ORANGE COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
VIDOR, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2019

TABLE OF CONTENTS

ANNUAL FILING AFFIDAVIT

THE STATE OF TEXAS §

COUNTY OF Orange §

I, Robert Viator of the Orange County Water Control and Improvement District No. 1 hereby swear, or affirm, that the District named above has reviewed and approved at a meeting of the Board of Directors of the District on the 4th day of November, 2019 its annual report for the fiscal year or period ended June 30, 2019 and that copies of the annual audit have been filed in the District office, located at 460 E. Bolivar, Vidor, TX 77662. The annual filing affidavit and the attached copy of the annual audit report are being submitted to the Texas Commission on Environmental Quality in satisfaction of all annual filing requirements within Section 49.194 of the Texas Water Code.

Date: 11/04, 2019

By: Robert L Viator SR
(Signature of District Representative)

Robert Viator, Board President
(Typed Name and Title of above District Representative)

Sworn to and subscribed to before me this 4th day of November, 2019

DONNA K MYERS
Notary Public, State of Texas
Comm. Expires 02-14-2023
Notary ID# 12447016-1

(Seal)

Donna K. Myers
(Signature of Notary)

My commission expires on Feb. 14, 2023 Notary Public in and for the State of Texas.

J. Pat O'Neill, III, CPA
Michael W. Kiefer, CPA (Dave Ramsey ELP)

Wathen, DeShong & Juncker, L.L.P.
CPAs & BUSINESS ADVISORS

Troy W. Domingue, CPA
Stanley (Chip) Majors, Jr., CPA.CITP, CGMA
Jane P. Burns, CPA, CDFA

November 1, 2019

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Orange County Water Control & Improvement District No. 1
Vidor, Texas

Report on the Financial Statements
We have audited the accompanying financial statements of the governmental activities, and each major fund of Orange County Water Control & Improvement District No. 1 as of and for the year ended June 30, 2019 and the related notes to the financial statements, which collectively comprise the Orange County Water Control & Improvement District No. 1's basic financial statements as listed in the table of contents.

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

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

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

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

Opinions
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund of Orange County Water Control & Improvement District No. 1 as of June 30, 2019, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

4140 Gladys Avenue, Suite 101 • Beaumont, TX 77706-3648 • Phone (409) 838-1605 • Fax (409) 838-3316
Members of the American Institute of Certified Public Accountants

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on page 4 through 9; the Schedules of Changes in Employer's Net Pension Liabilities and Related Ratios and Employer Contributions on pages 39 through 40; and the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Governmental Fund on page 40 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 Standard 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 on pages 4 through 9 and pages 39 and 40 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 this information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The required supplementary information on page 41 has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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, this information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Orange County Water Control & Improvement District No. 1's, basic financial statements. The Texas Supplementary Information listed in the Table of Contents on pages 42 through 54 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Texas Supplementary Information listed in the Table of Contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The current year financial information included in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Schedules of Services and Rates and Board Members, Key Personnel and Consultants have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on this information.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2019, on our consideration of Orange County Water Control & Improvement District No. 1's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of Orange County Water Control & Improvement District No. 1's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Orange County Water Control & Improvement District No. 1's internal control over financial reporting and compliance.

Wathen, DeShong & Juncker, L.L.P.

WATHEN, DeSHONG & JUNCKER, L.L.P.
Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Orange County Water Control & Improvement District No. 1 we offer readers of the Orange County Water Control & Improvement District No. 1 financial statements this narrative overview and analysis of the financial activities of the Orange County Water Control & Improvement District No. 1 for the fiscal year ended June 30, 2019. We encourage readers to consider the information presented here in conjunction with the independent auditor's report and the District's financial statements, which follow.

