87 implementation for its existing leases. The District will use the current rate at the time a new lease is executed.
- The lease term includes the noncancelable period of the lease plus any option periods that are likely to be exercised.
- Lease receipts included in the measurement of the lease receivable are composed of fixed payments from the lessee.

The District monitors changes in circumstances that would require a remeasurement of its leases and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

I. Inventories

Materials inventory is stated at current average cost and was reduced by an allowance for obsolete inventory of \$206,600 and \$71,600 at June 30, 2023 and 2022, respectively. Water inventory is stated at its purchase cost using the first-in, first-out method.

J. Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

K. Capital Assets, Depreciation and Amortization

Capital assets are valued at cost when constructed or purchased. Contributed capital assets are recorded at developer bonded cost. The District capitalizes all assets with a historical cost of at least \$10,000 and a useful life of more than one year. The cost of normal maintenance and repairs that do not add to the value of assets or materially extend asset lives are not capitalized. Depreciation or amortization on capital assets in service, excluding land, is computed using the straight-line method over the estimated useful lives of such assets and is reported as an operating expense. Capital projects are subject to depreciation or amortization when completed and placed in service. The ranges of estimated useful lives of capital assets are as follows:

Treatment and distribution system	10-75 years
Non-steel tanks	10-60 years
General plant	3- 40 years
Capacity Rights	17 years

The District is amortizing Capacity Rights and is reviewing it annually for impairment, and any impairment losses are recognized in the period in which the impairment is determined.

In September 2007, the District elected to use the Modified Approach as defined by GASB Statement No. 34 for reporting the steel water storage tanks subsystem of infrastructure capital assets.

The detail of the subsystems is not presented in these basic financial statements. However, the operating departments maintain information regarding the subsystems.

Olivenhain Municipal Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2023 and 2022

Note 2 – Summary of Significant Accounting Policies (Continued)

K. Capital Assets, Depreciation and Amortization (Continued)

Per GASB Statement No. 34, a condition assessment will be performed every three years on the steel tanks. The condition of the District's steel water storage tanks is determined using the USCI AMRS via their maintenance program. The tank condition rating, which is a weighted average of an assessment of the ability of individual steel water storage tanks to function structurally, such that water is stored safely and securely, uses a numerical condition scale ranging from 1.0 (unacceptable) to 10.0 (very good).

It is the District's policy to keep all the steel water storage tanks at a condition level of not less than 5.0 (satisfactory). All steel water storage tanks are inspected every two years and washed out every other year. Repairs are done on an as needed basis.

L. Subscription-Based Information Technology Arrangements ("SBITA"s)

The District has a policy to recognize a subscription liability and a right-to-use subscription asset (subscription asset) in the financial statements. The District recognizes subscription liabilities with an initial, individual value of \$10,000 or more with a subscription term greater than one year. Variable payments based on future performance of the District's usage of the underlying IT asset, or number of user seats are not included in the measurement of the subscription liability, rather, those variable payments are recognized as outflows of resources (expenses) in the period the obligation for those payments is incurred.

At the commencement of a SBITA, the District initially measures the subscription liability at the net present value of payments expected to be made during the subscription term. Subsequently, the subscription liability is reduced by the principal portion of subscription payments made.

Subscription assets are recorded at the amount of the initial measurement of the subscription liabilities, less any payments made to the SBITA vendor before the commencement of the subscription term, and capitalizable initial implementation cost, less any incentives received from the SBITA vendor at or before the commencement of the subscription term.

Costs associated with a SBITA, other than the subscription payments, are accounted for as follows:

- **Preliminary Project Stage:** Outlays are expensed as incurred.
- **Initial Implementation Stage:** Outlays are capitalized as an addition to the subscription asset.
- **Operation and Additional Implementation Stage:** Outlays are expensed as incurred unless they meet specific capitalization criteria.

Upon adoption, the District elected to exclude the capitalizable outlays associated with the initial implementation stage and the operation and additional implementation stage that were incurred prior to the implementation of this Statement in the measurement of subscription assets as of July 1, 2021.

Subscription assets are reported in capital assets and subscription liabilities are reported with long-term liabilities on the statement of net position.

Subscription assets are amortized using the straight-line method over the shorter of the subscription term or the useful life of the underlying IT asset, unless the subscription contains a purchase option that the District has determined is reasonably certain of being exercised. In this case, the subscription asset is amortized over the useful life of the underlying IT asset.

Olivenhain Municipal Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2023 and 2022

Note 2 – Summary of Significant Accounting Policies (Continued)

L. Subscription-Based Information Technology Arrangements (SBITAs) (Continued)

Key estimates and judgments related to SBITA include how the District determines (1) the discount rate it uses to discount the expected subscription payments to present value, (2) subscription term, and (3) subscription payments.

- The District⁴ used the U.S. Treasury rates at the time of GASB Statement No. 96 implementation for its existing SBITAs. The District will use the current rate at the time of a new SBITA agreement is executed. If available, the District uses the interest rate charged by the SBITA vendor as the discount rate.
- The subscription term includes the noncancellable period of the SBITA. Subscription payments included in the measurement of the subscription liability are composed of fixed payments and purchase option price that the District is reasonably certain to exercise.

The District monitors changes in circumstances that would require a remeasurement of its subscription liability and will remeasure it accordingly if certain changes occur that are expected to significantly affect the liability.

M. Capital Contributions

Capital contributions are recorded when the District receives cash contributions or accepts contributions of capital assets in kind or when governmental construction grants are earned. Capital contributions are reported as a separate line item in the Statement of Revenues, Expenses, and Changes in Net Position.

N. Compensated Absences

It is the District's policy to permit employees to accumulate earned but unused personal leave time up to a maximum of 992 hours, which includes both vacation and sick pay benefits. Sick time may be accumulated up to a maximum of 640 hours. The vacation accumulation maximum is based on number of years of continuous service and ranges from 192 hours to 352 hours. All personal leave time is accrued when incurred. In fiscal year 2022, the District implemented GASB Statement No. 101, *Compensated Absences*, and accrued the Social Security and Medicare portions of the District's compensated absences liability on the financial statements.

O. Long-Term Obligation

Debt premiums and discounts, if any, are deferred and amortized over the life of the debt. Long-term debt is reported net of the applicable bond premium or discount. Debt issuance costs are expensed when incurred.

P. Refunding of Debt

Gains or losses occurring from current or advance refunding of debt are reported as deferred inflows or outflows of resources and are being amortized over the original remaining life of the old debt or the life of the new debt, whichever is less.

Q. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District's California Public Employees' Retirement System ("CalPERS") plans ("Plans") and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The District is participating in a cost-sharing multiple-employer defined benefit plan.

Olivenhain Municipal Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2023 and 2022

Note 2 – Summary of Significant Accounting Policies (Continued)

R. Property Taxes

The County of San Diego (the “County”) bills and collects property taxes on behalf of the District. The County’s tax calendar year is July 1 to June 30. Property taxes attach as a lien on property on January 1. Taxes are levied on July 1 and are payable in two equal installments on November 1 and February 1, and become delinquent after December 10 and April 10, respectively.

S. Capacity Charges

Capacity charges are water and wastewater (sewer) capacity fees paid by new property owners prior to connecting to the District’s system. Such charges are periodically adjusted based upon changes in construction cost index and/or other factors. Owner capacity charges are nonrefundable and are recorded as nonoperating revenues when collected.

T. Net Position

Net position of the District is classified into three components: (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position. These classifications are defined as follows:

Net Investment in Capital Assets – This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of notes or borrowing that are attributable to the acquisition of the asset, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets.

Restricted Net Position – This component of net position consists of net position with constrained use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position – This component of net position consists of net position that does not meet the definition of “net investment in capital assets,” or “restricted net position.”

U. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

V. Reclassification

For the year ended June 30, 2023, certain classifications may have been changed to improve financial statement presentation. For comparative purposes, prior year balances may have been reclassified to conform with the current fiscal year 2023 presentation.

Olivenhain Municipal Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2023 and 2022

Note 2 – Summary of Significant Accounting Policies (Continued)

W. Implementation of New GASB Pronouncements for the Year Ended June 30, 2023

During fiscal year ended June 30, 2023, the District has implemented the following new GASB Pronouncements:

- In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations* (GASB Statement No. 91), to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. Application of this statement did not have an effect on the District's financial reporting for the fiscal year ending June 30, 2023.
- In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Application of this statement did not have an effect on the District's financial reporting for the fiscal year ending June 30, 2023.
- In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. Application of this statement did have an effect on the District's financial reporting for the fiscal year ending June 30, 2023. See Note 18.
- In April 2022, GASB issued Statement No. 99, *Omnibus 2022*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. Application of this statement did not have an effect on the District's financial reporting for the fiscal year ending June 30, 2023.

X. Upcoming Governmental Accounting Standards Implementation

The District is currently evaluating its accounting practices to determine the potential impact on the financial statements for the following GASB Statements:

- In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections – an Amendment of GASB Statement No. 62*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. Application of this statement is effective for the District's fiscal year ending June 30, 2024.

Olivenhain Municipal Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2023 and 2022

Note 3 – Cash, Cash Equivalents, and Investments

Cash and investments at June 30, 2023 and 2022 are classified in the accompanying financial statements as follows:

	2023	2022
Statement of Net Position:		
Current assets:		
Cash and cash equivalents	\$ 43,744,879	\$ 45,761,554
Restricted cash and cash equivalents	9,676,866	10,185,471
Investments	33,451,454	34,421,737
Restricted investments	2,761,401	2,331,719
Total cash and investments	<u>\$ 89,634,600</u>	<u>\$ 92,700,481</u>
Cash and investments consist of the following:		
Cash on hand	\$ 1,496	\$ 1,491
Deposits with financial institutions	2,809,866	4,358,962
Investments	86,823,238	88,340,028
Total cash and investments	<u>\$ 89,634,600</u>	<u>\$ 92,700,481</u>

A. Demand Deposits

As of June 30, 2023, the carrying amount of demand deposits was \$2,809,866 and the bank balance was \$3,729,278 compared to \$4,358,962 and \$4,981,417 at June 30, 2022, of which the total amount was collateralized or insured with securities held by the pledging financial institutions in the District's name as discussed below under *Disclosures Relating Custodial Credit Risk*.

B. 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 trustee that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	5 years	None	None
U.S. Government Sponsored Entities	5 years	50%	None
Banker's Acceptances	180 days	20%	3%
Commercial Paper	270 days	20%	5%
Certificates of Deposit	3 years	30%	\$250,000
Repurchase Agreements	90 days	20%	None
Reverse Repurchase Agreements	90 days	10%	None
Medium-Term Notes	5 years	30%	5%
Money Market Mutual Funds, Depository Account	N/A	20%	5%
Municipal Obligations	N/A	30%	5%
Local Government Investment Pool	N/A	30%	None
Local Agency Investment Fund	N/A	50%	\$40,000,000

Olivenhain Municipal Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2023 and 2022

Note 3 – Cash, Cash Equivalents, and Investments (Continued)

C. Investments Authorized by Debt Agreements

Investment of debt proceeds held by the bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's investment policy.

D. 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 evenly over time to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity at June 30, 2023.

Investment Type	Total	Remaining Maturity (in Months)			
		12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months
Local Agency Investment Fund (LAIF)	\$ 9,265,185	\$ 9,265,185	\$ -	\$ -	\$ -
California Asset Management Program (CAMP)	27,320,397	27,320,397	-	-	-
Commercial Paper	496,070	496,070	-	-	-
Money Market Mutual Funds	2,560,872	2,560,872	-	-	-
U.S. Government Sponsored Entities	32,865,835	8,243,281	6,527,480	18,095,074	-
Municipal Obligations	998,530	-	-	998,530	-
U.S. Treasury Obligations	13,316,349	11,463,930	954,140	898,279	-
Total	\$ 86,823,238	\$ 59,349,735	\$ 7,481,620	\$ 19,991,883	\$ -

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity at June 30, 2022.

Investment Type	Total	Remaining Maturity (in Months)			
		12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months
Local Agency Investment Fund (LAIF)	\$ 22,921,923	\$ 22,921,923	\$ -	\$ -	\$ -
California Asset Management Program (CAMP)	17,570,703	17,570,703	-	-	-
Commercial Paper	2,491,795	1,995,010	496,785	-	-
Money Market Mutual Funds	2,136,917	2,136,917	-	-	-
U.S. Government Sponsored Entities	31,328,841	985,080	6,237,054	24,106,707	-
Municipal Obligations	1,052,370	-	-	1,052,370	-
U.S. Treasury Obligations	10,837,479	8,958,690	-	1,878,789	-
Total	\$ 88,340,028	\$ 54,568,323	\$ 6,733,839	\$ 27,037,866	\$ -

Olivenhain Municipal Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2023 and 2022

Note 3 – Cash, Cash Equivalents, and Investments (Continued)

E. 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 (“NRSRO”). Presented below is the minimum rating required by (where applicable) the California Government Code, the District’s Investment Policy, or debt agreements, and the Moody’s rating for each investment type at June 30, 2023. (CAMP is rated by Standard and Poor’s and has a rating of AAA).

Investment Type	Total	Minimum Legal Rating	Rating as of Year End			
			AAA	AA	A/1+	Not Rated
Local Agency Investment Fund (LAIF)	\$ 9,265,185	N/A	\$ -	\$ -	\$ -	\$ 9,265,185
California Asset Management Program (CAMP)	27,320,397	AAA	27,320,397	-	-	-
Commercial Paper	496,070	A-1	496,070	-	-	-
Money Market Mutual Funds	2,560,872	N/A	-	-	-	2,560,872
U.S. Government Sponsored Entities	32,865,835	AAA	32,865,835	-	-	-
Municipal Obligations	998,530	A1/A+	998,530	-	-	-
U.S. Treasury Obligations	13,316,349	N/A	13,316,349	-	-	-
Total	\$ 86,823,238		\$ 74,997,181	\$ -	\$ -	\$ 11,826,057

Presented below is the minimum rating required by (where applicable) the California Government Code, the District’s Investment Policy, or debt agreements, and the Moody’s rating for each investment type at June 30, 2022.

Investment Type	Total	Minimum Legal Rating	Rating as of Year End			
			AAA	AA	A/1+	Not Rated
Local Agency Investment Fund (LAIF)	\$ 22,921,923	N/A	\$ -	\$ -	\$ -	\$ 22,921,923
California Asset Management Program (CAMP)	17,570,703	AAA	17,570,703	-	-	-
Commercial Paper	2,491,795	A-1	496,785	-	1,995,010	-
Money Market Mutual Funds	2,136,917	N/A	-	-	-	2,136,917
U.S. Government Sponsored Entities	31,328,841	AAA	31,328,841	-	-	-
Municipal Obligations	1,052,370	A1/A+	1,052,370	-	-	-
U.S. Treasury Obligations	10,837,479	N/A	10,837,479	-	-	-
Total	\$ 88,340,028		\$ 61,286,178	\$ -	\$ 1,995,010	\$ 25,058,840

Concentration of Credit Risk

The investment policy of the District is in accordance with limitations on the amount that can be invested in any one issuer as stipulated by the California Government Code. Investments in any one issuer (other than for U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments is as follows:

Issuer	Investment Type	2023	2022
Federal Home Loan Bank	U.S. Govt Sponsored Entities	\$ 30,661,988	\$ 28,215,691

Olivenhain Municipal Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2023 and 2022

Note 3 – Cash, Cash Equivalents, and Investments (Continued)

F. Disclosures Relating Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. 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 government 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 deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2023 and 2022, \$3,479,278 and \$4,731,417 of the District's deposits with financial institutions in excess of the Federal insurance limits were held in collateralized accounts.

G. Local Agency Investment Fund (LAIF)

The District is a voluntary participant in the Local Agency Investment Fund ("LAIF") that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. The District's investments with Local Agency Investment Fund (LAIF) include a portion of the pool funds invested in structured notes and asset-backed securities. These investments include the following:

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

Asset-Backed Securities - entitle their purchaser to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as CMO's), small business loans or credit card receivables.

LAIF is overseen by the Local Investment Advisory Board, which consists of five members, in accordance with State statute. The fair value of our position in the pool is the same as the value of the pool shares.

As of June 30, 2023, the District had \$9,265,185 invested in LAIF, which had invested 0.20% of the pool investment funds in structured notes and asset-backed securities compared to \$22,921,923 and 1.88% at June 30, 2022. LAIF is part of the State's Pooled Money Investment Account (PMIA). The District valued its investments in LAIF as of June 30 by multiplying its account balance with LAIF times a fair value factor determined by LAIF. This fair value factor was determined by dividing all LAIF participants' total aggregate fair value by total aggregate amortized cost resulting in a factor of 0.984828499 and 0.987125414 as of June 30, 2023 and 2022, respectively.

Olivenhain Municipal Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2023 and 2022

Note 3 – Cash, Cash Equivalents, and Investments (Continued)

H. California Asset Management Program (CAMP)

The District is a voluntary participant in the California Asset Management Program (CAMP). CAMP is an investment pool offered by the California Asset Management Trust (the Trust) and has a rating of AAA. The Trust is a joint powers authority and public agency created by the Declaration of Trust and established under the provisions of the California Joint Exercise of Powers Act for the purpose of exercising the common power of its Participants to invest funds. The investments are limited to investments permitted by California Government Code. The total amount invested by all public agencies in CAMP at June 30, 2023 and 2022 was \$16.0 billion and \$7.3 billion, respectively. A board of seven trustees who are officials or employees of public agencies has oversight responsibility for CAMP. The value of the pool shares in CAMP, which may be withdrawn at any time, is determined on an amortized cost basis, which is different from the fair value of the District's position in the pool. At June 30, 2023 and 2022 the amortized cost approximated is the District's cost.

I. Fair Value Measurements

The following is a summary of the fair value hierarchy of investments held by the District as of June 30, 2023:

	Fair Value Measurement Using	
	Significant Other Observable Inputs (Level 2)	June 30, 2023
Investments by Fair Value Level		
U.S. Government Sponsored		
Entity Securities		
FHLB	\$ 30,661,988	\$ 30,661,988
FHLMC	-	-
FNMA	2,203,847	2,203,847
U.S. Treasury Securities	13,316,349	13,316,349
Commercial Paper	496,070	496,070
Municipal Bonds	998,530	998,530
Total Investments by Fair Value Level	<u>\$ 47,676,784</u>	<u>47,676,784</u>
Investments not subject to fair value hierarchy:		
Local Agency Investment Fund (LAIF)		9,265,185
California Asset Management Program (CAMP)		27,320,397
Money Market Mutual Funds		365,426
Held by Fiscal Agent		
Money Market Mutual Funds		<u>2,195,446</u>
Total investments not subject to fair value hierarchy		<u>39,146,454</u>
Total investments		<u>\$ 86,823,238</u>

Olivenhain Municipal Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2023 and 2022

Note 3 – Cash, Cash Equivalents, and Investments (Continued)

I. Fair Value Measurements (Continued)

The following is a summary of the fair value hierarchy of investments held by the District as of June 30, 2022:

	Fair Value Measurement Using	
	Significant Other Observable Inputs (Level 2)	June 30, 2022
Investments by Fair Value Level		
U.S. Government Sponsored		
Entity Securities		
FHLB	\$ 28,215,691	\$ 28,215,691
FHLMC	1,915,350	1,915,350
FNMA	1,197,800	1,197,800
U.S. Treasury Securities	10,837,479	10,837,479
Commercial Paper	2,491,795	2,491,795
Municipal Bonds	1,052,370	1,052,370
Total Investments by Fair Value Level	<u>\$ 45,710,485</u>	<u>45,710,485</u>
Investments not subject to fair value hierarchy:		
Local Agency Investment Fund (LAIF)		22,921,923
California Asset Management Program (CAMP)		17,570,703
Money Market Mutual Funds		79,351
Held by Fiscal Agent		
Money Market Mutual Funds		<u>2,057,566</u>
Total investments not subject to fair value hierarchy		<u>42,629,543</u>
Total Investments		<u>\$ 88,340,028</u>

Investments securities classified in Level 2 of the fair value hierarchy are valued using prices determined by the use of matrix pricing techniques maintained by the pricing vendors for these securities. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

Note 4 – Leases Receivable

The District leases land, primarily cell tower sites, and recognizes leases receivable. Leases receivable consist of agreements with others for the "right-to-use" the underlying land asset at various locations owned by the District. The remaining terms of the agreements that were used in calculating the leases receivable range from 6 to 33 years, and include options to extend the leases, since the District is reasonably certain that these options will be exercised. The calculated interest rates used to calculate the net present value of the leases receivable vary depending on the length of the lease.

For the fiscal year ended June 30, 2023, the District recognized \$639,127 in lease revenue and \$307,466 in interest revenue, and the outstanding receivable amount was \$9,759,167. For the fiscal year ended June 30, 2022, the District recognized \$638,090 in lease revenue and \$324,276 in interest revenue, and the outstanding receivable amount was \$10,349,882.

Olivenhain Municipal Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2023 and 2022

Note 4 – Leases Receivable (Continued)

A summary of changes in leases receivable for the fiscal year ended June 30, 2023 was as follows:

Balance July 1, 2022	Remeasurement	Additions	Reductions	June 30, 2023	Amounts due within one year	Amounts due in more than one year
\$ 10,349,882	\$ (195,799)	\$ -	\$ (394,916)	\$ 9,759,167	\$ 403,389	\$ 9,355,778

A summary of changes in leases receivable for the fiscal year ended June 30, 2022 was as follows:

Balance July 1, 2021	Remeasurement	Additions	Reductions	June 30, 2022	Amounts due within one year	Amounts due in more than one year
\$ 7,540,410	\$ -	\$ 3,173,746	\$ (364,274)	\$ 10,349,882	\$ 394,170	\$ 9,955,712

At June 30, 2023, the required payments for these leases, including interest, are:

Year Ending June 30	Lease Receivable	Interest	Total
2024	\$ 403,389	\$ 295,544	\$ 698,933
2025	435,537	282,948	718,485
2026	472,936	269,326	742,262
2027	511,088	254,514	765,602
2028	548,395	238,580	786,975
2029-2033	2,464,679	951,764	3,416,443
2034-2038	1,347,179	655,922	2,003,101
2039-2043	1,050,623	480,835	1,531,458
2044-2048	1,362,739	296,738	1,659,477
2049-2053	1,054,788	77,498	1,132,286
2054-2057	107,814	3,706	111,520
	<u>\$ 9,759,167</u>	<u>\$ 3,807,375</u>	<u>\$ 13,566,542</u>

As of June 30, 2023, the amounts reported as lease-related deferred inflows of resources will be recognized as lease revenue in the upcoming years as follows:

Year Ending June 30	Total
2024	\$ 613,500
2025	613,500
2026	613,500
2027	613,500
2028	613,500
2029-2033	2,444,504
2034-2038	1,231,959
2039-2043	830,895
2044-2048	798,608
2049-2053	512,875
2054-2057	67,005
	<u>\$ 8,953,346</u>

Olivenhain Municipal Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2023 and 2022

Note 5 – Inventories

Inventories at June 30, 2023 and 2022 were as follows:

	2023	2022
Water inventory	\$ 191,787	\$ 166,676
Materials inventory	1,467,829	1,348,229
Total	<u>\$ 1,659,616</u>	<u>\$ 1,514,905</u>

Materials inventory was reduced by an allowance for obsolete inventory of \$206,600 and \$71,600 at June 30, 2023 and 2022, respectively.

Note 6 – Capital Assets

A summary of changes in capital assets for the year ended June 30, 2023, is as follows:

	Balance July 1, 2022 as restated	Additions	Deletions	Transfers/ Adjustments	Balance June 30, 2023
Capital assets, not being depreciated:					
Land	\$ 11,005,363	\$ -	\$ -	\$ -	\$ 11,005,363
Steel water storage tanks	19,861,397	-	-	-	19,861,397
Construction in progress	7,559,275	15,402,007	(11,518,688)	(83,911)	11,358,683
Total capital assets, not being depreciated	<u>38,426,035</u>	<u>15,402,007</u>	<u>(11,518,688)</u>	<u>(83,911)</u>	<u>42,225,443</u>
Capital assets, being depreciated/amortized:					
Treatment and distribution system	308,378,862	7,248,947	(540,285)	-	315,087,524
Capacity rights	27,739,008	-	-	-	27,739,008
Non-steel tanks	39,102,610	71,659	(183,913)	-	38,990,356
General plant	192,118,381	4,489,677	(1,900,082)	83,911	194,791,887
Subscription assets	247,215	-	-	-	247,215
Total capital assets, being depreciated/amortized	<u>567,586,076</u>	<u>11,810,283</u>	<u>(2,624,280)</u>	<u>83,911</u>	<u>576,855,990</u>
Accumulated depreciation/amortization:					
Treatment and distribution system	(115,962,904)	(7,477,867)	424,549	-	(123,016,222)
Capacity rights	(19,644,628)	(1,143,163)	-	-	(20,787,791)
Non-steel tanks	(14,512,671)	(947,465)	86,627	-	(15,373,509)
General plant	(80,621,251)	(6,275,168)	1,831,751	-	(85,064,668)
Subscription assets	(56,973)	(67,127)	-	-	(124,100)
Total accumulated depreciation/amortization	<u>(230,798,427)</u>	<u>(15,910,790)</u>	<u>2,342,927</u>	<u>-</u>	<u>(244,366,290)</u>
Total capital assets, being depreciated/amortized, net	<u>336,787,649</u>	<u>(4,100,507)</u>	<u>(281,353)</u>	<u>83,911</u>	<u>332,489,700</u>
Total capital assets, net	<u>\$ 375,213,684</u>	<u>\$ 11,301,500</u>	<u>\$ (11,800,041)</u>	<u>\$ -</u>	<u>\$ 374,715,143</u>

Olivenhain Municipal Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2023 and 2022

Note 6 – Capital Assets (Continued)

A summary of changes in capital assets for the year ended June 30, 2022, is as follows:

	Balance July 1, 2021	Prior Period Adjustment	Additions	Deletions	Transfers/ Adjustments	Balance June 30, 2022
Capital assets, not being depreciated:						
Land	\$ 11,005,363	\$ -	\$ -	\$ -	\$ -	\$ 11,005,363
Steel water storage tanks	19,861,397	-	-	-	-	19,861,397
Construction in progress	10,729,766	-	9,201,825	(216,507)	(12,155,809)	7,559,275
Total capital assets, not being depreciated	41,596,526	-	9,201,825	(216,507)	(12,155,809)	38,426,035
Capital assets, being depreciated/amortized:						
Treatment and distribution system	299,032,731	-	377,412	(1,109,478)	10,078,197	308,378,862
Capacity rights	27,739,008	-	-	-	-	27,739,008
Non-steel tanks	38,948,261	-	-	(44,230)	198,579	39,102,610
General plant	191,242,450	-	15,949	(1,019,051)	1,879,033	192,118,381
Subscription assets	-	155,841	91,374	-	-	247,215
Total capital assets, being depreciated/amortized	556,962,450	155,841	484,735	(2,172,759)	12,155,809	567,586,076
Accumulated depreciation/amortization:						
Treatment and distribution system	(109,575,980)	-	(7,292,922)	905,998	-	(115,962,904)
Capacity rights	(18,375,426)	-	(1,269,202)	-	-	(19,644,628)
Non-steel tanks	(13,588,441)	-	(945,558)	21,328	-	(14,512,671)
General plant	(75,031,873)	-	(6,568,298)	978,920	-	(80,621,251)
Subscription assets	-	-	(56,973)	-	-	(56,973)
Total accumulated depreciation/amortization	(216,571,720)	-	(16,132,953)	1,906,246	-	(230,798,427)
Total capital assets, being depreciated/amortized, net	340,390,730	155,841	(15,648,218)	(266,513)	12,155,809	336,787,649
Total capital assets, net	\$ 381,987,256	\$ 155,841	\$ (6,446,393)	\$ (483,020)	\$ -	\$ 375,213,684

Depreciation expense for depreciable capital assets was \$14,700,500 and \$14,806,778 for the years ended June 30, 2023 and 2022, respectively. Amortization expense for amortizable capital assets was \$1,210,290 and \$1,326,175 for the years ending 2023 and 2022, respectively.