FINANCIAL HIGHLIGHTS

- The assets of the Orange County Water Control & Improvement District No. 1 exceeded its liabilities at the close of 2019, by $11,190,617. Of this amount, $5,926,974 is considered unrestricted.
- The Orange County Water Control & Improvement District No. 1's total net position decreased by $1,277,558 in fiscal year 2019.
- As of the close of the current fiscal year, the District's governmental funds reported a combined ending fund balance of $9,618,099 a decrease of $606,208. Of this total fund balance, $663,592 is considered spendable and unassigned and is considered available for use.
- The general fund reported a fund balance of $3,292,912 at the end of the current fiscal year. The unassigned fund balance for the general fund was $663,592 or 14.7% of total general fund expenditures.
- The District issued a bond refunding in the amount of $9,015,000 during the fiscal year. The refunding along with the district's debt principal payments reduced the overall long-term liabilities by $1,052,812.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Orange County Water Control & Improvement District No. 1's basic financial statements. These basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements are designed to provide readers with a broad overview of the Orange County Water Control & Improvement District No. 1's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of the Orange County Water Control & Improvement District No. 1's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decrease in net position may serve as a useful indicator of whether the financial position of the Orange County Water Control & Improvement District No. 1 is improving or deteriorating.

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

The Statement of Activities includes collection and disbursement of ad valorem taxes to pay off long-term debt and operation of a water and sewer system.

The government-wide financial statements can be found on pages 10 and 11 of this report.

Fund financial statements are a grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The Orange County Water Control & Improvement District No. 1, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All funds of Orange County Water Control & Improvement District No. 1 are governmental funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statements of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Orange County Water Control & Improvement District No. 1 maintains several governmental funds. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Debt Service Fund, Contingency Fund, and Construction & Capital Project Funds which are considered to be major funds.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the Financial Statements can be found on pages 18 through 38.

Other information. In addition to the basic financial statements and accompanying notes, required supplementary information presents a schedule of changes in employer's net pension liability and related ratios, schedule of employer contribution, and schedule of revenues, expenditures, and changes in fund balance-budget and actual to demonstrate compliance with the budget. The required supplementary information can be found on pages 39 through 41. Texas Supplementary Information is presented on pages 42 through 54.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Orange County Water Control & Improvement District No. 1, assets exceeded liabilities by $11,190,617 at June 30, 2019.

STATEMENT OF NET POSITION

	2019	2018
Current assets:		
Cash & Investments	$ 9,409,104	$ 9,620,004
Taxes Receivable	436,138	415,635
Service Revenues Receivable	704,668	597,272
Due from Others	21,552	91,998
Inventory	108,921	109,282
Net Pension Asset	-	169,612
Total current assets	10,680,383	11,003,803
Noncurrent Assets:		
Capital Assets	66,525,202	66,237,438
Less accumulated depreciation	(24,568,487)	(22,701,751)
Total noncurrent assets	41,956,715	43,535,687
Total assets	52,637,098	54,539,490
Deferred Outflows of Resources:		
Deferred Outflows of Resources-pension related	347,366	133,092
Current Liabilities:		
Accounts payable and accrued liabilities	119,260	160,011
Customer LPSS deposits	49,770	73,766
Unearned Grant Funds	492,110	-
Current portion of long-term debt	2,628,264	2,598,202
Total current liabilities	3,289,404	2,831,979
Long-term liabilities:		
Customer deposits	367,810	362,805
Long-term debt	37,873,250	38,961,129
Net Pension Liability	207,139	-
Total long-term liabilities	38,448,199	39,323,934
Total liabilities	41,737,603	42,155,913
Deferred Inflows of Resources:		
Deferred Inflows of Resources-pension related	56,244	48,493
Net Position:		
Net Investment in Capital Assets	3,266,941	3,754,743
Restricted for Debt Service	1,996,702	2,293,895
Unrestricted	5,926,974	6,419,538
Total net position	$ 11,190,617	$ 12,468,176

Changes in net position

The District's total revenues were $6,395,170. A significant portion, 47%, of the District's revenue comes from charges for water and sewer services. Approximately 29% of the revenue comes from taxes.

The total cost of all programs and services was $7,672,728; all these costs are related to water and sewer services.

Governmental Activities

Property tax rates increased by approximately .05103 cents per $100 valuation. This increase resulted in an increase in the tax levy to $1,793,479.

STATEMENT OF CHANGES IN NET POSITION

	Government Wide Activities	
	2019	2018
Program Revenues:		
Charges for Services		
Water	$ 1,500,804	$ 1,426,943
Sewer	1,428,107	1,282,234
Service Fees	95,136	103,452
General Revenues:		
Taxes	1,771,712	1,737,493
Penalty & Interest	54,728	59,709
Interest on Temporary Investments	177,728	115,128
Revenue Note Collections	1,018,122	970,067
Miscellaneous Revenues	235,880	111,259
Grants and Contributions	13,926	111,998
Insurance Proceeds	99,027	100,000
Total Revenues	6,395,170	6,018,283
Water and Sewer Service	969,368	1,003,335
Salaries, Benefits, & Payroll taxes	2,405,824	1,824,219
Professional Fees	49,832	109,791
Administrative Expenses	274,330	210,510
Other	75,412	65,000
Interest and Fiscal Charges	2,031,226	1,707,843
Depreciation	1,866,736	1,789,247
Total Expenses	7,672,728	6,709,945
Change in Net Position	$ (1,277,558)	$ (691,662)

The following presents information of each of the District's largest functions:

- The cost of all governmental activities this year was $7,672,728.
- Property tax revenue was $1,826,440.
- $3,024,047 was paid by those who directly received service.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

General Fund Budgetary Highlights

Over the course of the year, the District did not revise its budget. Actual expenditures were $406,665 or 9.90% in excess of budgeted amounts in the General Fund. Resources available were $129,439 or 3.08% in excess of budgeted amounts.

Capital Assets and Debt Administration

Capital Assets

At the end of 2019, the District had invested $66,525,202 in a broad range of capital assets, including land, buildings, water and sewer systems, equipment, and vehicles.

CAPITAL ASSETS

District's Capital Assets
Activities

	2019
Land	$ 303,729
Buildings and Improvements	348,644
Water and Sewer System	63,660,145
Machinery and Equipment	659,910
Autos and Trucks	470,143
Office Furniture and Fixtures	166,177
Construction in Progress	916,454
Totals at historical cost	66,525,202
Total Accumulated Depreciation	(24,568,487)
Net Capital Assets	$ 41,956,715

LONG TERM DEBT AND LIABILITIES

At year-end the District had $29,732,761 in bonds outstanding and $10,360,000 in notes payable. More detailed information about the District's debt is presented in the notes to the financial statements.

Bonds Payable:	Interest Rate	Amounts at Original Issue	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
General Obligation							
2007	3.15%-4.00%	$ 2,500,000	$ 1,590,000	$ -	$ (1,590,000)	$ -	$ -
2009	1.70%-5.05%	11,115,000	9,890,000	-	(8,590,000)	1,300,000	600,000
2019 Refunding	2.0%-4.0%	9,015,000	-	9,015,000	-	9,015,000	115,000
Premium - 2019 Refunding			-	928,980	-	928,980	91,374
Revenue Bonds							
2013 Refunding	1.86%	1,230,000	465,000	-	(165,000)	300,000	165,000
Capital Appreciation							
2012	1.2%-5.3%	13,999,994	13,048,294	-	(471,767)	12,576,527	448,590
Accreted Interest Payable							
2012 Unlimited Tax Bonds			5,253,242	807,245	(448,233)	5,612,254	516,410
Total Bonded Debt			30,246,536	10,751,225	(11,265,000)	29,732,761	1,936,374
Notes Payable							
2011 Revenue Notes	0.3%-4.1%	13,610,000	10,840,000	-	(480,000)	10,360,000	490,000
Total GASB 88 Type Debt			41,086,536	10,751,225	(11,745,000)	40,092,761	2,426,374
Compensated Absences Payable			82,340	38,644	-	120,984	-
OPEB Liability			57,253	28,626	-	85,879	-
Accrued Interest Expense			333,202	201,890	(333,202)	201,890	201,890
Customer Deposits			362,805	72,650	(67,645)	367,810	-
Total Long-Term Liabilities			$ 41,922,136	$ 11,093,035	$ (12,145,847)	$ 40,869,324	$ 2,628,264

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The 2019-2020 budget was presented incorporating the rate increase of 19.5% to the water and sewer rates that occurred in the year under audit, and no significant increase in the number of customers in the District. The General Fund Revenue Budget for 2019-2020 is $4,671,460 which is a 11.23% increase from the 2018-2019 General Fund Budget of $4,200,000.