Construction in progress consisted of the following at June 30:

	2023	2022
San Elijo Valley Groundwater	\$ 4,444,633	\$ 3,976,006
Replace Neighborhood 1 SPS	2,957,396	725,533
DCMWTP Condition Assessment	606,974	400
Hydropower Turbine Refurbishment	402,635	234,153
Replace Headworks Manual System	353,447	121,850
Manchester Recycled Extension	-	821,290
Other capital projects	2,593,598	1,680,043
Total construction in progress	\$ 11,358,683	\$ 7,559,275

Olivenhain Municipal Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2023 and 2022

Note 7 – Accounts Payable

Accounts payable to be paid from unrestricted current assets are as follows at June 30:

	2023	2022
Water purchases	\$ 5,177,992	\$ 5,780,870
Construction in progress	1,256,888	450,332
Other	1,373,664	1,494,396
Total	<u>\$ 7,808,544</u>	<u>\$ 7,725,598</u>

Accounts payable, to be paid from restricted current assets are as follows at June 30:

	2023	2022
Construction in progress	\$ 74,242	\$ 26,732
	<u>\$ 74,242</u>	<u>\$ 26,732</u>

Note 8 – Long-Term Debt

A summary of changes in long-term debt for the year ended June 30, 2023 is as follows:

	Balance July 1, 2022 as restated	Additions	Deletions	Balance June 30, 2023	Due Within One Year	Due More Than One Year
Notes Payable:						
2013 Note Payable - direct borrowing	\$ 11,162,926	\$ -	\$ (817,586)	\$ 10,345,340	\$ 415,868	\$ 9,929,472
Notes Payable	11,162,926	-	(817,586)	10,345,340	415,868	9,929,472
SBITA Liability:						
SBITA liability - direct borrowing	181,698	-	(65,946)	115,752	67,952	47,800
SBITA liability	181,698	-	(65,946)	115,752	67,952	47,800
Revenue Bonds:						
Publicly-Offered:						
2015 Water System Refunding Revenue Bonds	12,525,000	-	(1,845,000)	10,680,000	1,935,000	8,745,000
Plus unamortized bond premiums	1,082,376	-	(322,340)	760,036	-	760,036
2016 Water System Refunding Revenue Bonds	12,890,000	-	(560,000)	12,330,000	585,000	11,745,000
Plus unamortized bond premiums	799,319	-	(91,082)	708,237	-	708,237
Direct Placement/Borrowing:						
2021A Wastewater Revenue Bonds	4,796,400	-	(207,240)	4,589,160	211,680	4,377,480
2021B Wastewater Revenue Bonds	3,513,900	-	(569,840)	2,944,060	575,630	2,368,430
Revenue Bonds, net	35,606,995	-	(3,595,502)	32,011,493	3,307,310	28,704,183
2019 Special Assessment Debt with Government Commitment	5,457,755	-	(863,064)	4,594,691	883,019	3,711,672
Total	<u>\$ 52,409,374</u>	<u>\$ -</u>	<u>\$ (5,342,098)</u>	<u>\$ 47,067,276</u>	<u>\$ 4,674,149</u>	<u>\$ 42,393,127</u>

Olivenhain Municipal Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2023 and 2022

Note 8 – Long-Term Debt (Continued)

A summary of changes in long-term debt for the year ended June 30, 2022 is as follows:

	Balance July 1, 2021 as restated	Additions	Deletions	Balance June 30, 2022	Due Within One Year	Due More Than One Year
Notes Payable:						
2013 Note Payable - direct borrowing	\$ 11,961,997	\$ -	\$ (799,071)	\$ 11,162,926	\$ 406,452	\$ 10,756,474
Notes Payable	11,961,997	-	(799,071)	11,162,926	406,452	10,756,474
SBITA Liability:						
SBITA liability - direct borrowing	155,841	91,374	(65,517)	181,698	65,946	115,752
SBITA liability	155,841	91,374	(65,517)	181,698	65,946	115,752
Revenue Bonds:						
Publicly Offered:						
2015 Water System Refunding Revenue Bonds	14,275,000	-	(1,750,000)	12,525,000	1,845,000	10,680,000
Plus unamortized bond premiums	1,455,315	-	(372,939)	1,082,376	-	1,082,376
2016 Water System Refunding Revenue Bonds	13,420,000	-	(530,000)	12,890,000	560,000	12,330,000
Plus unamortized bond premiums	896,208	-	(96,889)	799,319	-	799,319
Direct Placement/Borrowing:						
2018 Wastewater Revenue Bonds	4,013,000	-	(4,013,000)	-	-	-
2021A Wastewater Revenue Bonds	-	5,042,140	(245,740)	4,796,400	207,240	4,589,160
2021B Wastewater Revenue Bonds	-	3,932,970	(419,070)	3,513,900	569,840	2,944,060
Revenue Bonds, net	34,059,523	8,975,110	(7,427,638)	35,606,995	3,182,080	32,424,915
2019 Special Assessment Debt with Government Commitment	6,300,863	-	(843,108)	5,457,755	863,064	4,594,691
Total	\$ 52,478,224	\$ 9,066,484	\$ (9,135,334)	\$ 52,409,374	\$ 4,517,542	\$ 47,891,832

2013 Note Payable

On February 24, 2012, the District entered into an agreement with the State of California Department of Public Health for a loan not to exceed \$17,812,998 (2013 Note Payable), under and pursuant to Part 12, Chapter 4 of Division 104 of the Health and Safety Code and California Code of Regulations Title 22 to assist in financing construction of a project which will enable the District to meet safe drinking water standards. The loan repayment term commenced on the due date of the first principal and interest invoice, which was on January 19, 2015, and expires twenty years after the due date of the first principal and interest invoice. The rate of interest to be paid on the principal amount of the loan is 2.3035% annually. At June 30, 2023, the outstanding loan balance was \$10,345,340.

Future debt service requirements for the above note payable based on the initial loan rate is as follows:

Year Ending June 30,	Principal	Interest	Total
2024	\$ 415,868	\$ 119,152	\$ 535,020
2025	846,161	223,880	1,070,041
2026	865,765	204,277	1,070,042
2027	885,822	184,220	1,070,042
2028	906,345	163,697	1,070,042
2029-2033	4,856,592	493,616	5,350,208
2034-2035	1,568,787	36,275	1,605,062
Total	\$ 10,345,340	\$ 1,425,117	\$ 11,770,457

Olivenhain Municipal Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2023 and 2022

Note 8 – Long-Term Debt (Continued)

2015 Water System Refunding Revenue Bonds Payable

On August 27, 2015, the District issued Water System Refunding Revenue Bonds, Series 2015A in the amount of \$23,455,000 for the purpose of refunding \$26,290,000 of the outstanding balance of the Water Revenue Refunding Bonds, Series 2006A. The 2015A bonds are limited obligation bonds maturing annually from December 1, 2015 to June 1, 2028 bearing various interest rates between 2.0% and 5.0%.

The District has pledged all of the Net Water System Revenues for the debt service payments of the bond. The total principal and interest remaining to be paid on the bonds is \$12,039,875. For the current year, principal and interest paid on the bonds was \$2,412,625. The bonds contain various covenants and restrictions, principally that the District fix, prescribe, collect rates and charges for the Water Service, which are reasonably expected to be at least sufficient to yield, during each fiscal year net service revenues equal to one hundred and twenty-five percent (125%) of the debt service on senior obligations for such fiscal year, and one hundred percent (100%) of debt service on all obligations for such fiscal year.

The original deferred loss on refunding of \$610,166 is being amortized over the remaining life of the refunded debt. Amortization expense totaled \$68,909 for the year ended June 30, 2023. The remaining unamortized balance was \$162,479 at June 30, 2023.

A summary of the refunding bonds is as follows:

Interest Rates	Fiscal year maturities (varying amounts)	Balance June 30, 2022	Additions	Deletions	Balance June 30, 2023
2%-5%	2024-2027	\$ 10,180,000	\$ -	\$ (1,845,000)	\$ 8,335,000
3%	2028	2,345,000	-	-	2,345,000
		<u>\$ 12,525,000</u>	<u>\$ -</u>	<u>\$ (1,845,000)</u>	<u>\$ 10,680,000</u>

Total bonds outstanding as of June 30, 2023, including unamortized bond premiums were as follows:

Principal outstanding at June 30, 2023	\$ 10,680,000
Plus unamortized bond premium	<u>760,036</u>
Total bonds outstanding at June 30, 2023	<u>\$ 11,440,036</u>

Future debt service requirements for the above bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2024	\$ 1,935,000	\$ 475,375	\$ 2,410,375
2025	2,035,000	378,625	2,413,625
2026	2,130,000	276,875	2,406,875
2027	2,235,000	170,375	2,405,375
2028	2,345,000	58,625	2,403,625
Total	<u>\$ 10,680,000</u>	<u>\$ 1,359,875</u>	<u>\$ 12,039,875</u>

Olivenhain Municipal Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2023 and 2022

Note 8 – Long-Term Debt (Continued)

2016 Water System Refunding Revenue Bonds Payable

On October 19, 2016, the District issued Water System Refunding Revenue Bonds, Series 2016A in the amount of \$15,990,000 for the purpose of refunding \$16,610,000 of the outstanding balance of the Water Revenue Refunding Bonds, Series 2009. The 2016A bonds are limited obligation bonds maturing annually from December 1, 2016 to June 1, 2039 bearing various interest rates between 2.125% and 5.0%.

The District has pledged all of the Net Water System Revenues for the debt service payment of the bond. The total principal and interest remaining to be paid on the bonds is \$15,609,690. For the current year, principal and interest paid on the bonds was \$979,913. The bonds contain various covenants and restrictions, principally that the District fix, prescribe, collect rates and charges for the Water Service, which are reasonably expected to be at least sufficient to yield, during each fiscal year net service revenues equal to one hundred and twenty-five percent (125%) of the debt service on senior obligations for such fiscal year, and one hundred percent (100%) of debt service on all obligations for such fiscal year.

The District refunded the Water Revenue Refunding Bonds, Series 2009 to reduce its total debt service payments over 22 years by \$3,683,827 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$2,753,343.

The original deferred loss on refunding of \$1,196,934 is being amortized over the remaining life of the refunded debt. Amortization expense totaled \$89,432 for the year ended June 30, 2023. The remaining unamortized balance was \$695,407 at June 30, 2023.

A summary of the refunding bonds is as follows:

Interest Rates	Fiscal year maturities (varying amounts)	Balance June 30, 2022	Additions	Deletions	Balance June 30, 2023
2%-5%	2024-2036	\$ 10,135,000	\$ -	\$ (560,000)	\$ 9,575,000
2.5%	2037-2039	2,755,000	-	-	2,755,000
		<u>\$ 12,890,000</u>	<u>\$ -</u>	<u>\$ (560,000)</u>	<u>\$ 12,330,000</u>

Total bonds outstanding as of June 30, 2023, including unamortized bond premiums were as follows:

Principal outstanding at June 30, 2023	\$ 12,330,000
Plus unamortized bond premium	<u>708,237</u>
Total bonds outstanding at June 30, 2023	<u>\$ 13,038,237</u>

Future debt service requirements for the above bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2024	\$ 585,000	\$ 391,913	\$ 976,913
2025	615,000	362,663	977,663
2026	645,000	331,913	976,913
2027	675,000	299,663	974,663
2028	705,000	272,663	977,663
2029-2033	3,820,000	1,056,050	4,876,050
2034-2038	4,340,000	536,475	4,876,475
2039	945,000	28,350	973,350
Total	<u>\$ 12,330,000</u>	<u>\$ 3,279,690</u>	<u>\$ 15,609,690</u>

Olivenhain Municipal Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2023 and 2022

Note 8 – Long-Term Debt (Continued)

2018 Wastewater Revenue Bonds Payable

On June 26, 2018, the District issued Wastewater (Sewer) Revenue Bonds, Series 2018A in the amount of \$5,500,000 to finance improvements to the administrative and operations building at 1966 Olivenhain Road, Encinitas, CA. The administration and operations buildings provide support for all of the District's activities related to potable water, recycled water, and wastewater throughout the District's service area.

The District has pledged Net Wastewater (Sewer) System Revenues for debt service payments of the 2018 bonds. The bonds contain various covenants and restrictions, principally that the District collect sewer charges for the Wastewater Service, which are reasonably expected to be at least sufficient to yield, during each fiscal year net service revenues equal to one hundred and twenty-five percent (125%) of the debt service on senior obligations for such fiscal year, and one hundred percent (100%) of debt service on all obligations for such fiscal year.

The 2018 bonds are limited obligation bonds maturing annually from June 1, 2019 to June 1, 2028 bearing an interest rate of 3.1%. The remaining balance of the bonds was paid off in fiscal year 2022 with proceeds from the 2021B Wastewater Revenue Bonds.

2019 Reassessment District 96-1 Limited Obligation Improvement Bonds

In July 2019 the District issued Limited Obligation Improvement Bonds Reassessment District No. 2019-96-1 (OMWD Water Storage Project) in the amount of \$7,130,000. The Reassessment District 2019-96-1 bonds are limited obligations of the District payable solely from Special Assessments that were previously assessed pursuant to the terms and provisions of the Municipal Improvement Act of 1913 (Division 12 of the Streets and Highways Code of the State of California) to form Assessment District No. 96-1 (OMWD Storage Project). The Reassessment District 2019-96-1 bonds were issued to provide funds to refund and refinance the outstanding principal amount of the District's 2007 Reassessment District No. 96-1 (OMWD Water Storage Project), and to pay for the costs of issuance incurred. The bonds were refinanced at an interest rate of 2.09% and mature in September 2027. The aggregate debt service payments of the new debt are \$2.84 million less than the old debt. The issuance of the new debt and the refunding of the old debt resulted in an economic gain (the difference between the net present value of the old debt and new debt service payments) of approximately \$2.59 million.

Purchasers of the Bonds will not receive certificates representing their beneficial ownership in the Bonds but will receive credit balances on the books of their respective nominees. Principal of and interest on the Bonds are payable by the trustee, and such principal and interest payments, and premium, if any, are to be disbursed to the beneficial owners of the Bonds through their nominees. Installments of principal and interest sufficient to meet annual Bond debt service are included on the regular county tax bills sent to owners of property against which there are unpaid reassessments.

Future debt service requirements for the above bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2024	\$ 883,019	\$ 86,801	\$ 969,820
2025	897,985	68,190	966,175
2026	917,940	49,214	967,154
2027	937,896	29,820	967,716
2028	957,851	10,010	967,861
Total	<u>\$ 4,594,691</u>	<u>\$ 244,035</u>	<u>\$ 4,838,726</u>

Olivenhain Municipal Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2023 and 2022

Note 8 – Long-Term Debt (Continued)

2021A Wastewater Revenue Bonds

On October 27, 2021 the District issued Wastewater Revenue Bonds, Series 2021A in the amount of \$5,042,140 to finance wastewater (sewer) improvements at the 4S Wastewater Treatment Plant, including rehabilitations, replacements, and modifications to the existing Neighborhood One Sewer Pump Station and the Headworks Screening System at the 4S Wastewater Treatment Plant. The Series 2021A bonds mature on June 1, 2041 and carry an interest rate of 2.14%. The District's annual debt service cost for the 2021A bonds is approximately \$310,000. The 2021A Bonds were tax-exempt bonds issued by the OMWD Financing Authority. The District and the OMWD Financing Authority entered into installment purchase agreements to repay the 2021A Bonds from net wastewater revenues. The 2021A Bonds were directly purchased by Sterling National Bank through a private placement financing process.

The District has pledged all of the Net Sewer System Revenues for the debt service payment of the bond. The total principal and interest remaining to be paid on the bonds is \$5,277,971. For the current year, principal and interest paid on the bonds was \$309,883. The bonds contain various covenants and restrictions, principally that the District fix, prescribe, collect rates and charges for wastewater service, which are reasonably expected to be at least sufficient to yield, during each fiscal year net service revenues equal to one hundred and twenty-five percent (125%) of the debt service on senior obligations for such fiscal year, and one hundred percent (100%) of debt service on all obligations for such fiscal year.

Future debt service requirements for the above bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2024	\$ 211,680	\$ 98,208	\$ 309,888
2025	216,210	93,678	309,888
2026	220,840	89,051	309,891
2027	225,560	84,325	309,885
2028	230,390	79,498	309,888
2029-2033	1,228,040	321,392	1,549,432
2034-2038	1,365,200	184,245	1,549,445
2039-2041	891,240	38,414	929,654
Total	<u>\$ 4,589,160</u>	<u>\$ 988,811</u>	<u>\$ 5,577,971</u>

2021B Wastewater Revenue Bonds

On October 27, 2021, the District also issued 2021B Refunding Revenue Bonds in the amount of \$3,932,970 to refund and refinance the existing 2018A Sewer Revenue Bonds, which were issued in fiscal year 2018 to finance improvements to the District's administrative and operations building at 1966 Olivenhain Road, Encinitas, CA. The District received an interest rate of 1.14% for the 2021B Refunding Revenue Bonds, which resulted in an estimated net present value savings of \$243,942 after the cost of issuance. The 2021B bonds mature on June 1, 2028. The 2021B Bonds were tax-exempt bonds issued by the OMWD Financing Authority. The District and the OMWD Financing Authority entered into installment purchase agreements to repay the 2021B Bonds from net wastewater revenues. The 2021B Bonds were directly purchased by Sterling National Bank through a private placement financing process.

Olivenhain Municipal Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2023 and 2022

Note 8 – Long-Term Debt (Continued)

2021B Wastewater Revenue Bonds (Continued)

The District has pledged all of the Net Wastewater System Revenues for the debt service payment of the bond. The total principal and interest remaining to be paid on the bonds is \$3,045,506. For the current year, principal and interest paid on the bonds was \$609,898. The bonds contain various covenants and restrictions, principally that the District fix, prescribe, collect rates and charges for wastewater service, which are reasonably expected to be at least sufficient to yield, during each fiscal year net wastewater service revenues equal to one hundred and twenty-five percent (125%) of the debt service on senior obligations for such fiscal year, and one hundred percent (100%) of debt service on all obligations for such fiscal year.

The District refunded the 2018 Wastewater Revenue Refunding Bonds to reduce its total debt service payments by \$259,233 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$243,942.

Future debt service requirements for the above bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2024	\$ 575,630	\$ 33,562	\$ 609,192
2025	581,980	27,000	608,980
2026	588,890	20,366	609,256
2027	595,310	13,652	608,962
2028	602,250	6,866	609,116
Total	<u>\$ 2,944,060</u>	<u>\$ 101,446</u>	<u>\$ 3,045,506</u>

Subscription-Based Information Technology Arrangements (SBITA) Liability

The District entered into various subscription-based IT arrangements and has recorded a liability to offset the right-to-use assets. These are calculated using the U.S. Treasury rates at the time of GASB Statement No. 96 implementation.

Future minimum payments on SBITA liabilities are as follows:

Year Ending June 30,	Principal	Interest	Total
2024	\$ 67,952	\$ 2,432	\$ 70,384
2025	38,096	916	39,012
2026	9,704	49	9,753
Total	<u>\$ 115,752</u>	<u>\$ 3,397</u>	<u>\$ 119,149</u>

Note 9 – Compensated Absences

Vested or accumulated vacation and sick leave is recorded as an expense and liability as benefits accrue to employees. Summary of changes in compensated absences for the year ended June 30, 2023 and 2022, were as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due within One Year	Due in More Than One Year
June 30, 2023	\$ 1,936,026	\$ 1,110,651	\$ (895,380)	\$ 2,151,297	\$ 961,314	\$ 1,189,983
June 30, 2022	\$ 1,687,576	\$ 1,240,740	\$ (992,290)	\$ 1,936,026	\$ 996,839	\$ 939,187

Olivenhain Municipal Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2023 and 2022

Note 10 – Employee Retirement Systems

A. General Information about the Pension Plan

Plan Description - All qualified full-time District employees are required to participate in the District's Miscellaneous Plan with California Public Employee's Retirement System (CalPERS). Employees hired prior to January 1, 2013 participate in the Miscellaneous Classic plan while employees hired January 1, 2013 and after participate in the Miscellaneous PEPPRA (Public Employees' Reform Act) plan. Both plans, Classic and PEPPRA, are considered a single pension plan. CalPERS provides retirement, disability benefits, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. A menu of benefit provisions as well as other requirements is established by State statutes within the Public Employee's Retirement Law. The District selects certain benefit provisions from the CalPERS' menu by contract with CalPERS and adopts those benefits through the Board's approval. Benefits provisions and all other requirements are established by State statute, the District's resolutions, and the memorandum of understanding between the Olivenhain Municipal Water District and the Olivenhain Municipal Water District Employees Association and the Bargaining Unit Members Association. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided - CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 50 or 52 with statutorily reduced benefits. All members are eligible for non-industrial disability benefits after five (5) years of service. The death benefit is one of the following: Basic Death Benefit, 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost-of-living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plans' provisions and benefits in effect at June 30, 2023, are summarized as follows:

	Miscellaneous Plan	
	Classic	PEPPRA (Public Employees' Pension Reform Act)
Hire Date	Prior to January 1, 2013	January 1, 2013 and after
Benefit Formula	2.5% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50-55	52-67
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%	1.0% to 2.5%
Required employee contribution rate	8%	6.25%
Required employer contribution rate	11.600%	7.600%

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

Olivenhain Municipal Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2023 and 2022

Note 10 – Employee Retirement Systems (Continued)

A. General Information about the Pension Plan

Pension Funding Policy - In June 2022, The District's Board of Directors established a Pension Funding Policy to address the District's pension liability and to achieve a minimum target funded ratio goal of 85% by making additional discretionary payments to CalPERS and funding the District's Pension Stabilization Fund.

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

Deferred outflow from pensions resulting from changes in assumptions. This amount is amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plans determined as of June 30, 2022. As of June 30, 2023 and 2022 respectively, the District reported net pension liabilities for its proportionate shares of the net pension liability as follows:

	2023	2022
Classic & PEPRA Plans	\$ 16,832,760	\$ 7,819,768
Total Net Pension Liability	<u>\$ 16,832,760</u>	<u>\$ 7,819,768</u>

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

Olivenhain Municipal Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2023 and 2022

Note 10 – Employee Retirement Systems (Continued)

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

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

- (1) In determining a cost-sharing plan's proportionate share, total amounts of liabilities and assets are first calculated for the risk pool as a whole on the valuation date (June 30, 2021). The risk pool's fiduciary net position ("FNP") subtracted from its total pension liability ("TPL") determines the net pension liability ("NPL") at the valuation date.
- (2) Using standard actuarial roll forward methods, the risk pool TPL is then computed at the measurement date (June 30, 2022). Risk pool FNP at the measurement date is then subtracted from this number to compute the NPL for the risk pool at the measurement date. For purposes of FNP in this step and any later reference thereto, the risk pool's FNP at the measurement date denotes the aggregate risk pool's FNP at June 30, 2022 less the sum of all additional side fund (or unfunded liability) contributions made by all employers during the measurement period (fiscal year 2022).
- (3) The individual plan's TPL, FNP, and NPL are also calculated at the valuation date.
- (4) Two ratios are created by dividing the plan's individual TPL and FNP as of the valuation date from step (3) by the amounts in step (1), the risk pool's total TPL and FNP, respectively.
- (5) The plan's TPL as of the measurement date is equal to the risk pool TPL generated in step (2) multiplied by the TPL ratio generated in step (4). The plan's FNP as of the measurement date is equal to the FNP generated in step (2) multiplied by the FNP ratio generated in step (4) plus any additional side fund (or unfunded liability) contributions made by the employer on behalf of the plan during the measurement period.
- (6) The plan's NPL at the measurement date is the difference between the TPL and FNP calculated in step (5).

The District's proportionate share of the net pension liability for each Plan as of the measurement date ended June 30, 2021 and 2022 was as follows:

	Classic & PEPRA Plans
Proportion - June 30, 2020 (MD)	0.34634%
Proportion - June 30, 2021 (MD)	0.41183%
Change - Increase (Decrease)	0.06549%
Proportion - June 30, 2021 (MD)	0.41183%
Proportion - June 30, 2022 (MD)	0.30884%
Change - Increase (Decrease)	-0.10299%

Olivenhain Municipal Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2023 and 2022

Note 10 – Employee Retirement Systems (Continued)

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

For the years ended June 30, 2023 and 2022, the District recognized pension expense of \$3,014,862 and \$2,490,376, respectively. At June 30, 2023 and 2022, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2023		2022	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 2,376,470	\$ -	\$ 1,854,789	\$ -
Differences between actual and expected experience	111,634	-	876,903	-
Change in assumptions	1,724,868	-	-	-
Changes in proportions	-	(224,189)	-	(112,478)
Differences between the employer's contributions and the employer's proportionate share of contributions	-	(495,982)	-	(57,165)
Net differences between projected and actual earnings on plan investments	3,083,314	-	-	(6,826,244)
Total	<u>\$ 7,296,286</u>	<u>\$ (720,171)</u>	<u>\$ 2,731,692</u>	<u>\$ (6,995,887)</u>

The District reported \$2,376,470 as deferred outflows of resources related to contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ending June 30,	Amount
2024	\$ 993,591
2025	854,647
2026	465,546
2027	1,885,861
Total	<u>\$ 4,199,645</u>

Deferred outflows of resources related to the contribution made subsequent to the measurement date in the amount of \$1,854,789 were recognized as a reduction of the net pension liability in the year ended June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ending June 30,	Amount
2023	\$ (1,300,816)
2024	(1,384,906)
2025	(1,546,843)
2026	(1,886,419)
Total	<u>\$ (6,118,984)</u>

Olivenhain Municipal Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2023 and 2022

Note 10 – Employee Retirement Systems (Continued)

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

Actuarial Assumptions - For the measurement period ended June 30, 2022 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2021 total pension liability determined in the June 30, 2021 actuarial accounting valuation. The June 30, 2022 total pension liability was based on the following actuarial methods and assumptions:

	Classic & PEPRA Plans
Valuation Date	June 30, 2021
Measurement Date	June 30, 2022
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	6.90%
Inflation	2.75%
Salary Increases	(1)
Mortality Rate Table	(2)
Post Retirement Benefit Increase	(3)

- (1) Varies by entry age and service
- (2) The mortality table used was developed based on CalPERS specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the April 2014 experience study report (based on CalPERS demographic data from 1997 to 2011) available on the CalPERS website.
- (3) Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter.

Change in Assumptions – GASB 68, paragraph 30 states that the long-term expected rate of return should be determined net of pension plan investment expense, but without reduction for pension plan administrative expense. In fiscal year 2023, the actuarial report did not have a change of assumption. In fiscal year 2018, the discount rate was reduced from 7.65% to 7.15%. In fiscal year 2023, the discount rate was changed from 7.15% to 6.90%. All other actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period 1997 to 2015, including updates to salary increase, mortality and retirement rates. Further details of the Experience Study can be found on the CalPERS website.

Discount Rate - The discount rate used to measure the total pension liability was 6.90% for each Plan and reflects the long-term expected rate of return for each Plan net of investment expenses and without reduction for administrative expenses. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the Plans, the tests revealed the assets would not run out. Therefore, the current 6.90% discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long term expected discount rate of 6.90% is applied to all plans in the Public Employees Retirement Fund (PERF). The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained from the CalPERS website under the GASB 68 section.

Olivenhain Municipal Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2023 and 2022

Note 10 – Employee Retirement Systems (Continued)

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

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund (PERF) cash flows. Taking into account historical returns of all the Public Employees Retirement Funds' asset classes (which includes the agent plan and two cost-sharing plans or PERF A, B, and C funds), expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each PERF fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the CalPERS Board effective on July 1, 2014.

Asset Class	New Strategic Allocation	Real Return
Global equity - cap-weighted	30.00%	4.45%
Global equity - non-cap-weighted	12.00%	3.84%
Private equity	13.00%	7.28%
Treasury	5.00%	0.27%
Mortgage-backed securities	5.00%	0.50%
Investment-grade corporates	10.00%	1.56%
High yield	5.00%	2.27%
Emerging market debt	5.00%	2.48%
Private debt	5.00%	3.57%
Real assets	15.00%	3.21%
Leverage	-5.00%	-0.59%
Total	100.00%	

Olivenhain Municipal Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2023 and 2022

Note 10 – Employee Retirement Systems (Continued)

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

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the District's proportionate share of the net pension liability for the Plans, calculated using the discount rate for the Plans, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	Classic & PEPRA Plans	
	2023	2022
1% Decrease	5.90%	6.15%
Net Pension Liability	\$ 25,863,266	\$ 15,848,851
Current Discount Rate	6.90%	7.15%
Net Pension Liability	\$ 16,832,760	\$ 7,819,768
1% Increase	7.90%	8.15%
Net Pension Liability	\$ 9,402,895	\$ 1,182,239

Pension Plan Fiduciary Net Position - Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

Payable to the Pension Plan - The District had no outstanding contributions to the pension plan required for the year ended June 30, 2023.

Note 11 – Health Savings Plan

The Voluntary Employee Benefits Association ("VEBA") plan is a medical savings plan establishing a funded health reimbursement plan for eligible employees, former employees, and their dependents and beneficiaries as defined in the Plan pursuant to Internal Revenue Code Section 501 (c) (9). The District's VEBA plan was implemented on July 1, 2014 following the District's Board of Directors adoption of a resolution approving the VEBA program at the June 18, 2014 board meeting. During the years ended June 30, 2023 and 2022, the District contributed \$32,000 and \$21,550 to the VEBA plan, respectively.

Note 12 – Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job-related illnesses or injuries to employees; and natural disasters. The District purchases commercial insurance for its exposure to risk other than those under the workers' compensation laws. Commercial insurance expense amounted to \$482,802 and \$310,772 for the years ended June 30, 2023 and 2022, respectively.

The District's workers' compensation risk exposure is handled by the District's participation in the Special District Risk Management Authority (SDRMA) established by the California Special Districts Association. SDRMA is a risk pooling joint powers authority formed under the California Government Code to provide workers' compensation coverage for SDRMA's member districts. SDRMA purchases excess insurance from commercial carriers to reduce its exposure to large losses. Workers' compensation expense amounted to \$123,103 and \$171,223 for the years ended June 30, 2023 and 2022, respectively.

Olivenhain Municipal Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2023 and 2022

Note 12 – Risk Management (Continued)

There were no instances in the past three years where a settlement exceeded the District's coverage provided through SDRMA or through the District's commercial carriers.

Real and Personal Property and Mobile Equipment: For Real and Personal Property, maximum replacement is no more than 100% of value shown in Statement of Value. For Mobile Equipment, maximum replacement of 100% of value shown in Statement of Value, and \$10,000 per item for unscheduled mobile equipment. Limits of insurance vary from \$2,500 per occurrence to the Blanket Limit of Insurance, with deductibles ranging from \$1,000 to \$2,500 per occurrence. Limit of insurance for equipment breakdown is 100% of value shown in Statement of Value.

Employee Dishonesty Coverage: \$250,000 limit with \$1,000 deductible per occurrence.

Forgery or Alteration Coverage: \$250,000 limit with \$1,000 deductible per occurrence.

Theft, Disappearance and Destruction Coverage: \$250,000 limit with \$1,000 deductible per occurrence for both inside and outside.

Computer Fraud Coverage: \$100,000 limit with \$1,000 deductible per occurrence.

Bodily Injury and Property Damage, Personal Injury and Advertising Injury, Professional Liability, Wrongful Acts, Employee Benefits Liability, and Employee Practices Liability Coverage: \$1,000,000 limit per occurrence with a \$3,000,000 aggregate limit. Professional Liability and Wrongful Acts Liability are subject to a \$10,000 deductible per claim. Additionally, the District carries a \$10,000,000 Excess Liability Policy that is in full effect.

Damage to Premises Rented to the District: \$1,000,000 limit for any one premise.

Auto Coverage: \$1,000,000 liability limit, \$5,000 auto medical payment limit and \$1,000,000 uninsured motorist limit per accident with deductibles. Comprehensive and Collision limits are the actual cash value or cost of repair with deductibles of \$500 for comprehensive and collision.

Workers' Compensation Coverage and Employer's Liability: Statutory limits per occurrence for Workers' Compensation and \$5.0 Million for Employer's Liability Coverage, subject to the terms, conditions and exclusions as provided in the Certificate of Coverage, effective July 1, 2022.

Olivenhain Municipal Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2023 and 2022

Note 13 – Net Position

A. Net Investment in Capital Assets

Net Investment in Capital Assets at June 30 consisted of the following:

	2023	2022 as restated
Net investment in capital assets		
Capital assets, nondepreciable	\$ 42,225,443	\$ 38,426,035
Capital assets, depreciable/amortizable, net	332,489,700	336,787,649
Deferred amount on refunding	857,886	1,016,228
Unspent debt proceeds	3,877,108	5,012,202
Current portion of long-term debt:		
Wastewater revenue bonds	(787,310)	(777,080)
Water revenue refunding bonds	(2,520,000)	(2,405,000)
Special assessment debt with government commitment	(883,019)	(863,064)
Note payable	(415,868)	(406,452)
Subscription liability	(67,952)	(65,946)
Long-term debt, non-current portion:		
Waste water revenue bonds	(6,745,910)	(7,533,220)
Water revenue refunding bonds	(21,958,273)	(24,891,695)
Special assessment debt with government commitment	(3,711,672)	(4,594,691)
Note payable	(9,929,472)	(10,756,474)
Subscription liability	(47,800)	(115,752)
Total net investment in capital assets	<u>\$ 332,382,861</u>	<u>\$ 328,832,740</u>

Olivenhain Municipal Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2023 and 2022

Note 13 – Net Position (Continued)

B. Restricted Net Position

Restricted Net Position at June 30 consisted of the following:

	2023	2022
Net position restricted for debt service:		
<u>Restricted Assets</u>		
Cash	\$ 2,266,117	\$ 2,138,897
Investments	54,144	60,887
Taxes/assessments receivable	53,206	39,292
Total restricted assets for debt service	2,373,467	2,239,076
Less liabilities payable from restricted assets	(115,265)	(132,209)
Net position restricted for debt service	2,258,202	2,106,867
Net position restricted for construction:		
<u>Restricted Assets</u>		
Cash	3,533,641	3,034,372
Investments	2,707,257	2,270,832
Grants receivable	2,078,788	342,520
Total restricted assets for construction	8,319,686	5,647,724
Less liabilities from restricted assets	(74,242)	(26,733)
Net position restricted for construction	8,245,444	5,620,991
Total restricted net position	<u>\$ 10,503,646</u>	<u>\$ 7,727,858</u>

C. Unrestricted Funds

Unrestricted funds are the District's Designated Fund Balances. These funds are designated by the District's Board of Directors to carry out specific purposes as stated in the Board Designated Fund Balances Policy ("Policy"). Unrestricted funds are reviewed annually with the Board to ensure compliance with the Policy. Changes to the Policy will require Board's approval. Unrestricted funds at June 30 consisted of the following:

	2023	2022 as restated
Capital replacement reserve	\$ 45,586,928	\$ 47,486,991
Rate stabilization reserve	14,492,666	14,631,267
Pension stabilization reserve	481,838	-
Operating reserve	7,785,182	8,655,078
	<u>\$ 68,346,614</u>	<u>\$ 70,773,336</u>

The District received refund payments from the San Diego County Water Authority (SDCWA) in 2021 and 2022 in the amount of \$3,661,917 for overpayments on water wholesale costs to the Metropolitan Water District of Southern California (MWD). The District's Board of Directors voted to return these refund payments to the District's potable water customers on their monthly water bills as a Rate Reimbursement Credit (RRC) of 6.9 cents per unit of water billed. These funds are held and paid from the District's rate stabilization reserves. As of June 30, 2023, the District has refunded \$584,483 to its customers via the RRC, leaving \$3,077,434 in the District's rate stabilization reserves for future refunds.

Olivenhain Municipal Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2023 and 2022

Note 14 – Capital Contributions

Capital contributions for the years ended June 30, 2023 and 2022 were as follows:

	2023	2022
Contributions of capital assets	\$ 386,344	\$ 393,361
Other	3,254,238	176,384
Total	<u>\$ 3,640,582</u>	<u>\$ 569,745</u>

Note 15 – Economic Dependency

All potable water sold by the District is purchased from the San Diego County Water Authority (SDCWA). The District purchased 15,921.4 acre-feet (AF) of potable water during fiscal year 2023, and 18,446.8 AF during fiscal year 2022. An acre foot (AF) is a unit of measure equivalent to 325,900 gallons of water, which meets the needs of two average families for one year. The District continues to offset potable water consumption used for irrigation with recycled water through the expansion of its recycled water system. The prospect of future droughts as well as water supply shortages drives the need to diversify water supplies by developing alternative water sources locally to reduce reliance on potable water purchased from SDCWA. Recycled water sold by the District to its retail customers is either produced at the 4S Ranch Water Reclamation Facility or purchased from Rancho Santa Fe Community Services District, the City of San Diego, San Elijo Joint Powers Authority, and Vallecitos Water District.

The District's recycled water system is comprised of two non-contiguous recycled water service areas, the Northwest and Southeast Quadrant. Recycled water sold by the District in the Northwest Quadrant is purchased from Vallecitos Water District and San Elijo Joint Powers Authority. Recycled water sold by the District in the Southeast Quadrant comes from the District's 4S Water Reclamation Facility and purchases from the District's recycled water supplier, the Rancho Santa Fe Community Services District and the City of San Diego.

Note 16 – Commitments and Contingencies

A. Contracts

The District has entered into contracts for the engineering and construction of additions to capital assets. Unfulfilled commitments under open contracts as of June 30 are summarized as follows:

	2023	2022
Total open contracts	\$ 11,529,585	\$ 12,135,465
Less costs incurred as of June 30,	(5,959,591)	(9,787,184)
Remaining contractual commitments	<u>\$ 5,569,994</u>	<u>\$ 2,348,281</u>

B. Litigation

Management is of the opinion that there are no outstanding legal litigations that would have a material effect on the basic financial statements.

Olivenhain Municipal Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2023 and 2022

Note 16 – Commitments and Contingencies (Continued)

C. Grant Awards

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

Note 17 – Segment Information

Although the District's financial statements jointly account for water and wastewater (sewer) services, investors in the 2015 and 2016 Water System Refunding Revenue Bonds rely solely on the revenues of the District's water services for repayment. Similarly, investors in the 2021A and 2021B Wastewater Revenue Bonds rely solely on the revenues of the District's wastewater services for repayment. The following condensed financial statements provide a summary of the District's financial information for water and wastewater services for the fiscal year ended June 30, 2023.

Condensed Statement of Net Position
June 30, 2023

	Water Services	Wastewater Services	Total
ASSETS			
Current assets	\$ 84,070,451	\$ 19,797,922	\$ 103,868,373
Capital assets	315,590,122	59,125,021	374,715,143
Long-term assets	9,372,997	-	9,372,997
Total assets	409,033,570	78,922,943	487,956,513
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amount on refunding	857,886	-	857,886
Pension-related deferred outflows of resources	5,988,696	1,307,590	7,296,286
Total deferred outflows of resources	6,846,582	1,307,590	8,154,172
LIABILITIES			
Current liabilities	13,609,505	1,178,672	14,788,177
Long-term liabilities	49,798,425	10,617,445	60,415,870
Total liabilities	63,407,930	11,796,117	75,204,047
DEFERRED INFLOWS OF RESOURCES			
Pension-related deferred inflows of resources	554,532	165,639	720,171
Lease-related deferred inflows of resources	8,953,346	-	8,953,346
Total deferred inflows of resources	9,507,878	165,639	9,673,517
NET POSITION			
Net investment in capital assets	276,913,948	55,468,913	332,382,861
Restricted for debt service	2,258,202	-	2,258,202
Restricted for construction	8,245,444	-	8,245,444
Unrestricted	55,546,750	12,799,864	68,346,614
Total net position	\$ 342,964,344	\$ 68,268,777	\$ 411,233,121

Olivenhain Municipal Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2023 and 2022

Note 17 – Segment Information (Continued)

Changes in Net Position
For the Year Ended June 30, 2023

	Water Services	Wastewater Services	Total
Operating Revenues			
Water sales	\$ 53,633,877	\$ -	\$ 53,633,877
Sewer charges	-	5,621,985	5,621,985
Other water operating revenues	1,084,666	-	1,084,666
Total operating revenues	54,718,543	5,621,985	60,340,528
Operating Expenses			
Cost of purchased water sold	29,609,781	-	29,609,781
Pumping and water treatment	4,353,775	-	4,353,775
Transmission and distribution	4,434,815	-	4,434,815
Sewer collection and treatment	-	2,026,695	2,026,695
Elfin Forest recreation operations	386,905	-	386,905
Facilities maintenance	1,203,294	71,457	1,274,751
Customer services	1,753,430	760	1,754,190
General and administrative	5,509,052	1,356,172	6,865,224
Other operating expenses	212,580	-	212,580
Depreciation and amortization	13,582,136	2,328,654	15,910,790
Total operating expenses	61,045,768	5,783,738	66,829,506
Operating income (loss)	(6,327,225)	(161,753)	(6,488,978)
Nonoperating Revenues (Expenses)			
Fair market value adjustment	(106,538)	(100,747)	(207,285)
Investment income	1,586,693	518,655	2,105,348
Property taxes	4,577,755	-	4,577,755
Capacity charges	1,327,295	-	1,327,295
Benefit assessments	1,045,315	-	1,045,315
Other nonoperating revenues	1,055,260	-	1,055,260
Interest expense, net	(1,073,928)	(146,228)	(1,220,156)
Other nonoperating expenses	(1,799,800)	(136,149)	(1,935,949)
Total nonoperating revenues (expenses)	6,612,052	135,531	6,747,583
Income (loss) before capital contributions	284,827	(26,222)	258,605
Capital contributions	3,183,050	457,532	3,640,582
Change in net position	3,467,877	431,310	3,899,187
Net position, beginning of year, as restated	339,496,467	67,837,467	407,333,934
Net position, end of year	\$ 342,964,344	\$ 68,268,777	\$ 411,233,121

Olivenhain Municipal Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2023 and 2022

Note 17 – Segment Information (Continued)

Condensed Statement of Cash Flows
For the Year Ended June 30, 2023

	Water Services	Wastewater Services	Total
Net cash provided by operating activities	\$ 7,471,972	\$ 1,820,459	\$ 9,292,431
Net cash provided by noncapital and related financing activities	5,602,430	-	5,602,430
Net cash (used in) capital and related financing activities	(15,518,398)	(3,065,805)	(18,584,203)
Net cash provided by (used in) investing activities	1,204,195	(40,133)	1,164,062
Net increase (decrease) in cash and cash equivalents	(1,239,801)	(1,285,479)	(2,525,280)
Cash and cash equivalents, beginning	41,996,391	13,950,634	55,947,025
Cash and cash equivalents, ending	\$ 40,756,590	\$ 12,665,155	\$ 53,421,745

The following condensed financial statements provide a summary of the District's financial information for water and wastewater services for the fiscal year ended June 30, 2022.

Condensed Statement of Net Position
June 30, 2022

	Water Services	Wastewater Services	Total
ASSETS			
Current assets	\$ 85,222,038	\$ 20,985,823	\$ 106,207,861
Capital assets	316,650,025	58,563,659	375,213,684
Long-term assets	9,955,712	-	9,955,712
Other assets	35,463	-	35,463
Total assets	411,863,238	79,549,482	491,412,720
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amount on refunding	1,016,228	-	1,016,228
Pension-related deferred outflows of resources	2,473,959	257,733	2,731,692
Total deferred outflows of resources	3,490,187	257,733	3,747,920
LIABILITIES			
Current liabilities	13,354,253	1,028,927	14,383,180
Long-term liabilities	47,319,020	9,331,767	56,650,787
Total liabilities	60,673,273	10,360,694	71,033,967
DEFERRED INFLOWS OF RESOURCES			
Pension-related deferred inflows of resources	5,386,833	1,609,054	6,995,887
Lease-related deferred inflows of resources	9,796,852	-	9,796,852
Total deferred inflows of resources	15,183,685	1,609,054	16,792,739
NET POSITION			
Net investment in capital assets	273,567,178	55,265,562	328,832,740
Restricted for debt service	2,106,867	-	2,106,867
Restricted for construction	5,620,991	-	5,620,991
Unrestricted	58,201,431	12,571,905	70,773,336
Total net position	\$ 339,496,467	\$ 67,837,467	\$ 407,333,934

Olivenhain Municipal Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2023 and 2022

Note 17 – Segment Information (Continued)

Changes in Net Position
For the Year Ended June 30, 2023

	Water Services	Wastewater Services	Total
Operating Revenues			
Water sales	\$ 53,633,877	\$ -	\$ 53,633,877
Sewer charges	-	5,621,985	5,621,985
Other water operating revenues	1,084,666	-	1,084,666
Total operating revenues	54,718,543	5,621,985	60,340,528
Operating Expenses			
Cost of purchased water sold	29,609,781	-	29,609,781
Pumping and water treatment	4,353,775	-	4,353,775
Transmission and distribution	4,434,815	-	4,434,815
Sewer collection and treatment	-	2,026,695	2,026,695
Elfin Forest recreation operations	386,905	-	386,905
Facilities maintenance	1,203,294	71,457	1,274,751
Customer services	1,753,430	760	1,754,190
General and administrative	5,509,052	1,356,172	6,865,224
Other operating expenses	212,580	-	212,580
Depreciation and amortization	13,582,136	2,328,654	15,910,790
Total operating expenses	61,045,768	5,783,738	66,829,506
Operating income (loss)	(6,327,225)	(161,753)	(6,488,978)
Nonoperating Revenues (Expenses)			
Fair market value adjustment	(106,538)	(100,747)	(207,285)
Investment income	1,586,693	518,655	2,105,348
Property taxes	4,577,755	-	4,577,755
Capacity charges	1,327,295	-	1,327,295
Benefit assessments	1,045,315	-	1,045,315
Other nonoperating revenues	1,055,260	-	1,055,260
Interest expense, net	(1,073,928)	(146,228)	(1,220,156)
Other nonoperating expenses	(1,799,800)	(136,149)	(1,935,949)
Total nonoperating revenues (expenses)	6,612,052	135,531	6,747,583
Income (loss) before capital contributions	284,827	(26,222)	258,605
Capital contributions	3,183,050	457,532	3,640,582
Change in net position	3,467,877	431,310	3,899,187
Net position, beginning of year, as restated	339,496,467	67,837,467	407,333,934
Net position, end of year	\$ 342,964,344	\$ 68,268,777	\$ 411,233,121

Olivenhain Municipal Water District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2023 and 2022

Note 17 – Segment Information (Continued)

Condensed Statement of Cash Flows
For the Year Ended June 30, 2022

	Water Services	Wastewater Services	Total
Net cash provided by operating activities	\$ 9,347,513	\$ 2,068,109	\$ 11,415,622
Net cash provided by noncapital and related financing activities	5,271,677	2,102,804	7,374,481
Net cash (used in) capital and related financing activities	(10,286,133)	2,773,040	(7,513,093)
Net cash (used in) investing activities	(3,785,688)	(1,233,533)	(5,019,221)
Net increase (decrease) in cash and cash equivalents	547,369	5,710,420	6,257,789
Cash and cash equivalents, beginning	41,449,022	8,240,214	49,689,236
Cash and cash equivalents, ending	<u>\$ 41,996,391</u>	<u>\$ 13,950,634</u>	<u>\$ 55,947,025</u>

Note 18 – Restatement of Net Position

As a result of implementation of GASB Statement No. 96, *Subscription-Based Information Technology Agreements (SBITAs)*, net position as of July 1, 2022 has been restated as follows:

Net position at July 1, 2022 as previously reported	\$ 407,325,390
Restatement to implement GASB Statement No. 96	<u>8,544</u>
Total restatement	<u>8,544</u>
Net position at July 1, 2022 as restated	<u>\$ 407,333,934</u>

	Originally Reported	Adjustments	As Restated
Capital assets, depreciable/amortizable, net	\$ 336,597,407	\$ 190,242	\$ 336,787,649
Subscription liability, current portion	-	(65,946)	(65,946)
Subscription liability, non-current portion	-	(115,752)	(115,752)
Total adjustments		<u>8,544</u>	
Net position	<u>\$ 407,325,390</u>	<u>\$ 8,544</u>	<u>\$ 407,333,934</u>

	Originally Reported	Adjustments	As Restated
Customer services expense	\$ 2,067,655	\$ (31,388)	\$ 2,036,267
General and administrative expense	7,774,311	(29,263)	7,745,048
Depreciation and amortization expense	16,075,980	56,973	16,132,953
Interest expense, net	1,327,814	(4,866)	1,322,948
Total adjustments		<u>8,544</u>	
Net position	<u>\$ 407,325,390</u>	<u>\$ 8,544</u>	<u>\$ 407,333,934</u>

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REQUIRED SUPPLEMENTARY INFORMATION

(Unaudited)

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Olivenhain Municipal Water District
Required Supplementary Information (Unaudited)
For the Years Ended June 30, 2023 and 2022

Modified Approach for Steel Water Storage Tanks Infrastructure Capital Assets

In accordance with GASB Statement No. 34, the District is required to account for and report infrastructure capital assets. The District defines infrastructure as the basic physical assets including water storage tanks system, used by the District to conduct its business. Each major infrastructure system can be divided into subsystems.

The District has elected to use the Modified Approach as defined by GASB Statement No. 34 for infrastructure reporting for its Steel Water Storage Tanks System. Under GASB Statement No. 34, eligible infrastructure capital assets are not required to be depreciated under the following requirements:

- The District manages the eligible infrastructure capital assets using an assets management system with characteristics of: (1) an up-to-date inventory; (2) perform condition assessments and summarize the results using a measurement scale; and (3) estimate annual amount to maintain and preserve at the established condition assessment level.

The District documents that the eligible infrastructure capital assets are being preserved approximately at or above the established and disclosed condition assessment level.

In September 2007, the District commissioned a study of the physical condition assessment of the steel water storage tanks. Tank assessment components include tank structure, tank exterior coating, tank interior coating, tank dry interior, tank foundations, tank security and tank safety. The condition assessment will be performed at least every three years. Each tank was assigned a physical condition based on potential defects. A Tank Assessment Index (TAI), a nationally recognized index, was assigned to each tank and expressed in a continuous scale from 1.0 to 10.0, where 1.0 is assigned to the least acceptable physical condition and 10.0 is assigned the physical characteristics of a new tank. During fiscal year 2023, inspections on the various tanks ended in July 2023.

The following conditions were defined:

Condition	TAI Range
Very Good	9.0 - 10.0
Good	7.0 - 8.9
Satisfactory	5.0 - 6.9
Sub Standard	3.0 - 4.9
Unacceptable	1.0 - 2.9

According to the District's policy, a minimum average rating of 5.0 for all steel tanks is considered a satisfactory rating. As of June 30, 2023, 2022, 2021, 2020, and 2019 the District's steel water storage tanks were rated as follows:

Tank #	Name	Size (Gallons)	Type	TAI				
				FY 22/23	FY 21/22	FY 20/21	FY 19/20	FY 18/19
1	4 S-2 Tank	4,000,000	Ground Storage	9.4	9.4	9.4	8.8	8.1
2	Zorro Tank	1,200,000	Ground Storage	9.5	9.5	9.6	7.8	8.4
3	Wiegand Tank	1,000,000	Ground Storage	8.8	9.0	9.0	9.2	9.0
4	Peay Tank	10,000,000	Ground Storage	8.7	9.0	9.1	8.5	8.6
5	Denk Tank	10,000,000	Ground Storage	9.7	8.2	8.2	8.0	8.0
6	4S Tank	10,000,000	Ground Storage	9.1	9.6	8.7	7.3	7.0
7	Cielo Tank	1,000,000	Ground Storage	8.2	8.3	8.5	8.6	8.5
8	Roger Miller Tank	8,000,000	Ground Storage	9.4	9.4	9.5	9.7	9.6
9	Thelma Miller Tank	1,000,000	Ground Storage	9.9	8.9	8.9	8.9	9.1

Olivenhain Municipal Water District
Required Supplementary Information (Unaudited) (Continued)
For the Years Ended June 30, 2023 and 2022

Modified Approach for Steel Water Storage Tanks Infrastructure Capital Assets (Continued)

The District expensed \$865,427 and \$837,891 on the steel water storage tanks maintenance for the fiscal years ended June 30, 2023 and 2022, respectively. These expenses delayed deterioration; however, the overall condition of the steel water storage tanks was not improved through these maintenance expenses. The District has estimated that the amount of annual expenses required to maintain the District's steel water storage tanks at the average TAI rating of 5.0 through the year 2023 is a minimum of \$904,764.

A schedule of actual expenses to maintain and preserve the steel water storage tanks at the current level is presented below:

Tank #	Name	Maintenance Expenses 2023		Maintenance Expenses 2022		Maintenance Expenses 2021		Maintenance Expenses 2020		Maintenance Expenses 2019	
		Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
1	4 S-2 Tank	\$ 63,539	\$ 60,776	\$ 58,290	\$ 58,842	\$ 55,251	\$ 55,251	\$ 55,251	\$ 55,251	\$ 52,513	\$ 52,513
2	Zorro Tank	37,068	35,456	34,006	34,328	32,233	32,233	32,233	32,233	30,636	30,636
3	Wiegand Tank	27,845	26,635	25,545	25,787	24,213	24,213	24,213	24,213	23,013	23,013
4	Peay Tank	180,936	173,070	165,989	167,563	157,336	157,336	157,336	157,336	149,540	149,540
5	Denk Tank	191,832	183,492	175,985	177,654	166,811	166,811	166,811	166,811	158,545	158,545
6	4S Tank	181,779	173,875	166,762	168,343	158,068	158,068	158,068	158,068	150,236	150,236
7	Cielo Tank	31,800	30,418	29,174	29,450	27,653	27,653	27,653	27,653	26,282	26,282
8	Roger Miller Tank	160,588	153,606	147,322	148,718	139,642	139,642	139,642	139,642	132,723	132,723
9	Thelma Miller Tank	29,377	28,100	26,950	27,206	25,545	25,545	25,545	25,545	24,279	24,279
Total		\$ 904,764	\$ 865,428	\$ 830,023	\$ 837,891	\$ 786,752	\$ 786,752	\$ 786,752	\$ 786,752	\$ 747,767	\$ 747,767

Olivenhain Municipal Water District
Required Supplementary Information (Unaudited) (Continued)
For the Years Ended June 30, 2023 and 2022

SCHEDULE OF CONTRIBUTIONS - DEFINED BENEFIT PENSION PLANS

Last Ten Fiscal Years*

	2023	2022	2021	2020	2019	2018	2017	2016	2015
Contractually required contribution (actuarially determined)	\$ 2,065,470	\$ 1,854,789	\$ 1,733,027	\$ 1,509,929	\$ 1,321,485	\$ 1,144,038	\$ 1,026,323	\$ 898,330	\$ 825,748
Contributions in relation to the actuarially determined contributions	2,376,470	1,854,789	2,183,027	1,809,929	1,321,485	1,144,038	1,026,323	898,330	825,748
Contribution deficiency (excess)	\$ (311,000)	\$ -	\$ (450,000)	\$ (300,000)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 8,748,704	\$ 7,687,861	\$ 7,502,733	\$ 7,168,522	\$ 6,921,133	\$ 6,760,547	\$ 6,392,406	\$ 6,083,865	\$ 5,906,665
Contributions as a percentage of covered payroll	27.16%	24.13%	29.10%	25.25%	19.09%	16.92%	16.06%	14.77%	13.98%

Notes to Schedule:

Valuation Date	6/30/2021	6/30/2020	6/30/2019	6/30/2018	6/30/2017	6/30/2016	6/30/2015	6/30/2014	6/30/2013
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Methods and Assumptions Used to Determine Contribution Rates:

Single and agent employers	Entry age**
Amortization method	Level percentage of payroll, closed**
Asset valuation method	Market Value***
Inflation	2.75%**
Salary increases	Depending on age, service, and type of employment**
Investment rate of return	6.90%, net of pension plan investment expense, including inflation**
Retirement age	50 (2.5% @ 55), 52 years (2% @ 62)

* Historical information is only presented for periods where GASB 68 is applicable.

** The valuations for June 30, 2013, 2014, and 2015 (applicable to fiscal years ended June 30, 2015, 2016, and 2017 respectively) included the same actuarial assumptions.

*** The valuations for June 30, 2013 (applicable to fiscal year ended June 30, 2015) valued assets using a 15 Year Smoothed Market method. The market value of asset valuation method was utilized for the June 30, 2014, 2015, 2016, 2017, 2018, 2019, 2020, and 2021 valuations (applicable to fiscal years ended June 30, 2016, 2017, 2018, 2019, 2020, 2021, 2022, and 2023, respectively).

Olivenhain Municipal Water District
Required Supplementary Information (Unaudited) (Continued)
For the Years Ended June 30, 2023 and 2022

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Last Ten Fiscal Years*

	2023	2022	2021	2020	2019	2018	2017	2016	2015
Miscellaneous & PEPR Plan									
Plan's Proportion of the Net Pension Liability	0.30884%	0.41183%	0.34634%	0.34363%	0.33439%	0.32551%	0.12734%	0.12610%	0.10475%
Plan's Proportionate Share of the Net Pension Liability	\$ 16,832,760	\$ 7,819,768	\$ 14,608,844	\$ 13,760,678	\$ 12,602,286	\$ 12,831,806	\$ 11,018,852	\$ 8,653,737	\$ 6,517,867
Plan's Covered Payroll	\$ 7,687,861	\$ 7,502,733	\$ 7,168,522	\$ 6,921,133	\$ 6,760,547	\$ 6,392,406	\$ 6,083,865	\$ 5,906,665	\$ 5,808,158
Plan's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	218.95%	104.23%	203.79%	198.82%	186.41%	200.74%	181.12%	146.51%	112.22%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	74.59%	87.14%	74.69%	74.59%	75.38%	73.57%	74.06%	79.86%	83.03%
Plan's Proportionate Share of Aggregate Employer Contributions	\$ 2,376,470	\$ 2,084,274	\$ 1,926,217	\$ 1,673,663	\$ 1,469,602	\$ 1,351,241	\$ 1,196,711	\$ 1,116,013	\$ 862,289

Notes to Schedule:

Benefit Changes:

There were no changes in benefits.

Changes in Assumptions:

From fiscal year June 30, 2015 to June 30, 2016:

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

From fiscal year June 30, 2016 to June 30, 2017:

There were no changes in assumptions.

From fiscal year June 30, 2017 to June 30, 2018:

The discount rate was reduced from 7.65% to 7.15%.

From fiscal year June 30, 2018 to June 30, 2022:

There were no changes in assumptions.

Fiscal year June 30, 2023:

The discount rate was reduced from 7.15% to 6.90%.

* - Historical information is only presented for periods where GASB 68 is applicable.

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

Independent Auditors' Report

Board of Directors
Olivenhain Municipal Water District
Encinitas, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Olivenhain Municipal Water District, California (the "District"), which comprise the statement of net position as of June 30, 2023, and the related statement of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the basic financial statements and have issued our report thereon dated (DATE).

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of this Report

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

San Diego, California
(DATE)

Table I - Combined Net Position by Component (Water and Wastewater)

Last Ten Fiscal Years

	Fiscal Year ended June 30									
	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Primary government										
Net investment in capital assets	\$ 332,382,861	\$ 328,832,740	\$ 330,855,961	\$ 330,720,794	\$ 321,290,220	\$ 322,232,147	\$ 322,388,785	\$ 322,493,799	\$ 315,240,098	\$ 314,218,584
Restricted	10,503,646	7,727,858	7,121,300	6,593,159	10,947,134	10,912,202	11,690,890	15,355,420	20,852,200	22,359,148
Unrestricted	68,346,614	70,773,336	69,458,948	60,757,811	62,445,287	57,908,178	53,114,033	48,664,923	50,582,280	53,318,489
Total Net Position	<u>\$ 411,233,121</u>	<u>\$ 407,333,934</u>	<u>\$ 407,436,209</u>	<u>\$ 398,071,764</u>	<u>\$ 394,682,641</u>	<u>\$ 391,052,527</u>	<u>\$ 387,193,708</u>	<u>\$ 386,514,142</u>	<u>\$ 386,674,578</u>	<u>\$ 389,896,221</u>

Source: Olivenhain Municipal Water District

Table II - Changes in Net Position

Last Ten Fiscal Years

	Fiscal Year ended June 30									
	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Operating Revenues										
Water sales	\$53,633,877	\$57,747,541	\$ 58,169,813	\$ 50,430,847	\$ 48,238,490	\$ 53,444,449	\$ 45,433,161	\$ 40,936,218	\$ 45,145,400	\$ 47,875,747
Sewer charges	5,621,985	5,480,925	5,127,136	4,952,194	5,245,015	4,464,710	4,447,426	4,474,853	4,656,781	4,246,033
Other water operating revenues	1,084,666	1,303,126	1,461,229	2,200,252	2,269,665	2,271,495	2,217,932	1,560,779	1,077,003	2,098,535
Total operating revenues	\$ 60,340,528	\$ 64,531,592	\$ 64,758,178	\$ 57,583,293	\$ 55,753,170	\$ 60,180,654	\$ 52,098,519	\$ 46,971,850	\$ 50,879,184	\$ 54,220,315
Operating Expenses										
Cost of purchased water sold	\$ 29,609,781	\$ 31,265,804	\$ 30,601,983	\$ 27,188,350	\$ 25,532,687	\$ 27,578,413	\$ 24,568,729	\$ 21,979,036	\$ 23,634,844	\$ 25,074,331
Pumping and water treatment	4,353,775	4,322,820	4,378,418	4,139,526	4,028,711	4,129,127	3,988,991	3,390,124	3,629,349	3,915,661
Transmission and distribution	4,434,815	4,485,962	4,220,269	4,090,468	3,480,238	3,557,507	3,874,766	3,482,086	3,348,083	3,666,030
Sewer collection and treatment	2,026,695	2,170,341	2,085,237	1,980,603	1,631,657	1,845,906	1,672,289	1,758,907	1,703,761	1,767,162
Elfin Forest Recreational Reserve	386,905	428,174	415,386	381,540	376,635	337,557	316,387	287,923	187,525	198,143
Facilities maintenance	1,274,751	1,387,010	1,363,564	1,456,702	1,224,506	1,083,246	1,154,241	843,456	888,677	821,966
Customer services	1,754,190	2,036,267	2,348,700	2,404,916	1,817,086	1,734,656	1,789,423	1,757,388	1,205,838	1,057,472
General and administrative	6,865,224	7,745,048	7,041,160	7,326,820	6,926,933	7,252,941	6,265,690	5,388,804	5,141,239	4,513,964
Other operating expenses	212,580	304,037	228,939	329,185	407,811	244,817	388,995	-	-	-
Depreciation and amortization	15,910,790	16,132,953	15,559,523	15,029,936	14,892,827	14,584,093	15,069,090	13,053,286	13,757,848	13,661,241
Total operating expenses	\$ 66,829,506	\$ 70,278,416	\$ 68,243,179	\$ 64,328,046	\$ 60,319,091	\$ 62,348,263	\$ 59,088,601	\$ 51,941,010	\$ 53,497,164	\$ 54,675,970
Operating income (loss)	(6,488,978)	(5,746,824)	(3,485,001)	(6,744,753)	(4,565,921)	(2,167,609)	(6,990,082)	(4,969,160)	(2,617,980)	(455,655)
Non-operating Revenues (expenses)										
Investment income, net of market value adjustment ⁽¹⁾	\$ 1,898,063	\$ (2,064,940)	\$ (107,057)	\$ 1,542,608	\$ 2,135,687	\$ 658,473	\$ 230,271	\$ 514,911	\$ 457,182	\$ 474,651
Property taxes	4,577,755	4,242,794	4,027,357	3,863,252	3,714,060	3,557,919	3,414,858	3,268,438	3,066,946	2,896,741
Capacity charges	1,327,295	1,530,925	2,754,730	3,200,022	2,337,015	645,964	3,624,426	1,482,945	1,792,125	4,944,025
Benefit assessments	1,045,315	1,058,241	1,177,302	1,115,704	1,474,830	1,414,791	1,460,881	1,451,751	1,375,093	1,516,201
Other non-operating revenues	1,055,260	2,237,334 ⁽²⁾	6,592,672 ⁽²⁾	91,836	67,097	2,669	278,589	53,458	137,836	347,610
Interest expense, net	(1,220,156)	(1,322,948)	(1,419,009)	(1,457,739)	(1,794,797)	(2,120,456)	(2,342,667)	(2,629,591)	(2,879,588)	(3,037,510)
Other non-operating expenses ⁽³⁾	(1,935,949) ⁽⁴⁾	(606,602)	(1,076,547)	(1,458,033)	(1,036,442)	(561,079)	(1,012,913)	(1,211,973)	(358,178)	(2,448,061)
Total non-operating revenues (expenses)	\$ 6,747,583	\$ 5,074,804	\$ 11,949,448	\$ 6,897,650	\$ 6,897,450	\$ 3,598,281	\$ 5,653,445	\$ 2,929,939	\$ 3,591,416	\$ 4,693,657
Income before capital contributions	258,605	(672,020)	8,464,447	152,897	2,331,529	1,430,672	(1,336,637)	(2,039,221)	973,436	4,238,002
Capital contributions	3,640,582	569,745	899,998	3,236,226	1,298,585	2,428,147	2,016,203	1,878,785	4,524,509	4,191,775
Change in net position	3,899,187	(102,275)	9,364,445	3,389,123	3,630,114	3,858,819	679,566	(160,436)	5,497,945	8,429,777
Net Position										
Beginning of year	\$ 407,333,934	\$ 407,436,209	\$ 398,071,764	\$ 394,682,641	\$ 391,052,527	\$ 387,193,708	\$ 386,514,142	\$ 386,674,578	\$ 389,896,221	\$ 381,466,444
Prior Year Adjustment/Equity Adjustment	-	-	-	-	-	-	-	-	(8,719,588)	-
End of year	\$ 411,233,121	\$ 407,333,934	\$ 407,436,209	\$ 398,071,764	\$ 394,682,641	\$ 391,052,527	\$ 387,193,708	\$ 386,514,142	\$ 386,674,578	\$ 389,896,221

Source: Olivenhain Municipal Water District

(1) Fair market value adjustment of \$(207,285) for FY 2023, \$(2,467,642) for FY 2022 and \$(562,019) for FY 2021

(2) Includes rate refunds from SDCWA in the amount of \$2,039,332 in FY 2021 and \$1,622,585 in FY 2022.