There are no major expenditures anticipated other than the normal operating expenditures expected in servicing the customers of the District with the largest expenditures being related to employee wages and salaries. The General Fund Expenditure Budget for 2019-2020 is $ 4,671,460 which is a 11.23% increase from the 2018-2019 General Fund Expenditure Budget of $4,200,000.

The ad valorem tax roll for the 2019 tax year is $507,125,372 with an adopted tax rate of $0.41701 per $100 valuation. All proceeds from ad valorem tax collection are used for debt service retirement.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the District's offices, located at 460 E. Bolivar Street, Vidor Texas 77662.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

ORANGE COUNTY WATER CONTROL & IMPROVEMENT DISTRICT #1
STATEMENT OF NET POSITION
JUNE 30, 2019

	Primary Government
	Governmental Activities
ASSETS	
Cash and Cash Equivalents	$ 8,916,994
Taxes Receivable, Net	436,138
Accounts Receivable, Net	704,668
Due from Others	21,552
Inventories	108,921
Restricted Cash	492,110
Capital Assets:	
Land	303,729
Infrastructure, Net	40,139,237
Buildings, Net	160,963
Furniture and Equipment, Net	436,332
Construction in Progress	916,454
Total Assets	52,637,098
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflow Related to Pension Plan	347,366
Total Deferred Outflows of Resources	347,366
LIABILITIES	
Accounts Payable	61,933
Wages and Salaries Payable	38,801
Accrued Interest Payable	5,856
Unearned Revenues	541,880
Other Current Liabilities	12,670
Noncurrent Liabilities:	
Due Within One Year	2,628,264
Due in More Than One Year	38,241,060
Net Pension Liability	207,139
Total Liabilities	41,737,603
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflow Related to Pension Plan	56,244
Total Deferred Inflows of Resources	56,244
NET POSITION	
Net Investment in Capital Assets	3,266,941
Restricted for Debt Service	1,996,702
Unrestricted	5,926,974
Total Net Position	$ 11,190,617

The notes to the financial statements are an integral part of this statement.

ORANGE COUNTY WATER CONTROL & IMPROVEMENT DISTRICT #1 — EXHIBIT B

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2019

		Program Revenues		Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
Water and Sewer Service	$ 969,368	$ 3,024,047	$ -	$ 2,054,679
Salaries, Benefits and Payroll Taxes	2,405,824	-	-	(2,405,824)
Professional Fees	49,832	-	-	(49,832)
Administrative Expenses	274,330	-	-	(274,330)
Other	75,412	-	-	(75,412)
Depreciation Expense	1,866,736	-	-	(1,866,736)
Bond Interest and Fiscal Charges	2,031,226	-	-	(2,031,226)
TOTAL PRIMARY GOVERNMENT	$ 7,672,728	$ 3,024,047	$ -	(4,648,681)

General Revenues:	
Taxes:	
Property Taxes	1,771,712
Revenue Note Collections	1,018,122
Penalty and Interest	54,728
Grants and Contributions	13,926
Miscellaneous Revenue	334,907
Investment Earnings	177,728
Total General Revenues	3,371,123
Change in Net Position	(1,277,558)
Net Position -- Beginning	12,468,175
Net Position - Ending	$ 11,190,617

The notes to the financial statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS

ORANGE COUNTY WATER CONTROL & IMPROVEMENT DISTRICT #1
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2019

	General Fund	Debt Service Fund	Contingency Fund
ASSETS			
Cash and Cash Equivalents	$ 2,592,776	$ 362,750	$ 2,808,268
Taxes Receivable	-	513,104	-
Allowance for Uncollectible Taxes (credit)	-	(76,966)	-
Accounts Receivable, Net	704,668	-	-
Due from Other Funds	10,493	-	-
Due from Others	15,517	-	-
Inventories	108,921	-	-
Restricted Cash - TWDB Escrow	-	-	-
Total Assets	$ 3,432,375	$ 798,888	$ 2,808,268
LIABILITIES			
Accounts Payable	$ 38,222	$ -	$ -
Wages and Salaries Payable	38,801	-	-
Due to Other Funds	-	-	-
Accrued Interest Payable	-	5,856	-
Unearned Revenues	49,770	-	-
Other Current Liabilities	12,670	-	-
Total Liabilities	139,463	5,856	-
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Property Taxes	-	401,144	-
Total Deferred Inflows of Resources	-	401,144	-
FUND BALANCES			
Nonspendable Fund Balance:			
Inventories	108,921	-	-
Restricted Fund Balance:			
Capital Acquisition and Obligation	-	-	-
Retirement of Long-Term Debt	2,140,607	391,888	-
Other Restricted Fund Balance	379,792	-	-
Assigned Fund Balance:			
Construction	-	-	-
Other Assigned Fund Balance	-	-	2,808,268
Unassigned Fund Balance	663,592	-	-
Total Fund Balances	3,292,912	391,888	2,808,268
Total Liabilities, Deferred Inflows & Fund Balances	$ 3,432,375	$ 798,888	$ 2,808,268

The notes to the financial statements are an integral part of this statement.

Construction & Capital Pro Funds	Total Governmental Funds
$ 3,153,200	$ 8,916,994
-	513,104
-	(76,966)
-	704,668
-	10,493
6,035	21,552
-	108,921
492,110	492,110
$ 3,651,345	$ 10,690,876
$ 23,711	$ 61,933
-	38,801
10,493	10,493
-	5,856
492,110	541,880
-	12,670
526,314	671,633
-	401,144
-	401,144
-	108,921
1,604,877	1,604,877
-	2,532,495
-	379,792
1,520,154	1,520,154
-	2,808,268
-	663,592
3,125,031	9,618,099
$ 3,651,345	$ 10,690,876

ORANGE COUNTY WATER CONTROL & IMPROVEMENT DISTRICT #1
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
FOR THE YEAR ENDED JUNE 30, 2019

Total Fund Balances - Governmental Funds	$	9,618,099
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds.		41,956,715
Property taxes receivables are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		401,144
Long-term liabilities, including bonds payable and notes payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		(40,294,651)
Net pension assets (obligations) are not available to pay for current expenditures, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		83,983
Other post employment benefits are not due and payable in th current period and, therefore, are not reported in the governmental funds.		(85,879)
Compensated absences and customer deposits are not due and payable in the current period and, therefore, are not reported in the governmental funds.		(488,794)
Net Position of Governmental Activities	$	11,190,617

The notes to the financial statements are an integral part of this statement.

ORANGE COUNTY WATER CONTROL & IMPROVEMENT DISTRICT #1
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

	General Fund	Debt Service Fund	Contingency Fund
REVENUES:			
Taxes:			
Property Taxes	$ -	$ 1,746,674	$ -
Penalty and Interest on Taxes	-	54,728	-
Intergovernmental Revenue and Grants	-	-	-
Water Services	1,500,804	-	-
Sewer Services	1,428,107	-	-
Other Service Fees	94,857	279	-
FEMA Funding	107,568	-	-
Investment Earnings	46,664	10,450	56,288
Revenue Note Collections	1,018,122	-	-
Other Revenue	133,317	-	-
Total Revenues	4,329,439	1,812,131	56,288
EXPENDITURES:			
Current:			
General Government:			
Water and Sewer Service	885,552	-	-
Salaries, Benefits and Payroll Taxes	2,168,326	-	-
Professional Fees	36,319	-	-
Administrative Expenses	274,330	-	-
Other	50,928	24,484	-
Debt Service:			
Bond Principal	645,000	1,620,000	-
Bond Interest and Fiscal Charges	378,346	813,953	-
Capital Outlay:			
Capital Outlay	67,864	-	-
Total Expenditures	4,506,665	2,458,437	-
Excess (Deficiency) of Revenues Over (Under) Expenditures	(177,226)	(646,306)	56,288
OTHER FINANCING SOURCES (USES):			
Other Sources: Refunding Bonds	-	9,015,000	-
Transfers In	408,000	8,000	-
Premium on Issuance of Bonds	-	928,980	-
Insurance Recovery	-	-	-
Transfers Out (Use)	(108,000)	(8,000)	(300,000)
Other Uses: Refunded Bonds	-	(9,642,994)	-
Total Other Financing Sources (Uses)	300,000	300,986	(300,000)
Net Change in Fund Balances	122,774	(345,320)	(243,712)
Fund Balance - July 1 (Beginning)	3,170,138	737,208	3,051,980
Fund Balance - June 30 (Ending)	$ 3,292,912	$ 391,888	$ 2,808,268