(3) Includes mainly MET Rate Reimbursement Credit, Loss on sale of fixed assets, and grant pass-through amounts.

(4) Includes \$1,020,928 of grant pass through expenses for the Tittle 16 Grant.

Table III - Revenues by Source

Last Ten Fiscal Years

Fiscal Year Ended	OPERATING REVENUES						NONOPERATING REVENUES						TOTAL REVENUES
	Water Sales ⁽¹⁾	Service Charges ⁽¹⁾	Meter Installs	Sewer Charges	Other ⁽²⁾	Total Operating Revenues	Investment Income ⁽³⁾	Prop. Taxes & Benefit Assessment	Capacity Charges ⁽⁴⁾	Capital Contributions ⁽⁵⁾	Other ⁽²⁾	Total Non-operating Revenues	
2023	\$ 37,503,235	\$ 16,130,642	\$ 2,017	\$ 5,621,985	\$ 1,082,649	\$ 60,340,528	\$ 1,898,063	\$ 5,623,070	\$ 1,327,295	\$ 3,640,582	\$ 1,055,260	\$ 13,544,270	\$ 73,884,798
2022	42,215,756	15,531,785	1,116	5,480,925	1,302,010	64,531,592	(2,064,940)	5,301,035	1,530,925	569,745	2,237,334	7,574,099	72,105,691
2021	42,879,845	15,289,968	11,940	5,127,136	1,449,288	64,758,177	(107,057)	5,204,659	2,754,730	899,998	6,592,672	15,345,002	80,103,179
2020	35,794,646	14,636,202	5,279	4,952,194	2,194,973	57,583,294	1,542,608	4,978,956	3,200,022	3,236,226	91,836	13,049,648	70,632,942
2019	33,747,315	14,491,175	5,891	5,245,015	2,263,774	55,753,170	2,135,687	5,188,890	2,337,015	1,298,585	67,097	11,027,274	66,780,444
2018	39,411,902	14,032,547	5,405	4,464,710	2,266,090	60,180,654	658,473	4,972,710	645,964	2,428,147	2,669	8,707,963	68,888,617
2017	32,160,956	13,272,205	8,590	4,447,426	2,209,342	52,098,519	230,271	4,875,739	3,624,426	2,016,203	278,589	11,025,228	63,123,747
2016	28,335,031	12,601,187	(23,890)	4,474,853	1,584,669	46,971,850	514,911	4,720,189	1,482,945	1,878,785	53,458	8,650,288	55,622,138
2015	33,309,929	11,835,471	49,247	4,656,781	1,027,756	50,879,184	457,182	4,442,039	1,792,125	4,524,509	137,836	11,353,691	62,232,875
2014	36,602,714	11,273,033	20,946	4,246,033	2,077,589	54,220,315	474,651	4,412,942	4,944,025	4,191,775	347,610	14,371,003	68,591,318

Source: Olivenhain Municipal Water District

Notes:

- (1) Includes estimated unbilled water revenue, miscellaneous water sales, recycled commodity sales, and fixed monthly fees.
- (2) Other revenues includes excess treated water capacity revenues, rental income, MWD lawsuit settlements, sale of District parcels, and demand offset fees.
- (3) Net of fair market value adjustment (fair market value adjustment of \$(2,467,642) for FY 2022 and \$(562,019) for FY 2021).
- (4) Fees paid by developers and new customers for water services.
- (5) Cash contributions or contributions of capital assets in kind or when governmental constructions are earned.

Table IV - Expenses by Function

Last Ten Fiscal Years

Fiscal Year Ended	OPERATING EXPENSES								NONOPERATING EXPENSES			TOTAL EXPENSES
	Cost of Water Sold	Pumping & Water Treatment	Transmission and Distribution	Sewer Collection & Treatment	Customer Services	Depreciation & Amortization	Other ⁽¹⁾	Total Operating Expenses	Interest Expense	Other ⁽²⁾	Total Non- operating Expenses	
2023	\$ 29,609,781	\$ 4,353,775	\$ 4,434,815	\$ 2,026,695	\$ 1,754,190	\$ 15,910,790	\$ 8,739,460	\$ 66,829,506	\$ 1,220,156	\$ 1,935,949	\$ 3,156,105	\$ 69,985,611
2022	31,265,804	4,322,820	4,485,962	2,170,341	2,036,267	16,132,953	9,864,269	70,278,416	1,322,948	606,602	1,929,550	72,207,966
2021	30,601,983	4,378,418	4,220,269	2,085,237	2,348,700	15,559,523	9,049,049	68,243,179	1,419,009	1,076,547	2,495,556	70,738,735
2020	27,188,350	4,139,526	4,090,468	1,980,603	2,404,916	15,029,936	9,494,247	64,328,046	1,457,739	1,458,033	2,915,772	67,243,818
2019	25,532,687	4,028,711	3,480,238	1,631,657	1,817,086	14,892,827	8,935,885	60,319,091	1,794,797	1,036,442	2,831,239	63,150,330
2018	27,578,413	4,129,127	3,557,507	1,845,906	1,734,656	14,584,093	8,918,561	62,348,263	2,120,456	561,079	2,681,535	65,029,798
2017	24,568,729	3,988,991	3,874,766	1,672,289	1,789,423	15,069,090	8,125,313	59,088,601	2,342,667	1,012,913	3,355,580	62,444,181
2016	21,979,036	3,390,124	3,482,086	1,758,907	1,757,388	13,053,286	6,520,183	51,941,010	2,629,591	1,211,973	3,841,564	55,782,574
2015	23,634,844	3,629,349	3,348,083	1,703,761	1,205,838	13,757,848	6,217,441	53,497,164	2,879,588	358,178	3,237,766	56,734,930
2014	25,074,331	3,915,661	3,666,030	1,767,162	1,057,472	13,661,241	5,534,073	54,675,970	3,037,510	2,448,061	5,485,571	60,161,541

Source: Olivenhain Municipal Water District

Notes:

(1) Includes General and Administrative, Facilities Maintenance, and Elfin Forest Recreational Reserve operations, and miscellaneous operating expenses such as expenses related to Work for Others projects.

(2) Includes loss on disposal of capital assets, water rebate payments to customers from SDCWA/MWD rate refunds, and miscellaneous other non-operating expenses such as bank fees and bond consultants.

Table V- Water Sales by Source ⁽¹⁾

Last Ten Fiscal Years

Fiscal Year Ended	Domestic/Commercial			Agricultural			Recycled Water			Total		Combined Direct Rate ⁽²⁾	Combined Direct Rate ⁽²⁾
	Value	Acre Feet	% of Total	Value	Acre Feet	% of Total	Value	Acre Feet	% of Total	Value	Acre Feet	\$/Acre Feet	\$/HCF
2023	\$ 33,831,813	14,657.2	88.7%	\$ 475,857	183.9	1.2%	\$ 3,821,445	2,270.1	10.0%	\$ 38,129,114	17,111.2	\$ 2,228	\$ 5.12
2022	38,105,626	17,179.4	88.7%	373,711	237.5 ⁽³⁾	0.9%	4,481,597	2,773.8	10.4%	42,960,934	20,190.6	2,128	4.88
2021	37,551,897	17,477.5	88.2%	820,954	479.3	1.9%	4,204,817	2,719.3	9.9%	42,577,668	20,676.1	2,059	4.73
2020	30,779,447	15,174.0	87.9%	631,705	420.7	1.8%	3,619,602	2,182.8	10.3%	35,030,754	17,777.5	1,971	4.52
2019	30,025,491	15,221.1	87.5%	629,535	457.6	1.8%	3,655,658	2,227.7	10.7%	34,310,684	17,906.3	1,916	4.40
2018	33,672,603	17,455.7	87.2%	805,794	583.1	2.1%	4,137,994	2,615.3	10.7%	38,616,391	20,654.0	1,870	4.29
2017	27,946,765	15,500.9	87.8%	630,479	475.3	2.0%	3,262,852	2,252.3	10.2%	31,840,096	18,228.5	1,747	4.01
2016	25,085,001	14,310.2	88.3%	787,221	497.0	2.8%	2,533,961	1,856.2	8.9%	28,406,182	16,663.4	1,705	3.91
2015	29,914,133	17,992.9	87.7%	1,092,527	706.8	3.2%	3,112,981	2,323.3	9.1%	34,119,641	21,023.0	1,623	3.73
2014	31,733,764	19,840.5	87.4%	1,269,068	824.2	3.5%	3,317,826	2,561.5	9.1%	36,320,659	23,226.2	1,564	3.59

Source: Olivenhain Municipal Water District

Notes:

- (1) Excludes unbilled water sales.
- (2) Calculated based on total water sales divided by total volume. 1 acre-foot = 43,600 cubic feet = 325,900 gallons.
- (3) Decrease in FY 2022 due to reclassing certain Agricultural customers to Domestic/Commercial that did not meet requirements for the PSAWR (Ag) program set forth by SDCWA.

Table VI - Rate by Activity

Last Ten Fiscal Years

		Fiscal Year ended June 30									
		<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u> ⁽⁶⁾	<u>2015</u>	<u>2014</u>
Potable Water ⁽¹⁾											
Monthly System Access Charge	\$	41.94	\$ 40.41	\$ 39.44	\$ 38.46	\$ 37.70	\$ 37.70	\$ 36.08	\$ 33.88	\$ 31.97	\$ 30.76
Monthly Commodity Charge											
Domestic Rate											
1 st Tier		3.92	3.68	3.39	3.30	2.71	2.64	2.53	2.50	2.25	2.32
2 nd Tier		5.69	5.34	5.02	4.90	4.75	4.62	4.43	4.35	3.93	3.71
3 rd Tier		6.35	5.96	5.63	5.49	5.61	5.46	5.23	5.60	4.65	4.75
4 th Tier		7.55	7.09	6.74	6.58	6.58	6.40	6.13	6.26	5.44	-
Rate Reimbursement Credit ⁽⁷⁾		(0.069)	(0.069)	-	-	-	-	-	-	-	-
Commercial Rate											
1 st Tier		5.35	5.02	4.71	4.59	4.07	3.96	3.79	3.64	3.36	3.90
2 nd Tier ⁽²⁾		-	-	-	-	-	-	-	-	-	4.97
Irrigation ⁽³⁾											
1 st Tier		6.02	5.65	5.33	5.20	4.35	4.23	4.05	3.99	3.60	-
2 nd Tier		6.43	6.04	5.71	5.57	5.90	5.74	5.50	5.61	4.88	-
Agricultural Rate		6.26	5.88	5.55	5.42	4.75	4.62	4.43	4.26	3.93	3.70
PSAWR/TSAWR Credit ⁽⁴⁾		(1.17)	(1.11)	(0.97)	(0.99)	(0.94)	(0.95)	(0.89)	(0.90)	(0.77)	(0.47)
Recycled ⁽¹⁾											
Monthly System Access Charge	\$	41.94	\$ 40.41	\$ 39.44	\$ 38.46	\$ 37.70	\$ 37.70	\$ 36.08	\$ 33.88	\$ 31.97	\$ 30.76
Monthly Commodity Charge Uniform Rate		4.04	3.79	3.65	3.61	3.85	3.75	3.59	3.37	3.18	3.03
Sewer ⁽¹⁾											
Annual System Access Charge per EDU ⁽⁵⁾											
4S Ranch	\$	191.76	\$ 186.17	\$ 181.09	\$ 181.09	\$ 175.81	\$ 170.68	\$ 165.70	\$ 147.00	\$ 147.00	\$ 147.00
Rancho Cielo		191.76	186.17	181.09	181.09	175.81	170.68	165.70	147.00	147.00	147.00
Multi-Family and Commercial		151.75	147.33	181.09	181.09	175.81	170.68	165.70	147.00	147.00	147.00
Commodity Charge per unit											
Domestic Rate		7.02	6.81	6.59	6.59	6.39	6.20	6.01	6.00	6.00	6.00
Multi-Family Rate		7.02	6.81	6.59	6.59	6.39	6.20	6.01	6.00	6.00	6.00
Commercial Rate											
Group I		7.02	6.81	6.59	6.59	6.39	6.20	6.01	6.00	6.00	6.00
Group II		9.72	9.43	10.16	10.16	9.86	9.57	9.29	9.29	9.29	9.29
Group III		-	-	11.36	11.36	11.02	10.69	10.37	15.86	15.86	15.86

Source: Olivenhain Municipal Water District

Notes:

- (1) Commodity charges are for one unit of water (1 unit = 748 gallons).
- (2) Tier 2 Commercial Rate was eliminated as part of the 2014 Water Rate Study.
- (3) Irrigation tiers are based on seasonal allotments by meter size.
- (4) Permanent/Transitional Special Agricultural Water Rate is calendar year based (Jan 1st to Dec 31st).
- (5) An Equivalent Dwelling Unit (EDU) means the standard measurement of sewage discharged into the sewer system equal to the average discharge from a detached single family unit.
- (6) Water Supply Shortage Level 2 Rate.
- (7) Rate refunds recived in FY 2021 and 2022 from SDCWA/MWD given back to customers as a per unit bill credit each month.

Table VII - Principal Water Consumers

Current and Nine Years Ago

FISCAL YEAR ENDED 2023

Customer Name	Usage (AF)	% of Water Sold
The Bridges Club at RSF Inc ⁽¹⁾	705.6	4.12%
4S Ranch Master HOA ⁽²⁾	467.4	2.73%
Bando National Corporation ⁽²⁾⁽³⁾	265.8	1.55%
Cymer Inc. ⁽¹⁾	248.8	1.45%
La Costa Glen Carlsbad LLC ⁽¹⁾⁽⁴⁾	228.4	1.34%
Rancho Santa Fe Farms Golf Inc ⁽²⁾	222.3	1.30%
Crosby Estate HOA ⁽²⁾	214.6	1.25%
4S Ranch Holdco LLC ⁽¹⁾	211.0	1.23%
La Costa Oaks Association ⁽²⁾	202.2	1.18%
Del Mar Country Club ⁽²⁾	190.0	1.11%
Total top ten consumers	2,956.2	17.28%
Other consumers	14,155.0	82.72%
Total water billed	17,111.2	100.00%

FISCAL YEAR ENDED 2014

Customer Name	Usage (AF)	% of Water Sold
4S Ranch Master HOA	479.1	2.06%
The Bridges at Rancho Santa Fe	363.5	1.57%
Fairbanks Ranch Country Club	330.3	1.42%
Del Mar Country Club	326.6	1.41%
Crosby National Golf Club	277.2	1.19%
La Costa Oaks Association	240.4	1.04%
Rancho Santa Fe Farms Golf Inc.	237.7	1.02%
Crosby Estates HOA	187.5	0.81%
Continuing Life Communities	147.7	0.64%
Cielo Homeowners Association	143.9	0.62%
Total top ten consumers	2,733.9	11.77%
Other consumers	20,492.3	88.23%
Total water billed	23,226.2	100.00%

*Source: Olivenhain Municipal Water District***Notes:**

- (1) Mainly potable water customer
- (2) Mainly recycled water customer
- (3) Previously named Crosby National Golf Club.
- (4) Previously named Continuing Life Communities.

Table VIII - Principal Wastewater (Sewer) Customers

Current and Three Years Ago

FISCAL YEAR ENDED 2023

Customer Name	Amount Billed	% of Total Sewer Billed
Cymer Inc	\$ 564,826	10.05%
4S Ranch Holdco LLC	537,888	9.57%
Amante and Ravenna at 4S Ranch	384,718	6.84%
Summit of Rancho Bernardo HOA	282,836	5.03%
Poway Unified School District	244,404	4.35%
Gianni at 4S Ranch	225,005	4.00%
Bridgeport 4S	202,883	3.61%
San Moritz at 4S Ranch HOA	160,692	2.86%
Dove Canyon Apartments	139,270	2.48%
4S Regency Partners LLC	134,123	2.39%
Total top ten customers	2,876,646	51.17%
Other customers	2,745,339	48.83%
Total Sewer billed	\$ 5,621,985	100.00%

FISCAL YEAR ENDED 2020

Customer Name	Amount Billed	% of Total Sewer Billed
4S Ranch Holdco LLC	\$ 470,755	9.53%
Cymer Inc	465,287	9.42%
Amante and Ravenna at 4S Ranch	355,164	7.19%
Summit of Rancho Bernardo HOA	304,500	6.16%
Poway Unified School District	261,516	5.29%
Gianni at 4S Ranch	213,207	4.32%
Bridgeport 4S	188,358	3.81%
San Moritz at 4S Ranch HOA	150,443	3.05%
4S Regency Partners LLC	139,674	2.83%
Dove Canyon Apartments	135,630	2.75%
Total top ten customers	2,684,534	54.34%
Other customers	2,255,477	45.66%
Total Sewer billed	\$ 4,940,010	100.00%

Source: Olivenhain Municipal Water District

Table IX - Property Tax and Special Assessment

Last Ten Fiscal Years

Fiscal Year Ended	Current Year Levy ⁽¹⁾			Total Collection Thru 6/30 ⁽⁴⁾	Net Uncollected at 6/30	Percent Uncollected at 6/30
	Property Taxes ⁽²⁾	Special Assessment ⁽³⁾	Total Levy			
2023	\$ 4,466,104	\$ 1,032,342	\$ 5,498,447	\$ 5,584,041	\$ (85,594)	-1.56%
2022	4,157,765	1,029,837	5,187,602	5,247,821	(60,219)	-1.16%
2021	3,998,833	1,054,717	5,053,550	5,103,286	(49,737)	-0.98%
2020	3,878,790	1,027,879	4,906,669	4,890,204	16,465	0.34%
2019	3,670,386	1,417,674	5,088,059	5,103,906	(15,847)	-0.31%
2018	3,578,486	1,417,716	4,996,202	4,973,806	22,396	0.45%
2017	3,371,836	1,438,673	4,810,509	4,856,043	(45,534)	-0.95%
2016	3,237,786	1,432,319	4,670,105	4,698,456	(28,351)	-0.61%
2015	3,065,704	1,436,411	4,502,115	4,457,893	44,222	0.98%
2014	2,979,746	1,441,062	4,420,808	4,362,648	58,160	1.32%

Source: County of San Diego Office of the Auditor Controller

Notes:

- (1) Excludes Wastewater Service fees and Stand-by Charges collected on the county's tax roll.
- (2) Includes only current secured and unsecured charges. Excludes delinquent charges, which were reported in previous year.
- (3) Special Assessment includes special assessment debt with government commitment (RAD 96-1).
- (4) Includes monies collected for all outstanding years, and includes late charges and interest on delinquent payments collected.

Table X - Assessed Value of Taxable Property

Last Ten Fiscal Years

Fiscal Year Ended	SECURED			Net Assessed Secured Value	Assessed Unsecured Value	Total Assessed Value
	Real Property	Personal Property	Exemptions			
2023	\$ 28,259,090,456	\$ 29,421,612	\$ (326,716,447)	27,961,795,621	\$ 428,194,797	28,389,990,418
2022	26,419,545,022	19,958,978	(303,262,519)	26,136,241,481	335,348,712	26,471,590,193
2021	25,473,591,937	40,376,998	(303,002,411)	25,210,966,524	438,607,395	25,649,573,919
2020	24,494,325,764	37,689,822	(283,228,046)	24,248,787,540	370,522,672	24,619,310,212
2019	23,391,490,448	39,283,241	(271,258,202)	23,159,515,487	372,459,608	23,531,975,095
2018	22,371,096,064	48,645,131	(270,514,800)	22,149,226,395	281,799,829	22,431,026,224
2017	21,383,894,218	67,716,928	(259,092,644)	21,192,518,502	247,856,828	21,440,375,330
2016	20,566,012,446	83,195,335	(226,276,546)	20,422,931,235	211,765,389	20,634,696,624
2015	19,505,795,291	94,184,239	(219,022,211)	19,380,957,319	241,734,960	19,622,692,279
2014	18,192,814,739	126,126,709	(209,610,305)	18,109,331,143	227,878,909	18,337,210,052

Source: Office of the Auditor Controller, County of San Diego

Note: The District receives its proportionate share of property taxes levied by the County of San Diego in accordance with Proposition 13. The District neither sets its own tax rate nor assesses a tax rate. The County of San Diego bills and collects the District's sewer service charges on behalf of the District.

Table XI - Ratios of Net Bonded Debt to Assessed Value and Net Bonded Debt Per Capita

Last Ten Fiscal Years

Fiscal Year Ended	Gross Bonded Debt ⁽¹⁾	Add: Premium ⁽²⁾	Less: Reserve Funds ⁽³⁾	Net Bonded Debt	Total Secured Real Property ⁽⁴⁾	Debt to Total Secured Real Property	Population Estimate ⁽⁵⁾	Net Bonded Debt Per Capita	Personal Income	As a Share of Personal Income
2023	\$ 4,594,691	\$ -	\$ 79,155	\$ 4,515,536	\$ 28,259,090,456	0.02%	86,441	\$ 52	\$ 6,355,401,643	0.07%
2022	5,457,755	-	82,152	5,375,603	26,419,545,022	0.02%	86,614	62	\$ 6,055,791,038	0.09%
2021	6,300,863	-	247,578	6,053,286	25,473,591,937	0.02%	86,649	70	\$ 5,717,794,212	0.11%
2020	7,130,000	-	71,899	7,058,101	24,494,325,764	0.03%	87,084	81	\$ 5,379,178,680	0.13%
2019	9,765,000	22,870	1,438,918	8,348,952	23,391,490,448	0.04%	86,997	96	\$ 5,167,708,797	0.16%
2018	10,625,000	25,671	1,431,668	9,219,002	22,371,096,064	0.04%	86,478	107	\$ 4,987,791,606	0.18%
2017	11,670,000	28,471	1,435,593	10,262,879	21,383,894,218	0.05%	85,792	120	\$ 4,842,786,816	0.21%
2016	12,485,000	31,272	1,397,568	11,118,704	20,566,012,446	0.05%	85,010	131	\$ 4,690,851,800	0.24%
2015	13,270,000	34,072	1,398,953	11,905,119	19,505,795,291	0.06%	84,352	141	\$ 4,529,364,992	0.26%
2014	14,020,000	36,873	1,398,954	12,657,919	18,192,814,739	0.07%	83,368	152	\$ 4,194,623,309	0.30%

Source: Olivenhain Municipal Water District, the Office of the Auditor Controller, County of San Diego, California Department of Finance, and California Department of Transportation

Notes:

(1) Gross Bonded Debt is a special assessment debt with government commitment. It is the outstanding balance of Reassessment District 96-1 Bond at the end of the fiscal year.

(2) Premium was eliminated in fiscal year 2020 due to refinancing of the Reassessment District 96-1 Bond.

(3) Reserve Funds decreased significantly in fiscal year 2020 due to refinancing of the Reassessment District 96-1 Bond.

(4) Total Secured Real Property is the total secured value of land and Improvements as stated on County of San Diego Assessed Valuation report for each fiscal year, exclusive of personal property, exemptions and unsecured property.

(5) Population estimate is based on California Department of Finance's Special District Population Benchmark based on 2010 and 2020 census data and population growth estimates for San Diego County.

Table XII - Direct and Overlapping Debt

June 30, 2023

2022-23 Assessed Valuation: \$28,389,990,418

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:

	Total Debt as of 6/30/2023	% Applicable (1)	District's Share of Debt as of 6/30/2023
Metropolitan Water District	\$19,215,000	0.781%	\$ 150,069
Mira Costa Community College District	376,155,000	15.957%	60,023,053
Palomar Community College District	641,965,146	4.615%	29,626,691
Poway Unified School District School Facilities Improvement District No. 2002-1	105,410,766	5.301%	5,587,825
Poway Unified School District School Facilities Improvement District No. 2007-1	160,781,672	3.263%	5,246,306
San Marcos Unified School District	268,478,476	0.078%	209,413
Escondido Union High School District	76,648,138	1.534%	1,175,782
San Dieguito Union High School District	416,410,000	26.494%	110,323,665
Cardiff School District	22,688,273	4.613%	1,046,610
Encinitas Union School District	42,125,407	57.684%	24,299,620
Escondido Union School District	165,824,622	1.585%	2,628,320
Rancho Santa Fe School District	27,714,322	27.849%	7,718,162
Solano Beach School District School Facilities Improvement District No. 2016-1	89,095,000	27.422%	24,431,631
Palomar Health District	400,167,282	6.683%	26,743,179
Poway Unified School District Community Facilities Districts	154,818,048	19.641-100	145,647,447
San Dieguito Union High School District Community Facilities Districts	59,535,000	16.822-100	27,820,736
City of Encinitas Community Facilities District No. 1	17,040,000	26.022%	4,434,149
Rancho Santa Fe Community Services District Community Facilities District No. 1	24,040,000	100.000%	24,040,000
Olivenhain Municipal Water District	-	100.000%	-
Olivenhain Municipal Water District Assessment District No. 96-1	4,605,000	100.00%	4,605,000
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT			\$ 505,757,658

OVERLAPPING GENERAL FUND DEBT:

San Diego County General Fund Obligations	\$229,680,000	4.322%	\$ 9,926,770
San Diego County Pension Obligation Bonds	277,990,000	4.322%	12,014,728
San Diego County Superintendent of Schools General Fund Obligations	6,935,000	4.322%	299,731
Palomar Community College District General Fund Obligations	1,310,000	4.615%	60,457
Poway Unified School District Certificates of Participation	53,720,000	11.980%	6,435,656
Other School District General Fund Obligations	166,553,112	Various	6,143,045
City of Encinitas Certificates of Participation	35,865,000	36.63%	13,135,915
City of San Diego General Fund Obligations	642,372,180	0.253%	1,625,202
Other Cities' General Fund Obligations	1,910,000	Various	1,872
TOTAL OVERLAPPING GENERAL FUND DEBT			\$ 49,643,376

OVERLAPPING TAX INCREMENT DEBT (Successor Agency):	\$ 191,485,000	0.105%	\$ 201,059
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TOTAL DIRECT DEBT	\$ -
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TOTAL OVERLAPPING DEBT	\$ 555,602,093
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COMBINED TOTAL DEBT	\$ 555,602,093 ⁽²⁾
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(1) The percentage of overlapping debt applicable to the district is estimated using taxable assessed property value.

Applicable percentages were estimated by determining the portion of the overlapping district's assessed value that is within the boundaries of the overlapping district divided by the district's total taxable assessed value.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded lease obligations.

Ratios to 2022-23 Assessed Valuation:

Direct Debt	0.00%
Total Direct and Overlapping Tax and Assessment Debt	1.78%
Combined Total Debt	1.96%

Ratios to Redevelopment Successor Agency Incremental Valuation (\$11,943,221):

Total Overlapping Tax Increment Debt	1.68%
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Table XIII - Water System Revenue to Debt Service Ratio

Last Ten Fiscal Years

Fiscal Year Ended	Water Sales	(1) Property Taxes	Capacity Charges	Other Non Operating Revenues	(2)	Total Water System Revenues	Less: Cost of water sold	Less: Operations and Maintenance Costs	(3)	Net Water System Revenues	(4)	Debt Service Payment	(5) Revenue to Debt Service Ratio	Pledged Revenue Debt Limit
2023	\$ 54,505,963	\$ 4,577,755	\$ 1,327,295	\$ 2,641,953		\$ 63,052,966	\$ 29,609,781	\$ 17,254,362		\$ 16,188,823		\$ 4,462,579	3.63	125%
2022	58,746,630	4,242,794	1,530,925	2,963,069		67,483,418	31,265,804	18,435,197		17,782,417		4,451,579	3.99	125%
2021	59,402,103	4,027,357	2,754,730	4,522,808		70,706,998	30,601,983	17,883,079		22,221,936		4,450,079	4.99	125%
2020	52,307,718	3,863,252	3,200,022	1,345,972		60,716,964	27,188,350	18,112,974		15,415,640		4,453,579	3.46	125%
2019	50,100,343	3,714,060	620,224	1,779,546		56,214,173	25,532,687	16,223,249		14,458,237		4,457,329	3.24	125%
2018	55,471,127	3,557,919	1,761,723	533,766		61,324,535	27,578,413	16,487,251		17,258,871		4,513,537	3.82	125%
2017	47,262,098	3,414,858	3,624,426	474,085		54,775,467	24,568,729	15,906,059		14,300,679		4,716,802	3.03	115%
2016	42,496,997	3,268,438	1,482,945	452,463		47,700,843	21,979,036	13,743,834		11,977,973		4,681,052	2.56	115%
2015	46,222,403	3,066,946	1,792,125	509,070		51,590,544	23,634,844	12,955,907		14,999,793		4,945,400	(6) 3.03	115%
2014	49,974,282	2,896,741	4,944,025	600,298		58,415,346	25,074,331	12,991,402		20,349,613		4,207,351	4.84	115%

Source: Olivenhain Municipal Water District

Notes:

- (1) Includes potable and recycled water sales and other water operating revenues. Excludes other operating revenues related to the District's Work for Other projects.
- (2) Includes investment income, gain on sale of capital assets, settlement payments from MWD lawsuit (2022 & 2021 only), and sale of District parcels. Excludes Wastewater (Sewer) revenues and unrealized gain and losses on investments.
- (3) Excludes Elfin Forest Recreational Reserve operations & other operating expenses related to the District's Work for Other projects.
- (4) Includes Total Water System Revenues less Cost of water sold and Operations and Maintenance Costs.
- (5) Debt Service Payments include Interest and Principal paid on Water Revenue Refunding Bonds Series 2015A, 2016A, Water Revenue Bonds Series 2009, and 2013 State Revolving Fund Loan. Excludes Wastewater Bonds.
- (6) Includes 2013 principal and interest paid for the 2013 State Revolving Fund Loan during fiscal year 2015 not due until July 1, 2015.

Table XIV - Reassessment District 96-1 Billings and Collections ⁽¹⁾

Last Ten Fiscal Years

Fiscal Year Ended	AMOUNT LEVIED				Amount Collected ⁽³⁾	Percent Collected
	Principal	Interest	Other ⁽²⁾	Total		
2023	\$ 879,601	\$ 95,670	\$ 57,071	\$ 1,032,342	\$ 1,034,916	100.2%
2022	862,309	113,983	53,546	1,029,837	1,037,863	100.8%
2021	844,142	131,835	78,740	1,054,717	1,067,741	101.2%
2020	815,000	162,677	50,202	1,027,879	1,047,644	101.9%
2019	915,294	473,591	28,789	1,417,674	1,410,387	99.5%
2018	876,008	511,464	30,244	1,417,716	1,414,221	99.8%
2017	844,112	548,651	45,911	1,438,673	1,446,310	100.5%
2016	804,478	581,889	45,952	1,432,319	1,434,925	100.2%
2015	779,900	613,211	43,300	1,436,411	1,379,474	96.0%
2014	746,576	647,046	47,440	1,441,062	1,454,689	100.9%

*Source: Olivenhain Municipal Water District***Notes:**

(1) The Reassessment District (RAD) 96-1 Bond was refinanced in fiscal year 2020 resulting in a decrease to principal and interest. The District issued RAD 2019 96-1 bonds to refund and refinance the outstanding principal on the 2007 RAD 96-1 bonds.

(2) Includes administration and delinquency management fees as well as fund credits.

(3) As of June 30 of the fiscal year listed. Includes penalties and interest for delinquent payments.

Table XV - Net Outstanding Long-Term Debt by Type ⁽¹⁾

Last Ten Fiscal Years

Fiscal Year Ended	Water Revenue Bonds				Sewer Revenue Bonds			Special Assessment Bonds	Note Payable		Total Net Outstanding Debt	Percentage of Personal Income	Per Capita
	2016 Water Revenue Refunding Bonds	2015 Water Revenue Refunding Bonds	2009 Water Revenue Bonds	2006 Water Revenue Refunding Bonds	2018 Sewer Revenue Refunding Bonds	2021A Sewer Revenue Bonds	2021B Sewer Revenue Refunding Bonds	Limited Obligation Reassessment District 96-1 ⁽³⁾	2013 State Revolving Fund	2012 California Bank and Trust ⁽²⁾			
2023	\$ 13,038,237	\$ 11,440,036	\$ -	\$ -	\$ -	\$ 4,589,160	\$ 2,944,060	\$ 4,594,691	\$ 10,345,340	\$ -	\$ 46,951,524	0.74%	543
2022	13,689,319	13,607,376	-	-	-	4,796,400	3,513,900	5,457,755	11,162,925	-	52,227,675	0.86%	603
2021	14,316,208	15,730,315	-	-	4,013,000	-	-	6,300,863	11,961,998	-	52,322,384	0.92%	604
2020	14,923,628	17,816,383	-	-	4,520,000	-	-	7,130,000	12,742,976	-	57,132,987	1.06%	656
2019	15,511,305	19,873,396	-	-	5,011,000	-	-	9,787,870	13,506,271	-	63,689,842	1.23%	732
2018	16,084,017	21,899,196	-	-	5,500,000	-	-	10,650,671	14,252,283	-	68,386,167	1.37%	791
2017	16,577,296	23,627,014	-	-	-	-	-	11,698,471	15,339,748	-	67,242,530	1.39%	784
2016	-	25,289,832	16,925,215	-	-	-	-	12,516,272	15,693,954	518,339	70,943,613	1.51%	835
2015	-	-	17,353,724	26,414,577	-	-	-	13,304,072	16,390,314	1,540,841	75,003,529	1.66%	889
2014	-	-	17,767,233	27,934,221	-	-	-	14,056,873	17,069,309	2,546,030	79,373,666	1.89%	952

Source: Olivenhain Municipal Water District

Notes:

(1) FY 2012 and prior years include amortized bond issuance costs.

(2) 2012 California Bank and Trust note was paid off in February 2017.

(3) The Limited Obligation Reassessment District (RAD) 96-1 bonds were refinanced in September, 2019.

The District issued the 2019 RAD 96-1 bonds to refund and refinance the outstanding principal on the 2007 RAD 96-1 bonds.

Table XVI - Demographic Statistics

SD County Current and Prior Nine Years

Year	Population Estimate	Personal Income	Per Capita Personal Income ⁽¹⁾	Unemployment Rate ⁽²⁾
2023	86,441	6,355,401,643	73,523	4.0%
2022	86,614	6,055,791,038	69,917	3.4%
2021	86,649	5,717,794,212	65,988	7.3% ⁽³⁾
2020	87,084 ⁽⁴⁾	5,379,178,680	61,770	13.3% ⁽³⁾
2019	86,997	5,167,708,797	59,401	3.4%
2018	86,478	4,987,791,606	57,677	3.6%
2017	85,792	4,842,786,816	56,448	4.3%
2016	85,010	4,690,851,800	55,180	4.7%
2015	84,352	4,529,364,992	53,696	5.2%
2014	83,368	4,194,623,309	51,444	6.4%
2013	82,355	4,048,736,510	49,162	7.8%

*Source: California Department of Finance and California Employment Development Department***Notes:**

- (1) Per capita personal income is for the San Diego County Region. Source: CA Employment Development Department.
- (2) Estimate for the San Diego County Region as of June in respective FY. Source: CA Employment Development Department.
- (3) Covid-19 Crisis
- (4) Population estimate updated to match 2020 Census of our district area.

Table XVII - San Diego County Principal Employers

Current and Nine Years Ago

SAN DIEGO COUNTY - FISCAL YEAR 2023

Employer Name	Number of Employees ⁽¹⁾	Percentage of Total County Employment
Naval Base San Diego	48,000	3.14%
University of California San Diego ⁽⁴⁾	40,285	2.64%
County of San Diego	25,940	1.70%
Scripps Health	20,000	1.31%
Sharp HealthCare	19,000	1.24%
San Diego Unified School District	16,774	1.10%
City of San Diego	12,829	0.84%
Qualcomm Inc. ⁽²⁾	12,000	0.79%
San Diego State University	10,566	0.69%
Kaiser Permanente San Diego	9,500	0.62%
Total Top Ten County Employers	214,894	14.06%
All Other County Employers	1,313,306	85.94%
Total County Employment ⁽³⁾	1,528,200	100.00%

SAN DIEGO COUNTY - FISCAL YEAR 2014 ⁽⁵⁾

Employer Name	Number of Employees ⁽⁵⁾	Percentage of Total County Employment
US Navy, Marines, & Civic Services	30,588	4.31%
University of California San Diego	28,672	4.04%
Sharp Health Care	16,446	2.32%
County of San Diego	16,215	2.28%
Qualcomm Inc.	13,725	1.93%
San Diego Unified School District	13,071	1.84%
City of San Diego	10,411	1.47%
Kaiser Permanente	8,172	1.15%
UC San Diego Medical Center	6,302	0.89%
San Diego Gas & Electric Co.	4,457	0.63%
Total	148,059	20.86%
All Other County Employers	561,741	79.14%
Total County Employment ⁽⁵⁾	709,800	100.00%

Source: California Employment Development Department, PublicPay.ca.gov, Company Websites

Notes:

- (1) Numbers are based on most recent data available from California Employment Development Department, company websites, or PublicPay.ca.gov
- (2) Approximate based on secondary sources, no primary sources available
- (3) California Employment Development Department in June
- (4) UC San Diego and UC San Diego Health numbers are combined starting in 2022
- (5) 2014 numbers pulled from City of San Diego FY 2014 CAFR (ACFR)

Table XVIII - Full-time Equivalent Employees by Activity

Last Ten Fiscal Years

	Full-time Equivalent Employees ⁽¹⁾									
	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Water Operations ⁽²⁾	37	36	35	37	34	36	34	31	36	38
Wastewater and Recycled Operations ⁽³⁾	8	8	8	8	7	7	6	6	6	8
Elfin Forest Recreation Operations	3	3	3	3	3	3	3	3	3	3
General and Administration										
General Manager	4	4	4	4	4	4	4	2	2	5
Engineering	10	8	9	8	8	8	8	11	9	7
Finance	8	8	7	8	8	8	8	8	8	13
Human Resources	4	4	4	4	4	4	4	4	4	4
Customer Service & Public Relations	16	16	14	16	15	16	14	14	14	-
Total	90	87	84	88	83	86	81	79	82	78

Source: Olivenhain Municipal Water District

Notes:

(1) Based on active full-time employees included in the District's payroll as of 6/30/2023, excludes temporary labor and interns.

(2) Includes treatment plant operations at the David C. McCollom Water Treatment Plant.

(3) Includes treatment plant operations at the 4S wastewater treatment plant and water reclamation facility.

Table XIX - Capital and Operating Indicators by Activity

Last Ten Fiscal Years

	Fiscal Year ended June 30									
	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Potable										
Service area (acres)	31,123.0	31,123.0	31,123.0	31,123.0	31,123.0	31,123.0	31,123.0	31,123.0	31,123.0	31,123.0
Miles of water main ⁽¹⁾	466.5	466.2	466.2	466.2	466.2	466.2	466.2	419.0	419.0	419.0
Number of treated reservoirs in service	12	12	12	12	12	12	12	12	12	13
Total treated reservoirs capacity (million gallons)	66.9	66.9	66.9	66.9	66.9	66.9	66.9	65.9	65.9	68.1
Number of service connections	28,888	28,871	28,848	28,803	28,664	28,585	28,563	28,477	28,343	28,251
Number of meters in service	28,731	28,713	28,696	28,657	28,504	28,431	28,393	28,295	28,161	28,082
Potable water peak demand (million gallons) ⁽²⁾	24.0	27.0	25.8	25.5	26.7	25.4	29.8	23.9	29.9	32.7
Average treated water demand (MGD) ⁽²⁾	14.2	17.4	17.4	15.3	15.0	17.3	18.9	14.4	17.5	19.7
David McCollom treatment plant maximum capacity (MGD)	34.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0
Average treatment plant production (MGD) ⁽²⁾	14.3	17.6	20.8	18.1	17.7	21.4	18.7	13.9	17.1	22.3
Sewer										
Service area (acres)	5,549.5	5,508.0	5,508.0	5,508.0	5,508.0	5,508.0	5,508.0	5,338.0	5,338.0	5,338.0
Maximum system capacity (MGD)	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Number of in-service equivalent dwelling units ⁽³⁾	7,334	7,250	7,247	7,244	7,239	7,236	7,063	7,043	6,939	6,883
Recycled										
Service area (acres)	10,638.0	10,638.0	10,638.0	10,638.0	10,638.0	10,638.0	10,637.8	10,567.0	10,567.0	10,567.0
Miles of recycled water main ⁽⁶⁾	67.3	67.1	67.1	67.1	67.1	67.0	54.5	48.0	48.0	48.0
Total recycled storage capacity (million gallons) ⁽⁴⁾	136.0	136.0	136.0	136.0	136.0	136.0	135.6	135.6	4.0	4.0
4S WRF maximum capacity (MGD)	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Average treatment daily plant flow (MGD)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Number of meters in service	320	314	314	308	295	293	288	278	273	260
General Information										
Average years of service of employees ⁽⁵⁾	9.1	8.5	9.1	8.6	10.0	9.3	9.1	9.5	10.1	10.2

Source: Olivenhain Municipal Water District

Notes:

(1) Total miles for FY 2017 and beyond include hydrant laterals in Geographic Information System (GIS).

(2) FY 2017 and beyond include selling of treatment capacity to Vallecitos Water District.

(3) An equivalent dwelling unit means the standard measurement of water discharged into the sewer collection and treatment system equal to the average discharge from a detached single-family unit.

(4) Recycled storage for FY 2016 and beyond includes Wet Weather Storage Pond storage capacity.

(5) Based on the number of full-time equivalent employees as of June 30th.

(6) Total miles for FY 2017 and beyond include laterals in Geographic Information System (GIS).

**Olivenhain
Municipal Water District**

Encinitas, California

**Single Audit
and Independent Auditors' Reports**

For the Year Ended June 30, 2023

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Olivenhain Municipal Water District
Single Audit Report
For the Year Ended June 30, 2023
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Independent Auditors' Report

To the Board of Directors
of the Olivenhain Municipal Water District
Encinitas, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Olivenhain Municipal Water District (the "District"), as of June 30, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated _____, 2023.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

To the Board of Directors
of the Olivenhain Municipal Water District
San Diego, California
Page 2

Purpose of this report

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

San Diego, California
_____, 2023

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**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM,
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE,
AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Independent Auditors' Report

To the Board of Directors
of the Olivenhain Municipal Water District
San Diego, California

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the Olivenhain Municipal Water District's (the "District") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2023. The District's major federal programs are identified in the summary of the auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance 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 audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the District's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the District's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the District's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the District as of June 30, 2023 and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated _____, 2023, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming our opinion on the District's financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

San Diego, California
_____, 2023

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**Olivenhain Municipal Water District
Single Audit Report
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2023**

Federal Grantor/Pass-Through Grantor Program Title	Federal Assistance Listing Number	Agency or Pass-Through Number	Federal Expenditures	Amount Provided to Subrecipients
<u>U.S. Department of the Interior</u>				
<i>Direct Programs:</i>				
Title XVI Water Reclamation and Reuse	15.504	R22AP00518	\$ 1,744,994	\$ 1,020,928
WaterSMART	15.507	R21AP10434	285,391	-
Total U.S. Department of the Interior			\$ 2,030,385	\$ 1,020,928
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 2,030,385	\$ 1,020,928

Olivenhain Municipal Water District
Single Audit Report
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2023

Note 1 – Reporting Entity

The Olivenhain Municipal Water District (the “District”) is a governmental corporation governed by an elected five-member board of directors. The District was incorporated in 1959 under the provisions of the California Municipal Water District Act of 1911.

The District is operated as an enterprise fund. The finances of the District are kept on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. As an enterprise fund, the District maintains a self-balancing set of accounts established to record the financial position and results that pertain to each activity. The activities of enterprise funds are similar to regular businesses whereby a governmental agency collects sufficient revenues through rates and user charges to pay for on-going operating expenses and maintaining infrastructure in order to sustain operations.

The District’s service area is approximately 48.6 square miles. This service area lies within the northern region of San Diego County and includes portions of incorporated areas such as Encinitas, Carlsbad, San Diego, Solana Beach, San Marcos and large portions of unincorporated areas such as 4S Ranch, Rancho Cielo, Rancho Santa Fe, Elfin Forest, and Santa Fe Valley.

According to recent EDU (Equivalent Dwelling Units) projections, the District has about 1,180 EDUs remaining until it is completely built-out at an estimated 32,929 EDUs. For the fiscal year ended June 30, 2023, 70.7% of water delivered was for domestic use, 28.2% for commercial and irrigation use (including construction and recycled water), and 1.1% for agricultural use. The District relies on the San Diego County Water Authority (SDCWA) as a sole source of untreated water, which is treated at the District’s David C. McCollom Water Treatment Plant.

The District provides sewer collection and treatment services to a portion of the District’s service area and sells recycled water to golf courses and other customers for irrigation. The District’s 4S Ranch Water Reclamation Facility (“WRF”) collects and treats sewage from two specific areas of the District, Rancho Cielo and 4S Ranch. The 4S WRF currently produces approximately 1 million gallons per day (“mgd”) of recycled water to help meet demand in the southeast quadrant of the District’s service area. The District also purchases recycled water from Santa Fe Valley Community Services District, City of San Diego, Vallecitos Water District, and the San Elijo Joint Powers Authority to help meet recycled water demand throughout its service area.

During the fiscal year ended June 30, 2023, the District billed 14,841 acre-feet (“AF”) of potable water through 28,731 active potable water meters and 2,270 AF of recycled water through 320 active recycled meters. The District provided wastewater collection services to 7,334 sewer equivalent dwelling units (“EDU”)s in 4S Ranch, Rancho Cielo, Santa Luz, and Black Mountain Ranch.

Note 2 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the federal award activity of the District under programs of the federal government for the year ended June 30, 2023. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (“Uniform Guidance”). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial statements of the District.

Olivenhain Municipal Water District
Single Audit Report
Notes to the Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2023

Note 3 – Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the full accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 4 – Indirect Cost Rate

The District has not elected to use the 10-percent de minimis indirect rate as allowed under the Uniform Guidance.

Note 5 – Subrecipients

The District passed \$1,020,928 through to sub-recipient members of the North San Diego Water Reuse Coalition (“Coalition”) during the fiscal year ended June 30, 2023. The Coalition is a group of nine water and wastewater agencies in San Diego County working together to maximize recycled water use and reduce demand for imported water. The Title XVI Water Reclamation and Reuse grant was awarded to the coalition to fund its Regional Recycled Water Program, which is a joint effort between Coalition members to expand recycled water infrastructure to increase and maximize water reuse in the region. Upon completion of all long-term project elements, the Coalition anticipates increasing water reuse by 11 billion gallons per year.

Note 6 – Contingencies

Under the terms of federal and state grants, additional audits may be requested by the grantor agencies and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to a request for reimbursement to the grantor agencies.

Olivenhain Municipal Water District
Single Audit Report
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2023

Section I – Summary of Auditors’ Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? None Reported

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? None Reported

Type of auditors’ report issued on compliance for major programs Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? No

Identification of major programs:

		Federal Assistance
Name of Federal Program or Cluster	Listing Number	Expenditures
Title XVI Water Reclamation and Reuse	15.504	\$ 1,744,994
Total Expenditures of All Major Federal Programs		\$ 1,744,994
Total Expenditures of Federal Awards		\$ 2,030,385
Percentage of Total Expenditures of Federal Awards		85.94%

Dollar threshold used to distinguish between type A and type B programs \$750,000

Auditee qualified as low-risk auditee in accordance with 2 CFR 200.520? No

Olivenhain Municipal Water District
Single Audit Report
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2023

Section II – Financial Statement Findings

A. Current Year Financial Statement Findings

No financial statement findings were noted for the year ended June 30, 2023.

B. Prior Year Financial Statement Findings

No financial statement findings were noted for the year ended June 30, 2022.

Section III – Federal Awards Findings and Questioned Costs

A. Current Year Findings and Questioned Costs – Major Federal Award Program Audit

No federal award findings were noted for the year ended June 30, 2023.

B. Prior Year Findings and Questioned Costs – Major Federal Award Program Audit

Not applicable. The District was not subject to Single Audit requirements for the year ended June 30, 2022.

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Memo

Date: November 2, 2023
To: Finance Committee
From: Rainy Selamat, Finance Manager
Via: Kimberly Thorner, General Manager
Subject: **REVIEW STAFF'S REPORT ON DISTRICT PENSION PLANS FUNDING STATUS
WITH CALPERS AND DISCUSS STAFF'S RECOMMENDED PENSION FUNDING
PLANS FOR 2023**

A copy of staff's presentation is attached for discussion and consideration by the Committee.

Staff will make a presentation to the Committee and be available for discussion at the meeting.

Attachment: Presentation

ANNUAL REVIEW OF PENSION FUNDING STATUS

2023



Purpose

- Review and report the District's pension funding status to the Board after OMWD financial audit is completed with the most current CalPERS actuarial report
 - CalPERS' Actuarial Valuation as of June 30, 2022
- Achieve the minimum target funded ratio of 85% set by the Board in District Pension Funding Policy

Timing of CalPERS Reports vs. Contributions to CalPERS

- Every August, CalPERS releases a new actuarial report, based on values as of June 30th of the previous fiscal year.
- The required contributions are due to be paid two years after the new released report
- For example:
 - The required early UAL payment for fiscal year 2024-25 contributions, based on actuarial report as of June 30, 2022 (released in August 2023), is due to CalPERS before July 2024 for a 6.8% interest saving
- The minimum required employer contributions for FY 2024-25:
 - Classic: Normal Cost 13.41%, Amortization of UAL \$1,313,228
 - PEPRA: Normal Cost 7.87%, Amortization of UAL \$12,074

Component - Pension Contributions

- Normal Cost
 - As a percentage of total active payroll. The calculations are based on CalPERS actuarial assumptions on demographic (mortality, retirement, termination, disability) and economic (future investment earnings, inflation, and salary growth rates)
 - Employees pay 8% of Normal Cost (Fixed Max %)
 - Employer pays the remaining (~ 13%)
- Amortization of Unfunded Accrued Liability (UAL)
 - A **minimum** dollar amount billed by CalPERS each year based on a 20 year or less amortization schedule
 - The District prepays this amount in July of each year

Pension Contributions - Classic

Employer Contribution History

The table below provides a recent history of the required and discretionary employer contributions for the plan. The required amounts are based on the actuarial valuation from two years prior without subsequent adjustments, if any. Additional discretionary payments before July 1, 2019 or after April 28, 2023 are not included.

Fiscal Year	Employer Normal Cost	Unfunded Liability Payment (\$)	Additional Discretionary Payments
2016 - 17	9.498%	\$470,139	N/A
2017 - 18	9.539%	564,474	N/A
2018 - 19	10.022%	703,663	N/A
2019 - 20	10.823%	853,612	300,000
2020 - 21	11.742%	971,414	485,000
2021 - 22	11.59%	1,139,402	0
2022 - 23	11.59%	1,291,742	311,000
2023 - 24	13.34%	1,184,077	
2024 - 25	13.41%	1,313,228	

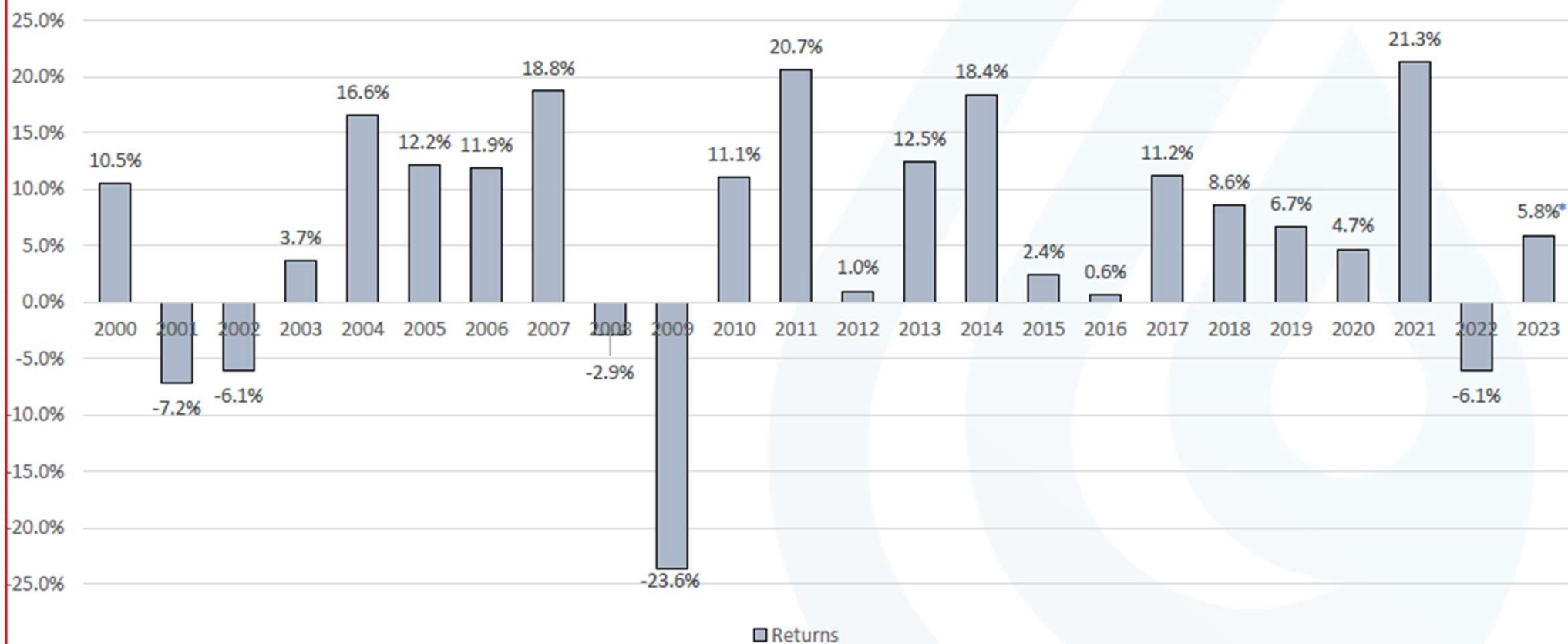
Pension Contributions - PEPRA

Employer Contribution History

The table below provides a recent history of the required and discretionary employer contributions for the plan. The required amounts are based on the actuarial valuation from two years prior without subsequent adjustments, if any. Additional discretionary payments before July 1, 2019 or after April 28, 2023 are not included.

Fiscal Year	Employer Normal Cost	Unfunded Liability Payment (\$)	Additional Discretionary Payments
2016 - 17	6.555%	\$59	N/A
2017 - 18	6.533%	184	N/A
2018 - 19	6.842%	645	N/A
2019 - 20	6.985%	1,476	0
2020 - 21	7.732%	3,134	0
2021 - 22	7.59%	5,024	0
2022 - 23	7.47%	8,208	0
2023 - 24	7.68%	0	
2024 - 25	7.87%	12,074	

CalPERS Returns Have Been Volatile



* Preliminary

Funded Ratio @ 06/30/22- Classic

Funded Status – Funding Policy Basis

The table below provides information on the current funded status of the plan under the funding policy. The funded status for this purpose is based on the market value of assets relative to the funding target produced by the entry age actuarial cost method and actuarial assumptions adopted by the board. The actuarial cost method allocates the total expected cost of a member's projected benefit (**Present Value of Benefits**) to individual years of service (the **Normal Cost**). The value of the projected benefit that is not allocated to future service is referred to as the **Accrued Liability** and is the plan's funding target on the valuation date. The **Unfunded Accrued Liability** (UAL) equals the funding target minus the assets. The UAL is an absolute measure of funded status and can be viewed as employer debt. The **funded ratio** equals the assets divided by the funding target. The funded ratio is a relative measure of the funded status and allows for comparisons between plans of different sizes.

	June 30, 2021	June 30, 2022
1. Present Value of Benefits	\$68,959,317	\$73,094,281
2. Entry Age Accrued Liability	62,213,836	65,815,113
3. Market Value of Assets (MVA)	51,909,629	47,515,404
4. Unfunded Accrued Liability (UAL) [(2) – (3)]	\$10,304,207	\$18,299,709
5. Funded Ratio [(3) / (2)]	83.4%	72.2%

History of Funded Ratios- Classic

Funding History

The table below shows the recent history of the actuarial accrued liability, share of the pool's market value of assets, unfunded accrued liability, funded ratio, and annual covered payroll.

Valuation Date	Accrued Liability (AL)	Share of Pool's Market Value of Assets (MVA)	Unfunded Accrued Liability (UAL)	Funded Ratio	Annual Covered Payroll
06/30/2013	\$34,526,611	\$26,306,710	\$8,219,901	76.2%	\$5,638,988
06/30/2014	39,388,054	31,865,061	7,522,993	80.9%	5,691,711
06/30/2015	41,569,707	32,254,101	9,315,606	77.6%	5,664,840
06/30/2016	44,640,192	32,334,569	12,305,623	72.4%	5,076,491
06/30/2017	48,015,640	35,772,067	12,243,573	74.5%	5,018,358
06/30/2018	52,009,563	37,853,859	14,155,704	72.8%	5,230,406
06/30/2019	55,279,567	40,368,634	14,910,933	73.0%	4,968,187
06/30/2020	57,897,331	41,912,549	15,984,782	72.4%	4,631,209
06/30/2021	62,213,836	51,909,629	10,304,207	83.4%	4,281,996
06/30/2022	65,815,113	47,515,404	18,299,709	72.2%	4,527,310

Funded Ratio @ June 30, 2022 – PEPRA

Funded Status – Funding Policy Basis

The table below provides information on the current funded status of the plan under the funding policy. The funded status for this purpose is based on the market value of assets relative to the funding target produced by the entry age actuarial cost method and actuarial assumptions adopted by the board. The actuarial cost method allocates the total expected cost of a member's projected benefit (**Present Value of Benefits**) to individual years of service (the **Normal Cost**). The value of the projected benefit that is not allocated to future service is referred to as the **Accrued Liability** and is the plan's funding target on the valuation date. The **Unfunded Accrued Liability** (UAL) equals the funding target minus the assets. The UAL is an absolute measure of funded status and can be viewed as employer debt. The **funded ratio** equals the assets divided by the funding target. The funded ratio is a relative measure of the funded status and allows for comparisons between plans of different sizes.

	June 30, 2021	June 30, 2022
1. Present Value of Benefits	\$6,991,579	\$8,391,751
2. Entry Age Accrued Liability	2,007,986	2,646,659
3. Market Value of Assets (MVA)	2,100,772	2,307,595
4. Unfunded Accrued Liability (UAL) [(2) – (3)]	(\$92,786)	\$339,064
5. Funded Ratio [(3) / (2)]	104.6%	87.2%

History of Funded Ratios - PEPRA

Funding History

The table below shows the recent history of the actuarial accrued liability, share of the pool's market value of assets, unfunded accrued liability, funded ratio, and annual covered payroll.