The notes to the financial statements are an integral part of this statement.

Construction & Capital Pro Funds	Total Governmental Funds
$ -	$ 1,746,674
-	54,728
13,926	13,926
-	1,500,804
-	1,428,107
-	95,136
-	107,568
64,326	177,728
-	1,018,122
-	133,317
78,252	6,276,110
-	885,552
-	2,168,326
13,513	49,832
-	274,330
-	75,412
-	2,265,000
-	1,192,299
303,716	371,580
317,229	7,282,331
(238,977)	(1,006,221)
-	9,015,000
104,329	520,329
-	928.980
99,027	99,027
(104,329)	(520,329)
-	(9,642,994)
99,027	400,013
(139,950)	(606,208)
3,264,981	10,224,307
$ 3,125,031	$ 9,618,099

ORANGE COUNTY WATER CONTROL & IMPROVEMENT DISTRICT #1
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

Total Net Change in Fund Balances - Governmental Funds	$	(606,208)
Property tax revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds.		25,038
Current year capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide financial statements.		287,764
Depreciation is not recognized as an expense in the governmental funds since it does not require the use of current financial resources.		(1,866,736)
The repayment of the principal portion of long-term debt consumes current financial resources of the governmental funds; however, it has no impact on the net postion of the government-wide activities.		2,265,000
Interest on long-term governmental debt is not due and payable in the current period and, accordingly, is not reported as a current period expenditure. Interest expense on the long-term debt of governmental activities is accrued and accreted in the Statement of Activities.		(675,933)
Proceeds from the issuance of bonds, and the subsequent refunding of exisiting bonds are reported as other sources and other uses in the governmental funds. These transactions do not impact net assets.		(463,980)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. These include changes in other post employment benefits, net pension asset, and compensated absences.		(242,503)
Change in Net Position of Governmental Activities	$	(1,277,558)

The notes to the financial statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 – GENERAL STATEMENT

Orange County Water Control and Improvement District No. 1, Vidor, Texas (the District) was created by an order of the Texas State Board of Water Engineers on January 26, 1948 and confirmed by the electorate of the District in a confirmation election held on April, 24, 1948. The District was validated by the 57^{th} Legislature of Texas in 1965 and operates under Chapter 51 of the Texas Water Code. The Board of Directors held its first meeting on February 4, 1948 and the first bonds were sold on May 27, 1955. The general purpose financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the District's significant accounting policies.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The District provides water and sewer to the Vidor area of Orange County. In evaluating how to define the government for financial reporting purposes, management has considered all potential component units. The decision to include or exclude a potential component unit in the reporting entity was made by applying the criteria set forth by generally accepted accounting principles. Based upon these principles, the basic criteria for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant criteria is financial interdependency. Other factors affecting the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public services. Based upon these criteria, there are no component units to the District, nor is the District a component unit of any governmental body.