Valuation Date	Accrued Liability (AL)	Share of Pool's Market Value of Assets (MVA)	Unfunded Accrued Liability (UAL)	Funded Ratio	Annual Covered Payroll
06/30/2013	\$531	\$712	(\$181)	134.1%	\$95,638
06/30/2014	21,558	22,729	(1,171)	105.4%	405,168
06/30/2015	63,572	59,725	3,847	93.9%	584,640
06/30/2016	141,928	125,546	16,382	88.5%	855,960
06/30/2017	297,783	281,440	16,343	94.5%	1,299,590
06/30/2018	569,708	522,394	47,314	91.7%	1,493,388
06/30/2019	834,380	755,563	78,817	90.6%	1,778,011
06/30/2020	1,310,963	1,184,160	126,803	90.3%	2,649,947
06/30/2021	2,007,986	2,100,772	(92,786)	104.6%	2,820,701
06/30/2022	2,646,659	2,307,595	339,064	87.2%	3,201,839

OMWD Pension Funding Policy

- Policy Goal: to achieve a minimum target funded ratio of 85%
- Make regular annual Additional Discretionary Payment (ADP) of \$311,000 to CalPERS before December 31st
 - To reduce UAL and long-term savings
- Make supplemental payments from the District's Operating Reserves to the District's Pension Stabilization Fund
 - Use to pay ADP, if needed
 - The Board has full discretion

Staff's Recommendations

- Continue making Additional Discretionary Payment (ADP) of \$311,000 in 2023 per the Policy from the District's Pension Stabilization Fund
- Proposed Pension Funding for 2023:
 - A \$ 500,000 transfer from Water (Potable and Recycled) Operating Fund to Pension Stabilization Fund – Water
 - \$311,000 of this amount will be used to make \$311,000 ADP in 2022
 - Additional \$500,000 in ADP has been planned and included in the District's LRFP in each fiscal year since Fiscal year 2020-21.
 - A \$50,000 transfer from Sewer Operating Fund to Pension Stabilization Fund - Sewer

Questions

Memo

Date: November 2, 2023
To: Finance Committee
From: Rainy Selamat, Finance Manager
Via: Kimberly Thorner, General Manager
Subject: QUARTERLY REVIEW OF INVESTMENTS AND CASH REPORT (3rd QTR 2023)

Purpose

The purpose of this agenda is to provide a report on the District's investment activities and cash information to the Finance Committee to comply with the annual investment policy approved by the Board.

Recommendation

It is recommended that the Committee review and receive the attached report as presented. The report provides documentation that the District has sufficient funds to meet its financial obligations for the next six months.

Background

The purpose of the District's Investment Policy is to identify policies and procedures that shall govern the investment of all District funds. The ultimate goal of the policy is to enhance the economic position of the District while protecting its funds. These policies have been followed in making all investment decisions on behalf of the District.

The Annual Investment Policy also states that at least once each quarter, the District's Finance Manager shall provide an oral report on the District's investments for review and discussion.

Discussion

All investments have been made in accordance with the District's Annual Statement of Investment Policy, which was last adopted by the Board on December 14, 2022. A copy of District historic water and wastewater reserve fund balances is also provided and attached for review.

Staff will be available for discussion with the Committee during the meeting.

Attachments:

Attachment 1 - DRAFT Monthly Cash and Investment Summary Report as of September 30, 2023

Attachment 2 - Graphs showing 5-year history of reserve balances by fund (requested by the committee at the August 2023 meeting)

Attachment 1

Olivenhain Municipal Water District MONTHLY CASH AND INVESTMENT SUMMARY As of September 30, 2023

Active Deposits

	<u>Book Value</u>
Checking Accounts	\$ 4,742,152
Cash Restricted for Specific Use	3,212,696
Petty Cash/Disaster Preparedness	1,496
Total Active Deposits	<u>\$ 7,956,343</u>

Deposits Not Covered by Investment Policy

Cash with Fiscal Agents	1,247,882
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<u>Investments</u>	<u>Face Value</u>	<u>Market Value</u>	<u>Current Yield</u>	
LAIF	\$ 3,481,789	3,428,965	3.53%	\$ 3,481,789
CAMP - US Bank	23,767,369	23,767,369	5.55%	23,767,369
Money Market Funds	4,027,220	4,027,220	4.78%	4,027,220
Medium Term Notes	500,000	500,000	2.30%	497,940
Municipal Bonds	1,000,000	995,600	5.02%	1,216,760
U.S. Treasury Securities	15,300,000	15,044,518	4.89%	15,115,460
U.S. Agency Securities	34,275,000	31,849,558	1.22%	34,229,913
Total Investments	<u>\$ 82,351,378</u>	<u>\$ 79,613,230</u>	<u>3.54%</u>	<u>\$ 82,336,451</u>

Total - All Deposits/Investments

\$ 91,540,676

Maturity Analysis of Investments

	<u>Percent</u>	<u>Balance</u>
Demand Deposits	38.0%	\$ 31,276,378
Maturity within the next two months	10.4%	8,543,707
Maturity within three months and one year	16.2%	13,305,444
Maturity beyond one year	35.5%	29,210,922
Total Investments	<u>100.0%</u>	<u>\$ 82,336,451</u>

Weighted Average Days to Maturity

316

Other Required Disclosures:

Accrued interest receivable as of 09/30/2023 \$ 252,697

The above investments are in accordance with the portfolio limitations in the Investment Policy approved by the Board in December 2022.

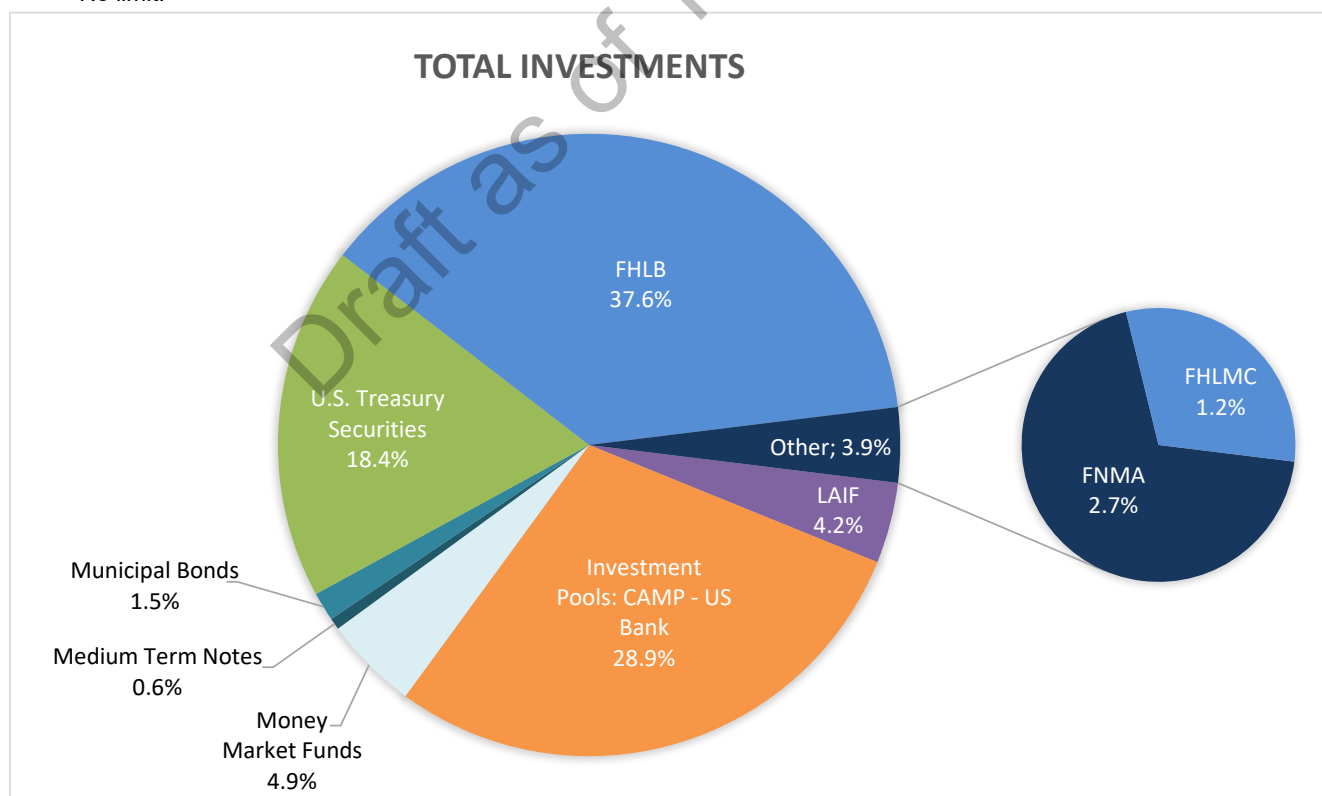
The District has sufficient funds on hand to meet the next 60 days' obligations.

Olivenhain Municipal Water District
PORTFOLIO LIMITATIONS ANALYSIS PER INVESTMENT POLICY
September 30, 2023

	<u>Book Value</u>	<u>Percent</u>	<u>Permitted Percent</u>	<u>In Compliance?</u>
LAIF	\$ 3,481,789	4.2%	50.0% ⁽¹⁾	Yes
Investment Pools: CAMP - US Bank	23,767,369	28.9%	30.0%	Yes
Money Market Funds	4,027,220	4.9%	20.0% ⁽²⁾	Yes
Medium Term Notes	497,940	0.6%	30.0% ⁽³⁾	Yes
Municipal Bonds	1,216,760	1.5%	30.0%	Yes
U.S. Treasury Securities	15,115,460	18.4%	100.0% ⁽⁴⁾	Yes
U.S. Agency Securities	34,229,913	41.5%	50.0%	Yes
<i>FHLB</i> <i>Federal Home Loan Bank</i>	30,979,913	37.6%		
<i>FNMA</i> <i>Fannie Mae</i>	2,250,000	2.7%		
<i>FHLMC</i> <i>Freddie Mac</i>	1,000,000	1.2%		
Total Investments	\$ 82,336,451	100%		

Note:

- (1) No more than 50% of the total value of all District Investments or \$40 million.
- (2) May not exceed 5% in any money market fund.
- (3) May not exceed 5% per issuer.
- (4) No limit.



* Total may not add up to 100% due to rounding.

Olivenhain Municipal Water District
MONTHLY INVESTMENTS DETAIL
September 30, 2023

ACTIVE DEPOSIT

	Book Value
Checking A/C: California Bank and Trust for General Purpose	4,742,152
California Bank and Trust for Specific Purpose	135,799
CAMP 2021A Bond	3,076,897
Petty Cash/Disaster Preparedness	1,496
Total - Active Deposits	7,956,343

DEPOSITS NOT COVERED BY INVESTMENT POLICY

Cash with Fiscal Agents:

Union Bank - RAD 96-1 Refunding Bond	262,843
Union Bank - 2015A Refunding Bond	9,179
SRF Loan	971,101
Union Bank - 2016A Refunding Bond	3,802
Union Bank - 2021A WW Revenue Bond	759
Union Bank - 2021B Refunding Bond	197

Total Deposits Not Covered by Investment Policy

1,247,882

RATING	DATE					Weighted Average Days to Maturity	Call	Stated Coupon	Current Yield	Market Value	Face Value	Book Value
	Moody's	S&P	Purchase	Maturity	Next Call	Next S-U						

INVESTMENTS

Invest. Pools:	US Bank Calif. Asset Mgmt Prgm (CAMP)	Demand	1	5.55%	\$ 23,767,369	\$ 23,767,369	\$ 23,767,369
	State Local Agency Investment Fund (LAIF)	Demand	1	3.53%	3,428,965	3,481,789	3,481,789
	First American Government 31846V567	Demand	1	5.23%	86,346	86,346	86,346
	CB&T Money Market Account	Demand	1	4.77%	3,940,874	3,940,874	3,940,874

U.S. Treasury Notes/Bills

912797FA0	U.S. Treasury Bills	Aaa	-	07/14/23	10/12/23	13		5.34%	5.35%	1,497,795	1,500,000	1,480,568
912797FC6	U.S. Treasury Bills	Aaa	-	07/27/23	10/26/23	27		5.39%	5.41%	996,480	1,000,000	986,786
912797FJ1	U.S. Treasury Bills	Aaa	-	07/12/23	11/09/23	41		5.36%	5.39%	994,410	1,000,000	982,743
912797FK8	U.S. Treasury Bills	Aaa	-	08/17/23	11/16/23	48		5.38%	5.41%	993,380	1,000,000	986,804
912797FL6	U.S. Treasury Bills	Aaa	-	08/25/23	11/24/23	56		5.40%	5.44%	1,091,398	1,100,000	1,085,428
912796ZD4	U.S. Treasury Bills	Aaa	-	08/31/23	11/30/23	62		5.40%	5.45%	1,982,540	2,000,000	1,973,438
912797FU6	U.S. Treasury Bills	Aaa	-	09/14/23	12/14/23	76		5.40%	5.46%	989,250	1,000,000	986,748
912797FV4	U.S. Treasury Bills	Aaa	-	09/21/23	12/21/23	83		5.39%	5.46%	1,976,380	2,000,000	1,973,535
912797FW2	U.S. Treasury Bills	Aaa	-	09/26/23	01/04/24	97		5.39%	5.47%	690,305	700,000	689,838
912797GC5	U.S. Treasury Bills	Aaa	-	07/14/23	01/11/24	104		5.35%	5.43%	1,970,240	2,000,000	1,948,409
91282CBQ3	U.S. Treasury Notes	Aaa	-	03/09/21	09/30/24	367		0.50%	0.56%	900,310	1,000,000	984,478
91282YH7	U.S. Treasury Notes	Aaa	-	03/09/21	02/28/26	883		1.50%	1.56%	962,030	1,000,000	1,036,684

61

4.81%

4.89%

\$ 15,044,518

\$ 15,300,000

\$ 15,115,460

U.S. Agency Securities

3130AS3J6	FHLB Callable	Aaa	AA+	05/24/22	11/24/23	11/24/23	56	56	2.50%	2.51%	547,498	550,000	550,000	
313384QR3	FHLB Discount Note	Aaa	AA+	01/19/23	12/18/23		80		4.77%	4.82%	989,060	1,000,000	957,913	
3135GAEU1	FNMA Callable	Aaa	AA+	02/13/23	02/09/24	11/09/23	133	41	5.13%	5.14%	998,000	1,000,000	1,000,000	
3130ARYU9	FHLB Callable	Aaa	AA+	05/23/22	02/23/24	11/23/23	147	55	3.00%	3.03%	990,000	1,000,000	1,000,000	
3136G4P56	FNMA Callable	Aaa	AA+	08/26/20	02/26/24	11/26/23	150	58	0.40%	0.41%	1,224,325	1,250,000	1,250,000	
3130AL6Q2	FHLB Callable	Aaa	AA+	02/26/21	02/26/24	Anytime	150	1	0.22%	0.22%	978,750	1,000,000	1,000,000	
3130AMMV1	FHLB Callable	Aaa	AA+	06/03/21	06/03/24	12/03/23	248	65	0.40%	0.41%	482,845	500,000	500,000	
3130ALHM9	FHLB Callable	Aaa	AA+	03/10/21	06/10/24	12/10/23	255	72	0.30%	0.31%	964,080	1,000,000	999,000	
3130ANTP5	FHLB Callable	Aaa	AA+	09/16/21	09/16/24	12/16/23	353	78	0.50%	0.52%	952,560	1,000,000	1,000,000	
3130ANSP6	FHLB Callable	Aaa	AA+	09/17/21	10/17/24	03/17/24	384	170	0.50%	0.53%	948,760	1,000,000	1,000,000	
3130AKEW2	FHLB Callable	Aaa	AA+	11/04/20	11/04/24	Anytime	402	1	0.43%	0.45%	1,891,540	2,000,000	2,000,000	
3130ANGN4	FHLB Step-up Callable	Aaa	AA+	08/18/21	02/18/25	11/18/23	02/18/24	508	50	0.75%	0.80%	941,210	1,000,000	1,000,000
3130AMKE1	FHLB Callable	Aaa	AA+	05/27/21	02/27/25	11/27/23	517	59	0.66%	0.71%	934,400	1,000,000	1,000,000	
3134GWAQ9	FHLMC Callable	Aaa	AA+	07/28/20	07/28/25	07/28/24	668	303	0.65%	0.71%	919,320	1,000,000	1,000,000	
3130AKGX8	FHLB Step-up Callable	Aaa	AA+	12/15/20	12/15/25	12/15/23	808	77	0.55%	0.60%	1,840,600	2,000,000	2,000,000	
3130AKMD5	FHLB Callable	Aaa	AA+	01/26/21	01/26/26	10/26/23	850	27	0.50%	0.56%	897,120	1,000,000	999,500	
3130AKU53	FHLB Callable	Aaa	AA+	01/28/21	01/28/26	10/28/23	852	29	0.52%	0.58%	897,340	1,000,000	1,000,000	
3130AKN69	FHLB Callable	Aaa	AA+	01/28/21	01/28/26	01/28/24	852	121	0.50%	0.56%	896,910	1,000,000	1,000,000	
3130AKVN3	FHLB Callable	Aaa	AA+	01/29/21	01/29/26	10/29/23	853	30	0.52%	0.58%	897,240	1,000,000	1,000,000	
3130AKWK8	FHLB Callable	Aaa	AA+	02/12/21	02/12/26	11/12/23	867	44	0.51%	0.57%	895,590	1,000,000	1,000,000	
3130AKX43	FHLB Step-up Callable	Aaa	AA+	02/24/21	02/24/26	11/24/23	None	879	56	0.70%	0.78%	1,797,340	2,000,000	2,000,000
3130AL7M0	FHLB Callable	Aaa	AA+	02/24/21	02/24/26	11/24/23	879	56	0.63%	0.70%	896,900	1,000,000	1,000,000	
3130AKYR1	FHLB Callable	Aaa	AA+	02/25/21	02/25/26	02/25/24	880	149	0.55%	0.61%	895,130	1,000,000	1,000,000	
3130AL6K5	FHLB Callable	Aaa	AA+	02/25/21	02/25/26	02/25/24	880	149	0.58%	0.65%	895,800	1,000,000	1,000,000	
3130ALD76	FHLB Callable	Aaa	AA+	02/25/21	02/25/26	11/25/23	880	57	0.70%	0.78%	898,470	1,000,000	1,000,000	
3130ALCW2	FHLB Callable	Aaa	AA+	02/25/21	02/25/26	02/25/24	880	149	0.63%	0.70%	896,800	1,000,000	998,500	
3130ALGJ7	FHLB Callable	Aaa	AA+	03/23/21	03/23/26	10/23/23	906	24	1.00%	1.11%	880,211	975,000	975,000	
3130ALPQ1	FHLB Step-up Callable	Aaa	AA+	03/30/21	03/30/26	09/30/23	03/30/24	913	1	1.00%	1.09%	915,640	1,000,000	1,000,000
3130ALVC5	FHLB Step-up Callable	Aaa	AA+	04/14/21	04/14/26	10/14/23	04/14/24	928	15	1.00%	1.10%	913,220	1,000,000	1,000,000
3130APAY1	FHLB Callable	Aaa	AA+	10/21/21	10/21/26	10/21/23		1,118	22	1.10%	1.24%	887,810	1,000,000	1,000,000
3130APL78	FHLB Callable	Aaa	AA+	10/28/21	10/28/26	10/28/23		1,125	29	1.38%	1.54%	894,870	1,000,000	1,000,000
3130AVCS9	FHLB Callable	Aaa	AA+	03/29/23	03/29/28	12/29/23		1,643	91	6.00%	6.06%	990,220	1,000,000	1,000,000

672

67

1.14%

\$ 31,849,558

\$ 34,275,000

\$ 34,229,913

Medium Term Notes

740816AJ2	Pres & Fellows of Harvard	Aaa	AAA	05/06/22	10/01/23	2		2.30%	2.30%	500,000	500,000	497,940
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0

-

2.30%

\$ 500,000

\$ 500,000

\$ 497,940

Municipal Bonds

882724RA7	TEXAS ST PUB FIN AUTH	Aaa	AAA	10/30/20	10/01/25	733		5.00%	5.02%	995,600	1,000,000	1,216,760
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26

5.00%

5.02%

\$ 995,600

\$ 1,000,000

\$ 1,216,760

Total Investments

316

3.43%

3.54%

\$ 79,613,230

\$ 82,351,378

\$ 82,336,451

TOTAL - ALL DEPOSITS AND INVESTMENTS

\$

91,540,676

**Olivenhain Municipal Water District
INVESTMENTS TRANSACTION
September 30, 2023**

PURCHASED

DATE				Investment Description	Stated	Current	Face Value	Book Value
Purchase	Maturity	Call	Step-Up		Coupon	Yield		
07/14/23	10/12/23			U.S. Treasury Bills	5.338%	5.395%	1,500,000	1,480,568
07/27/23	10/26/23			U.S. Treasury Bills	5.386%	5.455%	1,000,000	986,786
07/12/23	11/09/23			U.S. Treasury Bills	5.356%	5.436%	1,000,000	982,743
07/14/23	01/11/24			U.S. Treasury Bills	5.354%	5.485%	2,000,000	1,948,409
08/17/23	11/16/23			U.S. Treasury Bills	5.379%	5.440%	1,000,000	986,804
08/25/23	11/24/23			U.S. Treasury Bills	5.399%	5.467%	1,100,000	1,085,428
08/31/23	11/30/23			U.S. Treasury Bills	5.399%	5.472%	2,000,000	1,973,438
09/14/23	12/14/23			U.S. Treasury Bills	5.401%	5.460%	1,000,000	986,748
09/21/23	12/21/23			U.S. Treasury Bills	5.393%	5.457%	2,000,000	1,973,535
09/26/23	01/04/24			U.S. Treasury Bills	5.391%	5.467%	700,000	689,838

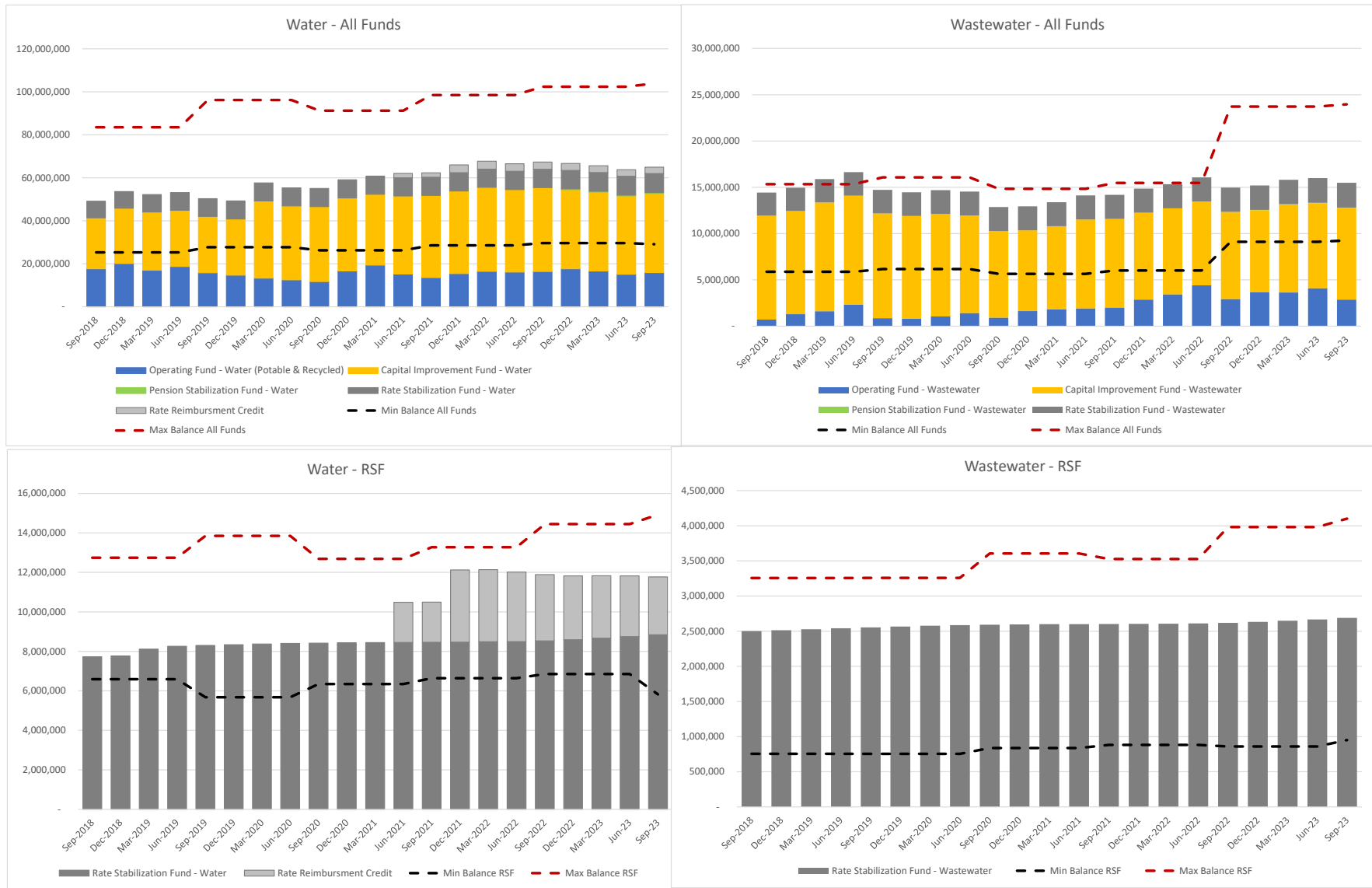
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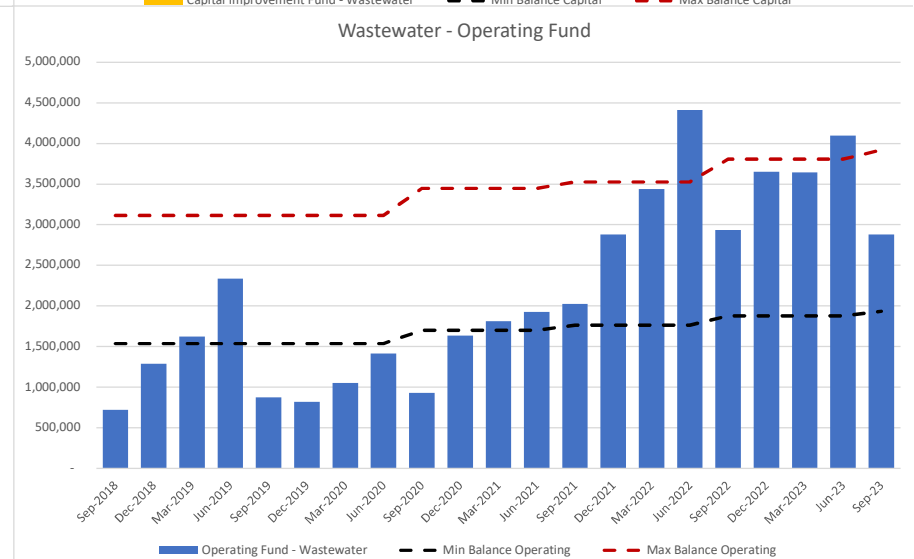
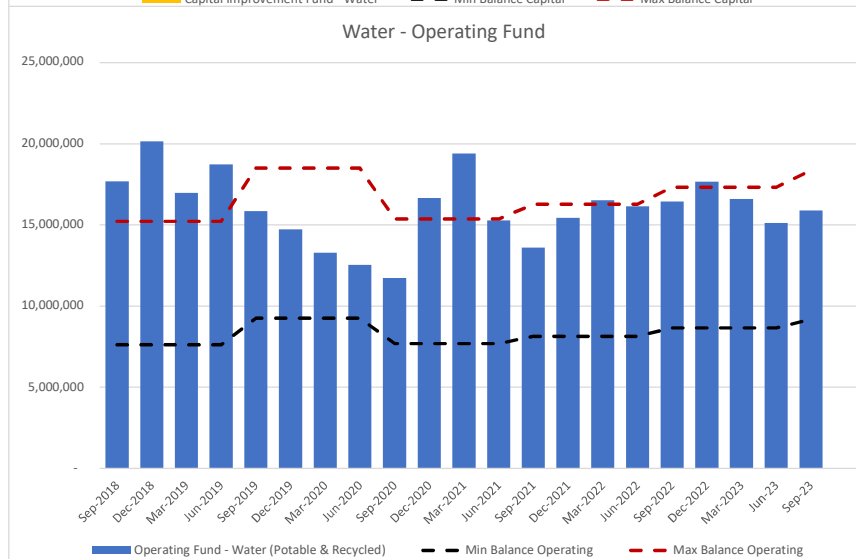
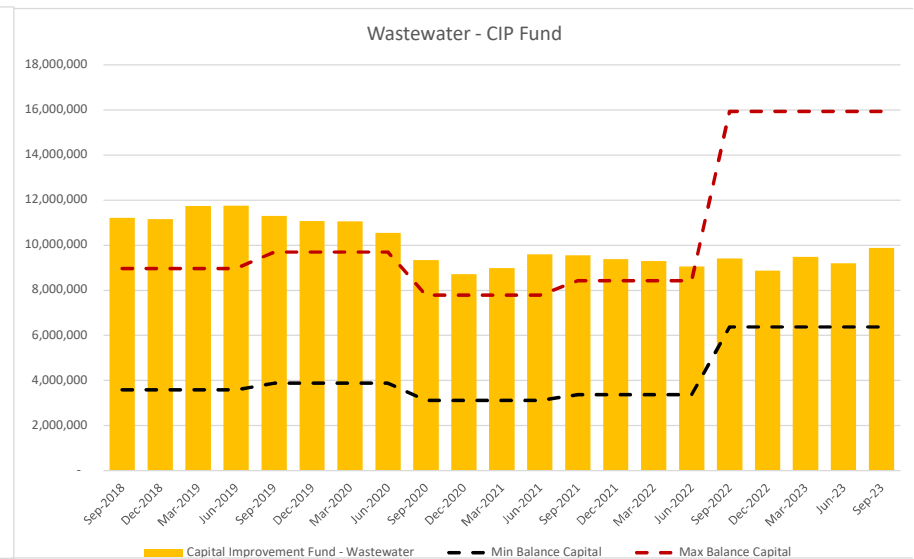
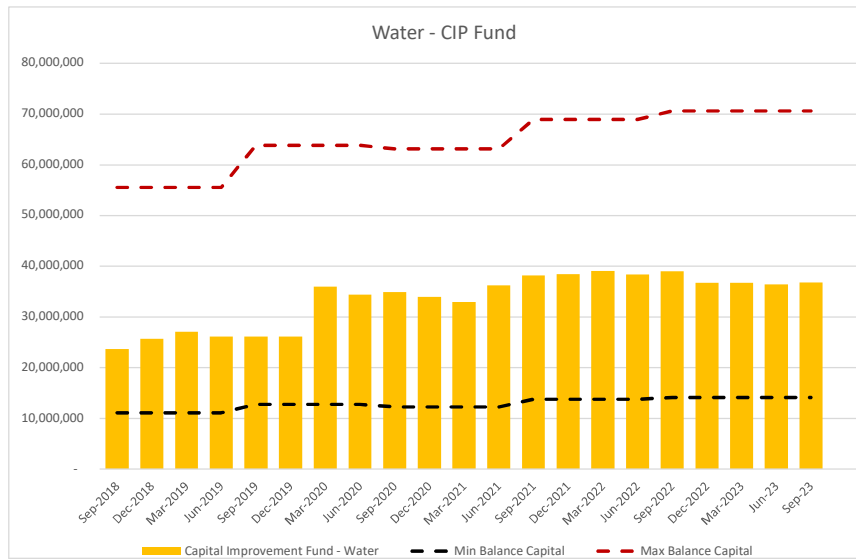
DATE				Investment Description	Stated	Current	Face Value	Book Value
Redemption	Maturity	Call	Step-Up		Coupon	Yield		
07/06/23	07/06/23			U.S. Treasury Bills	4.763%	4.765%	1,000,000	988,774
07/13/23	07/13/23			U.S. Treasury Bills	4.737%	4.744%	2,000,000	1,954,100
07/13/23	07/13/23			U.S. Treasury Bills	4.917%	4.924%	1,200,000	1,185,624
07/27/23	07/27/23			U.S. Treasury Bills	4.770%	4.786%	1,330,000	1,299,765
08/17/23	08/17/23			U.S. Treasury Bills	4.931%	4.943%	1,000,000	976,000
08/25/23	08/25/23			FHLB Callable	0.320%	0.321%	1,151,111	1,151,111
08/31/23	08/31/23			U.S. Treasury Bills	5.375%	5.399%	2,000,000	1,973,623
09/14/23	09/14/23			U.S. Treasury Bills	5.180%	5.190%	1,000,000	987,284
09/21/23	09/21/23			U.S. Treasury Bills	5.234%	5.249%	2,000,000	1,974,305

Olivenhain Municipal Water District
UNAUDITED CASH POSITION BY FUNDING SOURCES
As of September 30, 2023

<u>Water Funds (Potable & Recycled)</u>		<u>Balance</u>
10050-100	Cash - Petty Cash Fund	1,496
10010-100	Cash - Operating Fund	15,885,931
10030-100	Cash - Capital and Equipment Fund	36,825,849
10040-100	Cash - Rate Stabilization Fund	11,770,350
10080-100	Cash - Pension Stabilization Fund	444,766
10060-100	Cash - Deposit Work for Other	195,083
14000-500	Restricted Cash - Capacity Fee Fund	6,465,205
Total Water Funds (Potable & Recycled)		<u>71,588,680</u>
<u>Wastewater Funds</u>		
10010-110	Wastewater - Operating Fund	2,879,772
10030-110	Wastewater - Capital Replacement Fund	9,882,379
10040-110	Wastewater - Rate Stabilization Fund	2,688,370
10080-110	Cash - Pension Stabilization Fund	40,898
Total Wastewater Funds		<u>15,491,419</u>
<u>Non Fiscal Agent Debt Service Cash</u>		
14020-570	Cash non-agent - RAD 96-1	135,799
14020-521	Cash non-agent - Bond 2021A	3,076,897
Total Non Fiscal Agent Debt Service Cash		<u>3,212,696</u>
<u>Debt Service Funds</u>		
14030-510	SRF Loan - Fiscal Agent	971,101
14105-570	Redemption fund - RAD 96-1	214,194
14110-570	Reserve fund - RAD 96-1	48,649
14100-561	Redemption fund - Bond 2015A	9,179
14100-581	Redemption fund - Bond 2016A	3,802
14100-521	Redemption fund - Bond 2021A	759
14100-522	Redemption fund - Bond 2021B	197
Total Debt Service Funds		<u>1,247,882</u>
TOTAL FUND BALANCES		<u>91,540,676</u>

Attachment 2





Memo

Date: November 2, 2023
To: Olivenhain Municipal Water District Board of Directors
From: Rainy Selamat, Finance Manager
Via: Kimberly Thorner, General Manager
Subject: **ANNUAL REVIEW OF INVESTMENT AND BOARD DESIGNATED FUND
BALANCES (RESERVES) POLICIES AND PROPOSED CHANGES TO THE POLICY
FOR 2024**

The District's Investment Policy is reviewed annually to ensure compliance with California Government Code sections that govern the investment of public funds. The District's Operating Fund, Capital and Equipment Fund, and Rate Stabilization Fund balances are reviewed annually when the District's financial audit is completed.

Investment Policy

The District's Investment Policy has been reviewed by Richard Babbe, Senior Managing Consultant at PFM Assets Management. The proposed changes to the Policy to reflect the Code effective in 2023 are summarized as follows:

- Deleting the constant net asset value requirement in the policy to provide flexibility for other investment options in the future, such as California Asset Management Program (CAMP) Term. CAMP Term is an investment option for agencies with known cash flows to have an opportunity to optimize interest earnings. This fixed-rate, fixed-term investment option, rated "AAA" by Fitch, offers securities with maturities ranging from 60 days to one year. CAMP Term

investments pay par value at maturity. CAMP Term market value, however, can fluctuate before maturity.

- Delete duplicative language for authorized investment instruments in the Policy.
- Modify the specific rating requirements in the current Policy to reflect the current phrases used in the Code for rating requirements. For example, for medium-term notes, the Code references “in a rating category of “AA-” or its equivalent or better by a Nationally Recognized Statistical Rating Organization (NRSRO),” rather than “in a rating category of “AA-” or higher by Moody’s, S&P, or Fitch” as stated in the Policy.

Staff’s proposed changes to the Policy are shown in red in the attached draft along with a copy of Mr. Babbe’s review comments.

Additionally, the District’s Investment Policy has also been reviewed by California Municipal Treasurer’s Association (CMTA) as part of their investment policy review program. The recommended updates from CMTA have also been included as proposed changes for 2024 and are summarized as follows:

- Addition of a Cover Page and Table of Contents.
- Addition of Maximum Maturity and Minimum Rating requirements as new columns in the allowable investments’ summary table.
- Addition of “Review of Investment Portfolio” section to the policy. Although the requirements were already included in the District’s policy, CMTA recommended incorporating the information into its own section for better clarity.
- Addition of local government investment pool questionnaire to better illustrate the required due diligence prior to investing.
- Addition of a Glossary section.

The District received the CMTA Investment Policy Certificate certifying that the investment policy of Olivenhain Municipal Water District complies with the current State statutes governing the investment practices of local government entities located within the State of California.

Board Designated Fund Balances (Reserves) Policy

There are no proposed changes to the District’s Reserves Policy. The last update to the Reserves Policy was completed in December 2022 which added Water and Wastewater Pension Stabilization Funds into the District’s Reserves Policy to comply with the Pension Funding Policy adopted by the Board in June 2022.

Staff will be available during the meeting for discussion with the Committee.

Attachments: **Attachment 1** - DRAFT Investment Policy

Attachment 2 - PFM Comments on OMWD Investment Policy

Attachment 3 - CMTA Investment Policy Certificate

Attachment 4 - Board Designated Fund Balances (Reserves) Policy



Annual Statement of Investment Policy
Calendar Year 2024

OLIVENHAIN MUNICIPAL WATER DISTRICT
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INVESTMENT POLICY

I. INTRODUCTION

The purpose of this document is to identify policies and procedures that shall govern the investment of all District funds. The ultimate goal of this policy is to enhance the economic status of the District while protecting its funds. These policies shall be followed by the Treasurer in making all investment decisions on behalf of the District.

~~The Board of Directors of the District has delegated authority to invest funds on behalf of the District to its Treasurer for one (1) year. The Treasurer is required to provide a monthly report of all District investments to the Board. The Treasurer's authority to make investments for the District under this policy is limited to a one (1) year term expiring on December 31, 2023. This authority may be renewed annually at the discretion of the Board of Directors of the District.~~

Commented [JG1]: Duplicative content - delegation included in Section IV - Delegation of Authority and reporting in Section XIII - Review of Investment Portfolio

Commented [JG2]: Relocated to Section IV - Delegation of Authority

This investment policy is intended to guide the Treasurer in the investment of all District funds. These investment policies have four primary goals:

1. To ensure that all District investments comply with federal, state, and local laws governing the investment of all District funds;
2. To recognize that the primary objective of all District investments is to safeguard the principal invested;
3. To recognize that the second objective of all District investments is to meet the liquidity needs of the District; and
4. To maximize the return on all District investments keeping in mind that safeguarding the principal and providing liquidity are more important objectives than the return obtained.

II. SCOPE

This investment policy shall cover all funds and investment activities under the direct authority of the District, except for the employee's retirement and deferred compensation funds, checking and payroll accounts, and debt service construction and reserve funds held by trustee in accordance with the District's bond documents.

III. OBJECTIVES

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- A. Safety. It is the primary duty and responsibility of the Treasurer to protect and preserve the principal of all District funds and investments. Prior to investing any District funds, the investment shall be evaluated by the Treasurer to ensure that capital losses are avoided whether from institution default, broker-dealer default, or erosion of the market value of the securities. The Treasurer shall evaluate, or cause a qualified professional to evaluate, each potential investment of District funds to verify that the issuer is financially strong and there is adequate security as collateral for each investment sufficient to protect the principal being invested. The Treasurer shall diversify District investments so as to reduce the exposure to principal loss.
- B. Liquidity. An adequate percentage of all District investments shall be maintained at all times in liquid short-term securities which can be converted to cash if necessary to meet the District's financial obligations. The Treasurer should consider the District's liquidity needs over the next year in determining the amount that should be maintained in short term instruments. Since all future cash requirements of the District cannot be anticipated, the Treasurer shall, at all times, invest a portion of all District investments in liquid short-term securities that are readily tradable so as to meet the ongoing liquidity needs of the District. These short-term securities shall be selected in a manner that minimizes market risk and provides for the anticipated needs of the District over the next year.
- C. Return on Investments. The Treasurer should invest all District funds in investments that maximize the return for the District keeping in mind that safeguarding the principal and providing liquidity are more important objectives than the return obtained. All investment decisions made by the Treasurer shall be, first, to ensure protection of the principal of all District funds and investments, second, to provide adequate liquidity for the District's future needs, and third, to maximize return where possible without jeopardizing the principal or creating liquidity problems for the District.
- D. Market-Average Rate of Return. The investment portfolio shall be designed to attain a market-average rate of return throughout economic cycles, taking into account the District's risk and liquidity constraints, the cash flow characteristics of the portfolio, State laws limiting District investments, and ordinances or resolutions that restrict investments. To determine if the District is attaining its return objectives, the Treasurer will periodically review the portfolio's performance against an appropriate benchmark(s).

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- E. Diversification. The investment portfolio shall be diversified to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions. The amount invested by the Treasurer in a particular security at any time shall not exceed the limitations contained in Section VII of this Investment Policy.
- F. Prudence. The District adheres to the guidance provided by the "Prudent Investor Rule" California Government Code (Sec. 53600.3), which obligates a fiduciary to insure that investment decisions be made with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency.

The Treasurer and all other individuals assigned to manage the District's investment portfolio, acting within the intent and scope of the investment policy and other written procedures and exercising due diligence, shall be relieved of personal responsibility and liability for an individual security's credit risk or market price changes, provided deviations from expectations are reported monthly and appropriate action is taken to control adverse developments.

- G. Public Trust: All participants in the investment process shall act as custodians of the public trust. Investment officials shall recognize that the investment portfolio is subject to review and evaluation by the Board. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust. In a diversified portfolio it must be recognized that occasional measured losses are inevitable, and these losses must be considered within the context of the overall portfolio's investment return, provided that adequate diversification has been obtained.
- H. Risk Tolerance. The District recognizes that investment risks can result from issuer defaults, market price changes or various technical complications leading to temporary illiquidity. Portfolio diversification is employed as a way to control risk. The Treasurer is expected to display prudence in diversifying the District's investments as a way to minimize default risk. No individual investment transaction shall be undertaken by the Treasurer which jeopardizes the total capital position of the overall portfolio or which exceeds the investment limitations contained in Section VII of this policy. The Treasurer shall

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periodically establish guidelines and strategies to control risks of default, market price changes and illiquidity.

Risk will also be managed by subscribing to a portfolio management philosophy that helps to control market and interest rate risk by investing to ensure required liquidity and appropriate term. This philosophy also prohibits trading losses (for speculative purposes) unless there is a sudden need for liquidity and the need cannot be satisfied by any other means. Loss of principal will only be acceptable if economic gain can be conclusively demonstrated.

Controlling and managing risk is the foremost portfolio management objective. The District strives to maintain an efficient portfolio by providing for the lowest level of risk for a given level of return. This acceptable level of return has been quantified as a return that is equal to an appropriate benchmark(s) based on the weighted average of the District's portfolio depending on investments and maturities. In addition to these general policy considerations, the following specific policies will be strictly observed:

1. All book-entry transactions will be executed on a delivery-versus-payment basis.
2. A competitive bid process, when practical, will be used to place all investment purchases and to minimize investment costs.

IV. DELEGATION OF AUTHORITY

The investment of District money is delegated to the Treasurer by the Board of Directors for one year ending December 31, ~~2023~~2024. The Treasurer may delegate the day-to-day operations of investing to his/her designee(s), but not the responsibility for the overall investment program. ~~This authority may be renewed annually at the discretion of the Board of Directors of the District. At least once each quarter, a sub-committee of the Board shall meet with the General Manager or his/her designee to review the District's portfolio and provide guidance for future investments. All transactions will be reviewed by the Treasurer on a regular basis to assure compliance with this Statement of Investment Policy and a monthly report shall be provided to the Board on all District investments.~~

Commented [JG3]: Added from Introduction Section

Commented [JG4]: Moved to Section VIII - Review of Investment Portfolio

V. REPORTING

Although it is no longer required for the Treasurer of a local agency to annually render a statement of investment policy to the legislative body and submit a quarterly investment report to the legislative body (Government Code Section 53646 (b)), the District Treasurer and General Manager shall submit a monthly

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investment report to the Board of Directors. This report shall include: type of investment, issuer, date of maturity, the par and dollar amount invested on all securities, the total amount of all investments and monies held by the District, a description of any District funds being held or managed by other persons or entities, the coupon and current yield of all securities, a statement that there are or are not sufficient funds to meet the District's obligations for the next six (6) months, and accrued interest receivable. The monthly statement shall also indicate the District's anticipated liquidity needs for the next six (6) months, the ability of the District's investments to meet these anticipated liquidity needs, and a monthly list of transactions, which is required under Government Code 53607 whenever investment authority is delegated by the Board. Additional items listed will also include average weighted average days to maturity, maturity date, purchase date, percentage distribution to each type of investment, and a statement indicating compliance or noncompliance of all District investments with this Statement of Investment Policy. An investment's term or remaining maturity shall be measured from the settlement date to final maturity rather than the commonly interpreted trade date. Furthermore, the forward settlement date of an investment cannot exceed 45 days from the time of investment. All investments not complying with this investment policy shall be called to the attention of the Board during the first monthly meeting after an investment does not comply with this policy.

Commented [JG5]: Recommend change from Richard Babbe of PFM

VI. AUTHORIZED INVESTMENT INSTRUMENTS

The District is governed by the California Government Code, Sections 16429.1, 27133, and 53600 et seq. ~~For all investment types, the purchase of zero coupon, inverse floaters, range notes, strips, mortgage derived interest only strips, deep discount treasury bonds, or any security that could result in zero interest accrual if held to maturity is not permitted (Government Code Section 56301.6).~~ Within the context of these limitations, the following investments are authorized:

Commented [BRD6]: This duplicates section XV. I would list in one or the other section, but not both.

A. Local Agency Investment Fund: The District may invest in the Local Agency Investment Fund established by the State Treasurer for the benefit of local agencies (Government Code Section 16429.1). The fund must have twenty-four hour liquidity. No more than 50% of the total value of all District investments or \$40,000,000 (whichever is lesser) may be invested in Local Agency Investment Fund.

The District may also invest bond proceeds in the Local Agency Investment Fund. Liquidity for bond proceeds, per fund regulations, is thirty calendar day increments from the date of the initial deposit.

B. Treasury Securities: United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest (Government Code Section 53601(b)). These investments are considered the safest possible

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investment available. There is no maximum portfolio limit. Maximum investment maturities in Treasury Securities shall be restricted to five years.

C. **Depository Accounts and Certificates of Deposit:** The District may invest in insured or collateralized certificates of deposits, saving accounts, market rate accounts, or other bank deposits insured by commercial banks, savings and loans, state or federal credit union in California (Government Code Section 53630 et seq). A written depository contract is required with all institutions that hold District deposits. Securities placed in a collateral pool must provide coverage for at least 110 percent of all deposits that are placed in the institution. Acceptable pooled collateral is governed by California Government Code Section 53651. Real estate mortgages are not considered acceptable collateral by the District, even though they are permitted in Government Code Section 53651(m). All financial institutions are required to provide the District with a regular statement of pooled collateral. This report will state that they are meeting the 110 percent collateral rule (Government Code Section 53652(a)), a listing of all collateral with location and market value, plus an accountability of the total amount of deposits secured by the pool. Certificates of deposit, shall not exceed 5% per issuer of the value of all District investments at any time.

Deposits, up to the federal deposit limit, are allowable in any institution that insures its deposits with the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Administration (NCUA), regardless of Moody's Investors Service or Standard & Poor's Corporation ratings. The Treasurer, for deposits of up to federal insurance limit may waive collateral requirements. A maximum deposit of up to federal insurance limit may be deposited in any one institution without collateral. No bank shall receive District ~~funds offunds~~ greater than federal insurance limit if it ~~rated lower than a rating category of "A" by a Nationally Recognized Statistical Rating Organization (NRSRO)has a Moody's Investor Service or Standard & Poor's Corporation rating less than "A".~~ Maximum investment maturity will be restricted to three (3) years.

Commented [JG7]: Recommended change from Richard Babbe of PFM

In accordance with section 53638 of the California Government Code, any deposit shall not exceed the shareholder's equity of any depository bank, nor shall the deposit exceed the total net worth of any institution. No deposits shall be made at a state or federal credit union if a member of the Board of Directors or the General Manager or Treasurer serves on the Board of Directors or any committee appointed by the Board of Directors of the credit union.

D. **Placement Service Deposit:** The District may invest in insured deposit placed with ~~a selected depository that uses~~ a private sector entity that assists in the placement deposits with eligible financial institutions located in the United States (Government Code Section 53601.8). The full amount of the principal and the interest that may be accrued during the maximum term of each deposit shall at all times be insured by federal deposit insurance. Placement

Commented [BRD8]: The funds have to be deposited with a selected depository: 53601.8 (a): (a) The local agency shall choose a nationally or state-chartered commercial bank, savings bank, savings and loan association, or credit union in this state to invest the funds, which shall be known as the "selected" depository institution.

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Service Deposit, shall not exceed 5% per issuer of the value of the District's investments at any time. The maximum investment maturity will be restricted to three years.

E. Negotiable Certificates of Deposit: Negotiable certificates of Deposits issued by a national or a State-chartered or a State or Federal association or by a federally licensed or State-licensed branch of a foreign bank (Government Code Section 53601(i)). Maximum investment maturity is restricted to two years for notes rated in a rating category of "AA-" or its equivalent or better by a NRSRO "AA-" or higher and five years for "AAA" rated notes. Negotiable Certificates of Deposit, shall not exceed 5% per issuer of the value of all District investments at any time.

Commented [JG9]: Sections E-G: Recommended changes from Richard Babbe of PFM

F. Commercial Paper: Investment is limited to commercial paper of "prime" quality of the highest ranking or of the highest letter and number rating as provided for by a NRSRO the highest grade of stand-alone or enhanced ("prime") commercial paper as rated by Moody's Investor Service, Standard & Poor's Corporation, or Fitch Financial Services (A1/P1/F1) issued only by a general corporation that is organized and operating within the United States, and having total assets in excess of \$500 million and has debt other than commercial paper that is rated in a rating category of "A" or its equivalent or higher by a NRSRO "A" or higher by Moody's, S&P, or Fitch (Government Code Section 53601(h)). The maximum investment maturity for commercial paper shall be restricted to 270 days. Purchases of commercial paper shall not exceed 20% the total value of all District investments at any time and shall not exceed 5% per issuer of all District investments at any time.

G. Medium Term Notes: Medium term notes are corporate or bank notes with a maximum remaining maturity of 5 years or less. Investment are limited securities rated in a rating category of "AA-" or its equivalent or better by a NRSRO is limited to "AA-" rated or higher notes, from a nationally recognized rating service like Moody's Investor Service or Standard and Poor's Corporation. All such notes shall be solely from corporations organized and operating in the U.S. or banks licensed in the U.S. or any state and operating in the United States. Permissible types of notes include fixed rate and variable rate. Maximum investment maturity is restricted to two years for notes rated in a rating category of "AA-", or its equivalent or better by a NRSRO "AA-", or higher and five years for "AAA" rated notes. Medium term notes shall not exceed 5% per issuer of all District investments at any time.

H. Agencies: The District is permitted to invest in federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued and fully guaranteed as to principal and interest by federal agencies or United States government sponsored enterprises (Government Code 53601(f)). Maximum maturity is limited to 5 years. The amount

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invested in agencies shall not exceed 50% of all District investments at any time.

I. **Money Market Funds:** Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1 and following) (Government Code 53601(l)(2)). Investments are limited to those money market funds that invest in U.S. Treasuries, Federal Agency obligations, and repurchase agreements relating to such obligations. Funds must have the highest ranking or the highest letter and numerical rating by not less than two ~~NRSROs~~**ationally recognized rating services**, or have an investment adviser registered with the Securities and Exchange Commission with not less than five years' experience managing money market funds with assets under management in excess of \$500,000,000. No more than 5% of the value of all District investments shall be invested in any fund and no more than 20% of the value of all District investments may be invested in all money market funds combined. Any fund shares purchased will not include any type of commission.

Commented [BRD10]: The phrasing used in the Government Code, NRSRO is a term used by the SEC

J. **Banker's Acceptances:** Bankers' acceptances are bills of exchange or time drafts drawn on and accepted by a commercial bank (Government Code 53601(g)). Purchases of banker's acceptances may not exceed 180 days maturity as per Government Code Section 53601 (g). Maximum portfolio exposure will be limited to 20% of the total value of all District investments at any time and single issuer holdings to no more than 3% per issuer. Banker's acceptances shall not be purchased by the Treasurer without the prior approval of the Board.

K. **Repurchase Agreements and Reverse Repurchase Agreements:** A Repurchase Agreement is a purchase of securities by the District under an agreement with another party who will repurchase these securities on or before a specified date and for a specified amount and the other party delivers the underlying securities to the District by book entry, physical delivery, or by third-party custodial account. A Reverse Repurchase Agreement means a sale of securities by the District under an agreement where the District will repurchase the securities on or before a specified date. While Repurchase Agreements and Reverse Repurchase Agreements are permitted by state law (Government Code 53601(j)), the Treasurer shall not purchase any securities under a Repurchase Agreement or a Reverse Repurchase Agreement unless it has first been approved by the Board of Directors of the District. State law prohibits Repurchase Agreements unless the underlying value of the securities covering the Repurchase Agreement are valued at least 102% or greater of the funds borrowed against those securities and this value must be adjusted no less than quarterly. Collateral for repurchase agreements is limited to obligations of the United States government and its agencies. Reverse Repurchase Agreements are only permitted by state law where the security being sold by the District has been owned and fully paid for by the District for a minimum of thirty (30) days prior to sale, The

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agreement may not exceed a term of 90 days unless the agreement includes a provision guaranteeing a minimum earning or spread for the entire period between the sale of a security and the final maturity date.

The amount invested repurchase agreements shall not exceed 20% of all District investments at any time. The amount invested in reverse repurchase agreements shall not exceed 10% of the base value of the District's portfolio at any time.

L. Local Government Investment Pool: Shares of beneficial interest issued by a joint powers authority organized pursuant to Government Code Section 6509.7 that invests in the securities and obligations authorized in the Government Code (Government Code 53601(p)). Investments are limited to pools that ~~are rated in a rating category of "AA" or its equivalent seek to maintain a constant net asset value and which are rated "AA" or better.~~ Local Government Investment Pools shall not exceed 30% of the value of all District investments at any time. ~~The District shall conduct a thorough investigation of any pool prior to making an investment, and on a continual basis thereafter. Best efforts will be made to acquire the following information:~~

Commented [BRD11]: If the District would like to have the option to use CAMP-Term, I would suggest deleting the constant NAV requirement.

- ~~1. A description of eligible investment securities, and a written statement of investment policy and objectives.~~
- ~~2. A description of interest calculations and how it is distributed, and how gains and losses are treated.~~
- ~~3. A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited.~~
- ~~4. A description of who may invest in the program, how often, what size deposit and withdrawal are allowed.~~
- ~~5. A schedule for receiving statements and portfolio listings.~~
- ~~6. Are reserves, retained earnings, etc. utilized by the pool/fund?~~
- ~~7. A fee schedule, and when and how is it assessed.~~
- ~~8. Is the pool/fund eligible for bond proceeds and/or will it accept such proceeds?~~

Commented [JG12]: Recommended addition from CMTA review

M. Municipal Bonds: The Treasurer is authorized to invest in registered treasury notes or bonds of any of the 50 United States payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency or authority of any of the 50 United States. Such securities must ~~be rated in a rating category of "A" or its equivalent or better by at least two NRSROs have ratings from at least two of three ratings as follows: "A1" by Moody's Investors Service, or "A+" by Standard & Poor's, or "A+" by Fitch Ratings;~~ or as otherwise approved by the Board; or

Commented [JG13]: Section M: Recommended changes from Richard Babbe of PFM

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Registered general obligation treasury notes or bonds of any of the 50 United States. Such securities must be rated in a rating category of "A" or its equivalent or better by at least two NRSROs have ratings from two of three rating agencies as follows: at least "A3" by Moody's Investors Service, or "A" by Standard & Poor's, or "A" by Fitch Ratings; or as otherwise approved by the Board; or

Adjustable rate registered treasury notes or bonds of any of the 50 United States, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency or authority of any of the 50 United States. Such securities must be rated in a rating category of "A-1" or its equivalent or better by at least two NRSROs have ratings from at least two of three rating agencies as follows: "P-1" by Moody's Investors Service, or "A-1+" by Standard & Poor's, or "F-1+" by Fitch Ratings; or as otherwise approved by the Board; or.

Adjustable rate notes or bonds warrants, or other evidences of indebtedness of any local agency within the State of California must be rated in a rating category of "A-1" or its equivalent or better by any NRSRO that rates the security with a minimum rating of either "P-1" by Moody's Investors Service, or "A-1+" by Standard & Poor's, or "F-1+" by Fitch Ratings, including bonds, notes, warrants, or other evidences of indebtedness payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by either the local agency, a department, board, agency, or authority of the local agency, or of any local agency within this state; or.

Taxable or tax-exempt bonds, notes, warrants, or other evidences of indebtedness of any local agency within the State of California must be rated in a rating category of "A" or its equivalent or better by any NRSRO that rates the security with a minimum rating of either "A1" by Moody's Investors Service, or "A+" by Standard & Poor's, or "A+" by Fitch Ratings (the minimum rating shall apply to the local agency, irrespective of any credit enhancement), including bonds, notes, warrants, or other evidences of indebtedness payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by either the local agency, a department, board, agency, or authority of the local agency, or of any local agency within this state.

The amount invested in municipal securities shall not exceed 5% per issuer of all District investments at any time.

N. Permitted Investments Without Board Approval: The Treasurer is authorized to invest District funds in federally insured or collateralized depository accounts, the Local Agency Investment Fund, the California Asset Management Pool (CAMP), treasury securities, negotiable certificates of deposit, commercial paper, medium term notes, agencies and money market funds meeting all

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requirements of this investment policy for the particular investment being purchased without prior Board approval. All other investments such as banker's acceptances, Repurchase Agreements, Reverse Repurchase Agreements, and investments in the San Diego County Investment Pool shall only occur with prior approval of the Board. The Treasurer shall ensure that all investments made on behalf of the District meet all of the minimum requirements contained in this Investment Policy.

VII. PORTFOLIO LIMITATIONS

Following is a listing of potential authorized investments with corresponding limitations on the amount of the District's portfolio that may be invested in each authorized investment at any given time:

Investment Description	Percentage Limitation	Dollar Limitation
Local Agency Investment Fund	50%	\$40,000,000
Treasury Securities	None	-
Certificates of Deposit, Placement Service Deposits and Negotiable Certificates of Deposit	30%	Placement service deposits may be made up to FDIC limit per financial institution. No more than 5% per issuer
Local Government Investments Pools (such as CAMP)	30%	-
Commercial Paper	20%	No more than 5% per issuer
Medium Term Notes	30%	No more than 5% per issuer
Agencies	50%	-
Depository Accounts, Money Market Funds	20%	No more than 5% in any money market fund
Investments Pools	30%	-
Municipal Bonds	30%	No more than 5% per issuer
Bankers Acceptances	20%	No more than 3% per issuer with prior approval of the Board
Repurchase Agreements	20%	With the prior

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Reverse Repurchase		40%	approval of the Board	
Agreements			With the prior approval	
<u>Investment Type</u>	<u>Maximum Maturity Remaining</u>	<u>Maximum % of Portfolio</u>	<u>% or \$ Limit per Issuer</u>	<u>Minimum Rating Category</u>
<u>Local Agency Investment Fund</u>	<u>N/A</u>	<u>50%</u>	<u>\$40,000,000</u>	<u>None</u>
<u>Treasury Securities</u>	<u>5 years</u>	<u>None</u>	<u>None</u>	<u>None</u>
<u>Certificates of Deposit</u>	<u>3 years</u>	<u>30% all CDs and Placement Deposits</u>	<u>5% or FDIC Limit for any institution that insures its deposits with FDIC</u>	<u>Minimum rating of A if investment is greater than FDIC limit</u>
<u>Placement Service Deposits</u>	<u>3 years</u>	<u>30% all CDs and Placement Deposits</u>	<u>5% and/or FDIC Limit</u>	<u>None</u>
<u>Negotiable Certificates of Deposit</u>	<u>2 years (AA- or greater)</u> <u>5 years (AAA)</u>	<u>30% all CDs and Placement Deposits</u>	<u>5%</u>	<u>AA- if 2 years</u> <u>AAA if 5 years</u>
<u>Commercial Paper</u>	<u>270 days</u>	<u>20%</u>	<u>5%</u>	<u>A1/P1/F1</u>
<u>Medium Term Notes</u>	<u>2 years (AA- or greater)</u> <u>5 years (AAA)</u>	<u>30%</u>	<u>5%</u>	<u>AA- if 2 years</u> <u>AAA if 5 years</u>

Commented [JG14]: More detailed summary table added based on review comments from CMTA

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<u>Agencies</u>	<u>5 years</u>	<u>50%</u>	<u>None</u>	<u>None</u>
<u>Depository Accounts, Money Market Funds</u>	<u>None</u>	<u>20%</u>	<u>5% in any money market fund</u>	<u>None</u>
<u>Bankers Acceptances</u>	<u>180 days</u>	<u>20%</u>	<u>3% per issuer with prior approval of the Board</u>	<u>None</u>
<u>Repurchase Agreements</u>	<u>90 days</u>	<u>20%</u>	<u>With the prior approval of the Board</u>	<u>None</u>
<u>Reverse Repurchase Agreements</u>	<u>90 days</u>	<u>10%</u>	<u>With the prior approval of the Board</u>	<u>None</u>
<u>Local Government Investments Pools (such as CAMP)</u>	<u>None</u>	<u>30%</u>	<u>None</u>	<u>AA</u>
<u>Municipal Bonds</u>	<u>N/A</u>	<u>30%</u>	<u>5%</u>	<u>A1/A+</u>

The weighted average days to maturity of the total portfolio shall not exceed the liquidity requirements of the District for the next six months based upon on-going staff analyses.