B. Excluded from the reporting entity

Water and sewer development and improvement grants received from the Texas Department of Housing and Community Affairs through the City of Vidor, the City of Rose City, or the County of Orange are administered by those entities and are not included in the District's general purpose financial statements except for those costs incurred by the District as the project progresses.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of the interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of given functions or segments are offset by program revenue. Program revenue includes charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment. Taxes and other items not properly included among program revenue are reported instead as general revenue.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting.* Revenue is recorded when earned and expenses are recorded when liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus and the modified accrual basis of accounting.* Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available when it is collectible during the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenue to be available if it is collected within 60 days of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are record only when payment is due.

Property taxes, accounts receivable for service, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Government-wide and Fund Financial Statements (Continued)

The District has the following Governmental Funds:

General Fund – The General Fund is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in other funds.

Debt Service Fund – The Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Contingency Fund – The Contingency Fund is a special revenue fund. Established in the fiscal year ended June 30, 2014, it is to be used for emergencies only. Money is set aside regularly, and it is the goal of the Board of Directors to have $3,000,000 available for emergency uses.

Construction Fund – This fund was formerly referred to and shown on the financial statements as the Capital Projects Fund. It accounts for the resources used for the construction or acquisition of major capital facilities when the construction or acquisition is paid for by grants, bonds, or by loans.

Capital Projects Fund – The Capital Projects Fund, established in the fiscal year ended June 30, 2014, accounts for the District's financial resources to be used for the rehabilitation and expansion of the District's infrastructure and facilities.

D. Basis of Accounting

The basis of accounting is the method by which revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. The District uses the modified accrual basis of accounting. Revenues are recognized when they become susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Most revenue sources are recorded as revenues when received in cash because they are generally not measurable until actually received. Deferred revenues are amounts which have been deemed measurable until actually received. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt, which is recognized when due.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Cash and Investments

Cash includes amounts in demand deposits as well as money market accounts. The District Board has approved making investments in the Lone Star Investment Pool, but the District had no investments in the pool at June 30, 2019.

The District, in compliance with legal requirements, has written investment policy and the District's investment officers have received the required hours of training on the Texas Public Funds Investment Act and related investment issues for the year.

F. Encumbrances

The District does not use encumbrance accounting.

G. Materials and Supplies Inventories

Inventories are valued at cost using the first-in, first-out basis which approximates market. Inventories for all funds consist of expendable supplies held for consumption and the cost thereof is recorded as expenditure as the individual inventory items are issued (consumption method).

H. Interfund Transactions

Interfund Receivable and Payable – Short-term advances between funds are accounted for in the appropriate interfund receivable and payable accounts.

Transactions Between Funds – Transactions between funds that would be treated as revenues, expenditures, or expenses if they involved organizations external to the District are accounted for as revenues, expenditures, or expenses in the funds involved.

I. Land, Buildings and Equipment

General fixed assets have been acquired or constructed for general governmental purposes. Infrastructure assets and other fixed assets are recorded as expenditures in the governmental funds and capitalized at cost and recorded in the government-wide financial statements. Gifts or contributions of general fixed assets are recorded at estimated fair market value upon receipt. Interest has been capitalized as appropriate.

It is the policy of the District to capitalize assets with an individual cost of $3,000 or more and a useful life of at least two years. Depreciating is computed using the straight-line method over the following useful lives:

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Land, Buildings and Equipment (Continued)

Assets	Years
Buildings and Improvements	35
Water and Sewer System	35
Machinery and Equipment	5-10

J. Long-term Liabilities

Long-term liabilities that will be financed from governmental funds are recorded in the government-wide financial statements. The general long-term debt is secured by the general credit and taxing powers of the District.

K. Compensated Absences

Employees of the District are granted vacation benefits in varying amounts based upon tenure with the District. Unused vacation has a maximum allowable accumulation of twenty-five days. Each December 31, any excess balance will be reduced to the maximums by paid compensation. Unused vacation leave shall by paid upon termination of employment with the District.

Sick leave accrues to regular full-time employees to a maximum of one hundred twenty days. Each December 31, any excess of the maximum is reduced to the maximum without compensation. Unused sick leave is not compensatory upon separation from employment with the District, except that after twelve years of employment and for qualified retirement, the equivalent of one-half of accumulated sick leave shall be paid not to exceed a total of sixty days.