~~In the event a security held by the District is subject to a rating change that brings it below the minimum credit ratings specified by the Policy, the Treasurer shall notify the Board at the next regularly scheduled Board meeting along with the Treasurer's recommended course of action. The course of action to be followed will be decided on a case-by-case basis by the Board, considering such factors as~~

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~~the reason for the rate drop, prognosis for recovery or further rate drops, and the market price of the security.~~

~~In the event that the percentage limits attributable to each security type are violated due to a temporary imbalance in the portfolio, the Treasurer will make a determination as to the appropriate course of action. The appropriate course of action may be to liquidate securities to rebalance the portfolio or to hold the securities to maturity in order to avoid a market loss. Portfolio percentages are in place to ensure diversification of the investment portfolio and as such a small temporary imbalance would not violate this basic tenet. When a portfolio percentage is exceeded the Treasurer will report the violation in the Treasurers Report at the next regularly scheduled Board meeting, with detail of the strategy determined to address the imbalance, for Board ratification. However, the Treasurer shall meet the portfolio percentages required by this investment policy at the end of each month, unless waived by the Board.~~

Commented [JG15]: Moved to section below

VIII. REVIEW OF INVESTMENT PORTFOLIO

Commented [JG16]: New section based on review comments from CMTA

At least once each quarter, a sub-committee of the Board shall meet with the General Manager or his/her designee to review the District's portfolio and provide guidance for future investments. All transactions will be reviewed by the Treasurer on a regular basis to assure compliance with this Statement of Investment Policy and a monthly report shall be provided to the Board on all District investments.

In the event a security held by the District is subject to a rating change that brings it below the minimum credit ratings specified by the Policy, the Treasurer shall notify the Board at the next regularly scheduled Board meeting along with the Treasurer's recommended course of action. The course of action to be followed will be decided on a case-by-case basis by the Board, considering such factors as the reason for the rate drop, prognosis for recovery or further rate drops, and the market price of the security.

In the event that the percentage limits attributable to each security type are violated due to a temporary imbalance in the portfolio, the Treasurer will make a determination as to the appropriate course of action. The appropriate course of action may be to liquidate securities to rebalance the portfolio or to hold the securities to maturity in order to avoid a market loss. Portfolio percentages are in place to ensure diversification of the investment portfolio and as such a small temporary imbalance would not violate this basic tenet. When a portfolio percentage is exceeded the Treasurer will report the violation in the Treasurers Report at the next regularly scheduled Board meeting, with detail of the strategy determined to address the imbalance, for Board ratification. However, the

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Treasurer shall meet the portfolio percentages required by this investment policy at the end of each month, unless waived by the Board.

VIII.IX. BOND PROCEEDS, BOND RESERVE FUNDS AND BOND SERVICE FUNDS

Investment of bond proceeds and amounts held in bond reserve and service funds are to be made in accordance with the related bond indentures.

X. INTERNAL CONTROLS

Internal controls shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation of third parties, unanticipated changes in financial markets or imprudent action by employees and officers of the District. Controls deemed most important include: control of collusion; separation of duties and administrative controls; custodial safekeeping; clear delegation of authority; management review and approval of investment transactions; specific limitations regarding securities losses and remedial action; written confirmation of telephone transactions; minimizing the number of authorized investment officials; documentation of transactions and strategies; and code of ethic standards.

Existing procedures require all wire transfers initiated by the Finance Department be reconfirmed by the appropriate financial institution. In addition, the District's signatory resolution specifies authorized signers and number of required signatures for different disbursement transactions. Proper documentation obtained from confirmation and cash disbursement wire transfers is required for each investment transaction. Timely bank reconciliations are conducted to ensure proper handling of all transactions.

The investment portfolio and all related transactions are reviewed and balanced to appropriate general ledger accounts by the Finance Department on a monthly basis. A listing of all investment transactions is provided on a monthly basis to the Board of Directors for their approval. Current policy also requires that the Treasurer's approval be obtained for the purchase or sale of securities other than transfers to/from investment pools or money market funds.

An independent analysis by an external auditor shall be conducted annually to review internal controls, account activity and compliance with policies and procedures.

XI. QUALIFIED BANKS AND SECURITIES DEALERS

The District shall conduct business only with nationally or state chartered banks, savings and loans or credit unions that are licensed and operating in the United States or a state of the United States, and registered investment securities

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dealers. The District's staff will investigate all institutions that wish to conduct business with the District prior to any District investment in the institution. All banks shall be rated in a rating category of "A" or its equivalent or better by any NRSRO that rates the bank have a minimum rating of "A" by Moody's or Standard and Poor. A list will be maintained by the Finance Manager of approved institutions and security broker/dealers. A bank rating service will be used by staff to verify financial information provided by a financial institution or dealer. Annually, the Treasurer shall transmit a copy of the current Statement of Investment Policy to all approved dealers. The dealer is required to return a signed statement indicating receipt and understanding of the District's Investment Policies. Primary dealers of the Federal Reserve may provide substitute certification language at the discretion of the Treasurer.

XII. ETHICS AND CONFLICTS OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Additionally, the Treasurer and the Finance Manager are required to annually file applicable financial disclosures as required by the Fair Political Practices Commission (FPPC). All officers and employees involved in the investment of public funds are required to comply with the District's Conflict of Interest Code. The Treasurer and any District employees or agents evaluating any investment for the District shall disclose any interest owned or held in any institution or investment being considered by the District prior to the investment.

XIII. BOARD DISCRETION

The District recognizes that this policy consists of guidelines designed to protect District funds and to provide liquidity for the on-going District operations. The Board of Directors may timely approve, on an individual basis, investments which would otherwise not be in accordance with this policy, in the event of unforeseen circumstances, so long as the investment is permitted by state law.

XIV. SAFEKEEPING AND CUSTODY

To protect against potential losses caused by the collapse of a security dealer, all book-entry securities owned by the District, including repurchase agreement collateral previously approved by the Board, shall be kept in safekeeping with "perfected interest" by a third party bank trust department, acting as agent for the District under the terms of a custody agreement executed by the bank and by the District. All book-entry securities will be received and delivered using standard delivery-versus-payment procedures.

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XV. INTEREST EARNINGS

All monies earned and collected from investments authorized in this policy shall be allocated monthly to various fund accounts based on the cash balance in each fund as a percentage of the entire pooled portfolio.

XVI. PROHIBITED INVESTMENTS

The Treasurer shall not invest any funds of the District in inverse floaters, range notes, ~~strips, or mortgage derived interest-only strips, or deep discount treasury bonds~~ at any time. The Treasurer shall not invest any funds of the District in any security that could result in zero interest accrual if held to maturity, except as authorized by Code. (Gov't Code §53601.6).

Commented [JG17]: Added specific investments that were referenced in section VI Authorized Investments as being prohibited.

XVII. INVESTMENT PURCHASES

Any investments that the Treasurer purchases for the District that are not purchased directly from the issuer shall be purchased either from an institution licensed by the State of California as a broker/dealer or from a member of a federally registered securities exchange, from a national or state-chartered bank, from a savings association or a federal association, or from a brokerage firm designated as a primary government dealer by the Federal Reserve Bank. (Gov't Code §53601.5)

XVIII. QUARTERLY REPORTS

At least once each quarter, ~~and within 45 days following the end of the quarter,~~ the District's Finance Officer shall provide an oral report to the Finance Committee, comprised of the District's treasurer and one board member, evaluating the safety of all District investments and advising the committee of any investments of the District that represent a credit risk.

Commented [JG18]: Recommended addition from Richard Babbe of PFM.. SB 1489 increases the reporting deadline to 45 days.

XIX. TREASURER'S AUTHORITY AND REVIEW OF INVESTMENT POLICY

The Authority of the Treasurer to make investment decisions on behalf of the District shall automatically expire on December 31, ~~2023-2024~~ unless renewed or extended by formal action of the Board of Directors of the District. This investment policy shall be presented to the Board of Directors of the District by no later than December 31, ~~2023-2024~~ and annually thereafter.

XX. GLOSSARY OF INVESTMENT TERMS

AGENCIES: Federal agency securities and/or Government Sponsored Enterprises (GSE) which include Federal Home Loan Bank (FHLB), Federal

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National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), Federal Farm Credit Bank (FFCB), and Federal Agricultural Mortgage Association (Farmer Mac).

ASKED: The price at which securities are offered by the seller.

BANKERS' ACCEPTANCE: A draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

BENCHMARK: A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

BID: The price at which a buyer offers to buy a security.

BROKER: A broker brings buyers and sellers together for a transaction for which the broker receives a commission.

CAMP POOL: A fully liquid, stable net asset value (NAV) investment option that stresses daily liquidity and safety of principal as the two primary objectives, with earning a competitive yield as a third goal after safety and liquidity. CAMP Pool is offered through the California Asset Management Program ("CAMP" or the "Program"), which is a California Joint Powers Authority ("JPA") established in 1989 to provide California public agencies with professional investment services.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a Certificate. Large-denomination CD's are typically negotiable.

COLLATERAL: Securities, evidence of deposit or other property, which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COUPON: The rate of return at which interest is paid on a bond.

CREDIT RISK: The risk that principal and/or interest on an investment will not be paid in a timely manner due to changes in the condition of the issuer.

CURRENT YIELD: The annual income from an investment divided by the current market value. This measure examines the current price of a bond rather than the face value. Current yield represents the return an investor would expect to earn if the owner purchased the bond and held it for a year. However, current yield is not the actual return an investor receives if he holds a bond until maturity.

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DEALER: A dealer acts as a principal in all transactions, buying and selling for his own account.

DELIVERY VERSUS PAYMENT: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

DERIVATIVES: (1) Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or (2) financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

DISCOUNT: The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

DISCOUNT SECURITIES: Noninterest-bearing money market instruments that are issued at a discount and redeemed at maturity for full face value (e.g., U.S. Treasury Bills.)

DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent returns.

DURATION: A measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years. Rising interest rates mean falling bond prices, while declining interest rates mean rising bond prices.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, currently up to \$250,000 per entity.

FEDERAL FUNDS RATE: The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

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LOCAL AGENCY INVESTMENT POOL (LAIF): A voluntary investment fund open to government entities and certain non-profit organizations in California that is managed by the State Treasurer's Office.

LOCAL GOVERNMENT INVESTMENT POOL (LGIP): The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.

MEDIUM TERM NOTES: Corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States.

MONEY MARKET: The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

MUNICIPAL BONDS: Securities issued by state and local agencies to finance capital and operating expenses.

NAV: Net asset value.

NEGOTIABLE CD: A short-term debt instrument that pays interest and is issued by a bank, savings or federal association, state or federal credit union, or state-licensed branch of foreign bank. Negotiable CDs are traded in a secondary market.

NRSRO: Nationally recognized statistical-rating organization.

OFFER: The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See Asked and Bid.

PORTFOLIO: Collection of securities held by an investor.

PRIMARY DEALER: A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.

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PRUDENT PERSON (PRUDENT INVESTOR) RULE: A standard of responsibility which obligates a fiduciary to insure that investment decisions be made with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond the current income return.

REPURCHASE AGREEMENT (REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this.

REVERSE REPURCHASE AGREEMENT (REVERSE REPO): A reverse-repurchase agreement (reverse repo) involves an investor borrowing cash from a financial institution in exchange for securities. The investor agrees to repurchase the securities at a specified date for the same cash value plus an agreed upon interest rate. Although the transaction is similar to a repo, the purpose of entering into a reverse repo is quite different. While a repo is a straightforward investment of public funds, the reverse repo is a borrowing.

SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.

SECURITIES & EXCHANGE COMMISSION: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

STRUCTURED NOTES: Notes issued by Government Sponsored Enterprises (FHLB, FNMA, FHLMC, etc.) and Corporations, which have imbedded options (e.g., call features, step-up coupons, floating rate coupons, derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

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TREASURY BILLS: A noninterest-bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

TREASURY BONDS: Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than 10 years.

TREASURY NOTES: Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to 10 years.

YIELD: The rate of annual income return on an investment, expressed as a percentage. (a) INCOME YIELD is obtained by dividing the current dollar income by the current market price for the security. (b) NET YIELD or YIELD TO MATURITY is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

Attachment 2

From: [Babbe, Richard D](#)
To: [Rainy Selamat](#)
Subject: RE: a request - Policy Review
Date: Wednesday, October 4, 2023 12:05:35 PM
Attachments: [Investment Policy 2024 Draft Redlined PFMAM Comments.docx](#)

CAUTION: EXTERNAL EMAIL. Do not click any links or open attachments unless you recognize the sender, verified their email address, and know the content is safe.

Rainy,

I did not see anything in the Policy that had to be changed:

- You already updated the Policy to reflect the Code changes effective in 2023 (term to maturity is defined by settlement date and the extension of reporting deadlines) into the Policy.
- I am currently aware of only one Code change that will be effective 2024 (SB 882), which clarifies the requirements for Asset-Backed securities. As the District does not permit ABS, no Policy changes are needed.
- If you would like to be able to use CAMP Term, I would suggest deleting the constant NAV requirement for LGIPs. CAMP Term investments pay par at maturity, but the value can fluctuate before maturity.
- For your consideration, I made some stylistic suggestions (see the attached draft). However, as they are not Code requirements, I would defer to you on what language best reflects the District's preferences:
 - I suggest deleting duplicative language.
 - I would suggest modifying the rating requirements to reflect the Code's current phrasing that references rating categories rather than specific ratings and Nationally Recognized Statistical Rating Organizations ("NRSRO") rather than specific rating agencies. For example, this is how the Code states the rating requirements for medium-term notes: *"Notes eligible for investment under this subdivision shall be **rated in a rating category** of "A" or its equivalent or better by an **NRSRO**."*
- I might suggest allowing Supranationals to the Policy's list of permitted investments. The following is example language:
 - Supranational Obligations. United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated in a rating category of "AA" or its equivalent or better by a Nationally Recognized Statistical Rating Organization ("NRSRO"). A maximum of 30% of the District's portfolio may be invested in this category.

I have attached a copy of the Policy with my suggestions. I accepted all your changes to differentiate my suggestions.

Please let me know if you have any questions or if you need something more formal.

Hope this is useful.

Thank you,

Richard

Richard D. Babbe, CCM
Senior Managing Consultant
babber@pfmam.com | **Phone** 949.230.6896 | www.pfmam.com

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From: Rainy Selamat <RSelamat@olivenhain.com>

Sent: Tuesday, October 3, 2023 1:21 PM

To: Babbe, Richard D <BABBER@pfmam.com>

Subject: [EXTERNAL] RE: a request - Policy Review

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Here is our redlined version with our proposed changes to the current policy, Richard. Thank you.

From: Babbe, Richard D <BABBER@pfmam.com>

Sent: Tuesday, October 3, 2023 11:02 AM

To: Rainy Selamat <RSelamat@olivenhain.com>

Subject: RE: a request - Policy Review

CAUTION: EXTERNAL EMAIL. Do not click any links or open attachments unless you recognize the sender, verified their email address, and know the content is safe.

Rainy,

I am not anticipating any changes, but could you send me the current version of the Policy to ensure I am working off the current version.

Thank you,

Richard

Richard D. Babbe, CCM
Senior Managing Consultant
babber@pfmam.com | Phone 949.230.6896 | www.pfmam.com

PFM Asset Management LLC

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From: Rainy Selamat <RSelamat@olivenhain.com>

Sent: Thursday, September 21, 2023 3:56 PM

To: Babbe, Richard D <BABBER@pfmam.com>

Cc: Rainy Selamat <RSelamat@olivenhain.com>

Subject: [EXTERNAL] a request

[WARNING] Use caution when opening attachments or links from unknown senders.

Hi Richard, hope this email finds you well. It is that time of the year again. We need your input to

update our investment policy for 2024. I would appreciate if I can have your input by October 12.
Thank you in advance. Rainy.

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California Municipal Treasurers Association



Investment Policy Certification

Issued on 02/24/2023



Olivenhain Municipal Water District

The California Municipal Treasurers Association certifies that the investment policy of Olivenhain Municipal Water District complies with the current State statutes governing the investment practices of local government entities located within the State of California.



A handwritten signature in black ink, appearing to be "D. D. D.", written over a horizontal line.

President

02/24/2023

Date

Board Designated Fund Balances (Reserves) Policy

This Policy represents public affirmation of the Board's commitment to financial prudence and careful stewardship of community assets. This Policy shall cover the District's Operating Fund, Capital and Equipment Fund, and Rate Stabilization Fund for water (potable and recycled) and wastewater (sewer) operations. These Funds are designated by the District's Board to carry out specific purposes, ensuring prudent management of the District's financial resources, and are used by District staff as parameters within which the Board expects staff to operate.

This Policy has three primary goals:

- To provide adequate funding to meet the District's short-term and long-term plans and commitments to its customers.
- To minimize adverse multi-year budgetary impacts from anticipated and unanticipated expenditures, thus avoiding future rate fluctuations.
- To preserve the financial stability of the District against present and future uncertainties in an ever-changing environment.

Operating Fund, Capital and Equipment Fund, and Rate Stabilization Fund balances will be reviewed annually when the District's financial audit is completed. At that time, staff will present to the Board a recommendation on the handling of these Funds.

Water - Operating Fund

Purpose:	To ensure cash resources are available to pay for day-to-day water operations, including payments for purchased water and debt service payments and to provide funding in case of operating emergencies and unforeseen circumstances.
Target Balance:	A minimum balance equal to 60 days of approved annual water operating and maintenance expenditures in the budget shall be maintained in this fund. The maximum amount in this fund shall not exceed 120 days of approved annual water operating and maintenance expenditures in the budget. Operating Fund balance in excess of the 120-day maximum balance will be transferred into other Fund(s), with Board approval, as long as fund balances are below their maximum amount stated in this Policy. Any excess over the maximum amount shall be reported to the Board at the first monthly regular Board meeting after the excess occurs with a staff recommendation as to the handling of the excess funds. A cash balance below the minimum target balance shall also be reported with specific notes to the Board on a regular basis.
Methodology:	Due to the timing difference between the dates when cash is collected and spent, the District is required to maintain sufficient cash on hand to meet its day-to-day cash disbursements, such as payroll, water purchases, debt service payments, and to provide funding for emergency operating expenditures due to unforeseen situations, such as natural disasters or any other unanticipated expenses that will result in an unexpected increase in the District's expenditures.
Use of Funds:	To pay for day-to-day water operating and maintenance expenditures and any unexpected expenses or emergencies due to the timing difference between cash being collected and spent.
Contributions:	Additions to this fund come from any excess in water operations (revenues over expenses.) When water revenue is not sufficient to meet the District's debt service coverage requirements, funds will be transferred from the Rate Stabilization Fund into the Operating Fund. The adequacy of this fund will be reviewed annually after the financial audit is completed.

Water - Capital and Equipment Fund

Purpose:	To provide funding for the District's water capital infrastructure improvements and replacements approved by the Board and included in the 10 Year Capital Spending Plan. The District also has Debt Management Policy that provides guidelines on how Capital Improvement Programs should be funded.
Target Balance:	A minimum balance equals to one (1) year of the average approved capital expenditures over the next ten years in the District's 10 Year Capital Spending Plan shall be maintained in this fund. A maximum balance equals to five (5) years of the average approved capital expenditures over the next ten years in the District's 10 Year Capital Spending Plan. Any excess over the maximum amount in this fund shall be reported to the Board at the first regular monthly Board meeting after the excess occurs. Staff will provide a recommendation on the handling of these excess funds. Any cash balance below the minimum target balance shall also be reported with specific notes to the Board on a regular basis.
Methodology:	The District follows a 10 Year Capital Spending Plan which outlines water infrastructure improvements and replacements planned for the next ten years.
Use of Funds:	To construct, improve, and replace water capital infrastructures and to purchase capital items approved by the Board and included in the District's Budget.
Contribution:	Water Rates and Capacity Fees. The District will make annual contributions from water rates and capacity fees to this fund to provide funding for District water capital infrastructure improvements and replacements included in the 20 Year Capital Spending Plan. Any excess over the maximum amount in this fund shall be reported to the Board at the first regular monthly Board meeting after the excess occurs. Staff will provide a recommendation on the handling of these excess funds.

Water - Rate Stabilization Fund

Purpose:	To protect the District's financial stability and to secure the District's ability to pay for its financial obligations, including debt service installment payments when revenue shortfalls occur due to weather conditions, economic shortfalls, changes in state and federal legislation, or other future uncertainties, enabling the District to avoid the need for rate spikes.
Target Balance:	A minimum of 25% of the average estimated Net Water Sales over two (2) fiscal years approved in the District's budget shall be maintained in the Rate

Stabilization Fund. The maximum amount in the Rate Stabilization Fund shall not exceed 50% of the average estimated Net Water Sales over two fiscal years approved in the District's budget. Net Water Sales are defined as total revenues from water operations less water purchase expenses. Any excess over the maximum amount in this fund shall be reported at the next regular Board Meeting with staff's recommendation on the handling of these excess funds.

Methodology:	The District relies on water commodity revenues to pay for costs to deliver water and provide service to its customers. This fund allows for financial flexibility to manage water sales fluctuations due to uncontrollable conditions such as prolonged wet or dry weather, enabling the District to stabilize rates from year to year.
Use of Funds:	To mitigate the immediate need to raise water rates in the event of cash flow reductions from operations so that the District has the ability to meet its debt service payments.
Contributions:	Any excess from the Water Operating Fund after annual contributions to the Capital and Equipment Fund is made for that year. Contributions to this fund can only be made with Board approval. Adequacy of this fund will be reviewed by District staff during budget process. By maintaining an adequate balance in this fund, the District can experience years when revenues fluctuate (e.g., due to drought or wet weather) without the need to raise rates. By decreasing this fund, the District becomes less stable and, therefore, more vulnerable to future rate increases. The Board must determine the level of risk it is willing to assume for the Rate Stabilization Fund as part of the budget process.

Water – Pension Stabilization Fund

Purpose:	To secure the District's ability to have a consistent annual Unfunded Accrued Liability (UAL) payment to California Public Employee's Retirement System (CalPERS), including Additional Discretionary Payment(s) while achieving its pension funding goal with no rate spikes. The funding goal of a defined benefit pension plan is 100%, which is to fund the long-term cost of benefits provided to the plan members.
Target Balance:	A minimum of one (1) year average of Projected Future Employer Contributions for UAL Payment over the next 5 fiscal years based on the most current CalPERS annual actuarial report for Classic and PEPRAs plans shall be maintained in this fund. A maximum of two (2) years average of Projected Future Employer Contributions for UAL Payment over the next 5

fiscal years included in the most current CalPERS annual actuarial report for Classic and PEPRM Miscellaneous Plans.

- Methodology: The funding goal of a defined benefit pension plan is 100%, which is to fund the long-term cost of benefits provided to plan members. The District relies on water revenues which are subject to external and uncontrollable factors such as weather conditions, federal and state mandates, and economic uncertainty to sustain operations. This fund allows the District to continue funding its pension liability during temporary budget shortfalls, such as prolonged wet or dry weather, thus avoiding rate spikes.
- Use of Funds: To mitigate the immediate need to use other available reserves to fund the District's pension obligations and to comply with the District's Pension Funding Policy. In the event that a District's pension plan achieves a "superfunded" status (funding level exceeds 100%), District staff will report to the Board and provide a recommendation to the Board on the handling of these excess funds after the most recent CalPERS actuarial report is released and the District's financial audit is completed.
- Contributions: Any excess from the Water Operating Fund after annual contributions to the Capital and Equipment Fund is made for that year. Contributions to this fund can only be made with Board approval. Maintaining an adequate balance in this fund reflects the Board's commitment to achieve a fully funded pension plan in a timely manner when revenues fluctuate from year to year. Adequacy of this fund will be reviewed by District staff annually, after the most current CalPERS actuarial report is released and the District's financial audit is completed.

Wastewater - Operating (Revenue) Fund

Purpose:	The District receives the majority of its wastewater service revenues in December and April at the same time when customers pay their property tax bills. Because of the timing difference between revenues and expenditures, the District must have cash resources available to pay for day-to-day wastewater operations and maintenance, debt service, and operating emergencies.
Target Balance:	A minimum of 180 days of annual wastewater operations and maintenance expenditures approved by the Board in the District's budget shall be maintained in this fund. The maximum in this fund shall not exceed 365 days of annual wastewater operations and maintenance expenditures approved by the Board in the District's budget. After the annual financial audit is completed, any excess over the maximum amount, with Board approval, will be transferred to the Wastewater Capital and Equipment Fund and/or Rate Stabilization Fund as long as the fund balance is below their maximum amount. Any excess over the maximum amount shall be reported to the Board at the first regular Board Meeting with staff's recommendation on the handling of these excess funds. Any cash balance below the minimum target balance shall also be reported with specific notes to the Board on a regular basis.
Methodology:	Wastewater service charges are collected through the County Tax Collector's office at the same time that property tax bills are paid by sewer customers (the majority of which are collected on December 31 and April 30). Due to the timing of these receipts, the District needs to have sufficient cash on hand to pay for day-to-day Wastewater operating and maintenance expenses.
Use of Funds:	These funds will be used to pay for wastewater (sewer) operating and maintenance expenditures approved by the Board, wastewater debt service payments, and for any operating emergencies or unanticipated expenditures.
Contributions:	Additions to this fund are a result of net income from Wastewater operations (revenue over expenses) after annual cash transfers to the Wastewater Capital and Equipment Fund and Wastewater Rate Stabilization Fund.

Wastewater - Rate Stabilization Fund

Purpose:	To protect the District's financial resources against economic shortfalls or an unexpected increase in expenditures, including sewage spill clean-up costs, a penalty imposed by the Regional Water Quality Control Board when sewage spills occur, or an emergency repair to damaged sewer facilities following natural disasters or other unforeseen emergencies. These conditions can lead the District to operating deficits.
Target Balance:	A minimum of 25 percent of annual Wastewater operating and maintenance expenditures approved by the Board shall be maintained in this fund. A maximum equal to 100 percent of annual Wastewater operating and maintenance expenditures approved by the Board.. Any excess over the maximum amount in this fund shall be reported at the next regular Board meeting with staff's recommendation on the handling of these excess funds.
Methodology:	This fund will be available to minimize the need for sewer rate increases as well as for spending changes during the fiscal year. It can also be used to stabilize wastewater rates and charges from year to year.
Use of Funds:	These funds will be used to mitigate the immediate need to raise wastewater rates and charges in the event of cash flow reductions from wastewater service revenues so that the District has the ability to meet its sewer debt service coverage ratio.
Contributions:	Contributions to this fund can only be made with Board approval and are reviewed by District staff during the budget process. By maintaining an adequate balance in this fund, the District can avoid operating deficits due to major unexpected expenditures without the need to raise sewer rates and charges and to secure the District's ability to pay its sewer debt service obligations. When revenues are not sufficient to meet the District's annual debt service payment, funds will be transferred from the Wastewater- Rate Stabilization Fund into this fund.

Wastewater - Capital and Equipment Fund

Purpose:	To provide funding for the District's Wastewater (sewer) Capital Improvement Program as identified in the District's 10 Year Capital Spending Plan. The District follows its Debt Management Policy to fund its Wastewater (sewer) Capital Improvement Program.
Target Balance:	A minimum balance of two years' average of planned capital expenditures of the approved 10-year Wastewater Capital Spending Plan spending shall be maintained in this fund. The maximum in this fund shall not exceed five years' average of planned capital expenditures of the approved 10-Year Wastewater Capital Spending Plan. Any excess over the maximum amount in this fund shall be reported to the Board at its next regular Board meeting with staff's recommendation on the handling of these excess funds. Any cash balance below the minimum target balance shall also be reported with specific notes to the Board on a regular basis.
Methodology:	The District follows a 10 Year Wastewater Capital Spending Plan which has a list of wastewater infrastructure improvements and replacements for the next ten years
Use of Funds:	The funds will be used to improve, acquire, and replace Wastewater infrastructures in the 10 Year Wastewater Capital Spending Plan.
Contribution:	Wastewater (sewer) service charges, wastewater capacity fees, and wastewater annexation fees. Net operating income from wastewater operations collected from user charges will be transferred to Wastewater Capital and Equipment Fund annually to provide funds for Wastewater Capital Improvement Program.

Wastewater – Pension Stabilization Fund

Purpose:	To secure the District's ability to have a consistent annual Unfunded Accrued Liability (UAL) payment to California Public Employee's Retirement System (CalPERS), including Additional Discretionary Payment(s) while achieving its pension funding goal. The funding goal of a defined benefit pension plan is 100%, which is to fund the long-term cost of benefits provided to the plan members.
Target Balance:	A minimum of one (1) year average of Projected Future Employer Contributions for UAL Payment over the next 5 fiscal years based on the most current CalPERS annual actuarial report for Classic and PEPRAs plans shall be maintained in this fund. A maximum of two (2) years average of Projected Future Employer Contributions for UAL Payment over the next 5

fiscal years included in the most current CalPERS annual actuarial report for Classic and PEPRA Miscellaneous Plans.

- Methodology: The funding goal of a defined benefit pension plan is 100%, which is to fund the long-term cost of benefits provided to plan members. The District relies on water revenues which are subject to external and uncontrollable factors such as weather conditions, federal and state mandates, and economic uncertainty to sustain operations. This fund allows the District to continue funding its pension liability during revenue shortfalls.
- Use of Funds: To mitigate the immediate need to use other available reserves to fund the District's pension obligations and to comply with the District's Pension Funding Policy. In the event that a District's pension plan achieves a "superfunded" status (funding level exceeds 100%), District staff will report to the Board and provide a recommendation to the Board on the handling of these excess funds after the most recent CalPERS actuarial report is released and the District's financial audit is completed.
- Contributions: Any excess from the Wastewater Operating (Revenue) Fund after annual contributions to the Capital and Equipment Fund is made for that year. Contributions to this fund can only be made with Board approval. Maintaining adequate balance in this fund reflects the Board's commitment to achieve a fully funded pension plan in a timely manner when revenues fluctuate from year to year. Adequacy of this fund will be reviewed by District staff annually, after the most current CalPERS actuarial report is released and the District's financial audit is completed.