The estimated accrued liability for compensated absences for vacation and sick leave is as follows.

	Number of Qualifying Employees	Maximum Days per Employee	Total Accrued
Sick leave	4	60	$ 31,980
Vacation	29	40	89,004
Total	33	100	$ 120,984

Total accrued sick leave reflects 50% of estimated total liability due to its non-compensatory nature as explained in Note K above.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Post-Retirement Benefits

The District currently pays one-half of the medical insurance premiums for its retirees from retirement to age 65. Liability for this benefit for one year is currently estimated to be $85,879.

Financial reports information pertaining to the District's participation in the Texas County and District Retirement System (TCDRS) was prepared in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date.*

M. Property Taxes

Ad valorem taxes, penalties and interest are reported as revenue in the fiscal year in which they become available to finance expenditures of the fiscal year.

N. Tax Abatements

The Orange County Water Control and Improvement District No. 1 is committed to an expansion of its tax base, an increase to its population, the promotion of development in the District, and to an ongoing improvement in the quality of life for its residents. The District offers residential tax abatements for residents within the boundaries of the District Reinvestment Zones designated by the City of Vidor Ordinances Nos. 1247, 1248, 1249, 1250 and 1251 as a stimulus for economic development in the District. Property eligible for tax abatement per the guidelines and criteria is defined as: all property used as a single-family residence, located within a designated Reinvestment Zone, and within the boundaries of the District. As provided in the Act, abatement may only be granted for the value of eligible property subsequent to and listed in an abatement agreement between the District and the property owner, or the City of Vidor and the property owner where the District has, by official action, expressed an intent to be bound by the terms of the agreement in accordance with Section 312.206(a) of the Texas Property Code.

Upon determination that all requirements for tax abatement have been satisfied by the applicant, the value and terms of the abatements will be for a period of eight (8) years in accordance with the Schedule of Taxes Assessed stated in resolution no. 01-2018 of the Board of Directors of the District. Abatement shall be granted effective with the January 1 valuation date immediately following the date of approval of the abatement agreement and completion of construction of the property.

For the fiscal year ended June 30, 2019, the District abated property valued at $2,591,642, which resulted in abated property taxes totaling $9,778. All abatement agreements were in relation to residential property, and no single abatement exceeded 15% of the total abated value.

O. Budget

The District adopts an annual budget for the general fund only. The budget is adopted prior to the start of the fiscal and is based on the modified accrual basis of accounting which is consistent with generally accepted accounting principles. Appropriations lapse at year end.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumption that affect the reported amounts off assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts and expenses during the reporting periods. Actual results could differ from those estimates.

Q. Application of Resources

It is the District's policy to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

R. Fund Equity

The District has adopted GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints:

Non-spendable fund balance – amounts that cannot be spent either because they are in non-spendable form or because they are legally or contractually required to be maintained intact.

Restricted fund balance – amounts that are restricted to specific purposes externally imposed by creditors, grantors, contributors, or imposed by the laws or regulations of other governments.

Committed fund balance – amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority (Board of Directors). To be reported as committed, amounts cannot be used for any other purpose unless the Board takes the highest level action to remove or change the constraint.

Assigned fund balance – the portion of fund balance that the Board of Directors and management intends to use for specific purposes.

Unassigned fund balance – the portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds.

When the District incurs expenditures for purposes for which various fund balance classifications can be used, it is the District's policy to use restricted fund balance first, then committed fund balance, assigned fund balance, and finally unassigned fund balance. The District establishes (and modifies or rescinds) fund balance commitments by passage of a motion or resolution by the Board of Directors. This is done through adoption and amendment of the budget.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

R. Fund Equity (Continued)

In the government-wide financial statements, net position represents the difference between assets and liabilities. Net position invested in capital assets represents capital asset balances reduced by accumulated depreciation and by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets. Net position is reported as restricted when there are limitations imposed on the use by the board of directors, designation, or through external restriction imposed by creditors, grantors or laws or regulations of other governments. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as they are needed.

NOTE 3 – CASH AND INVESTMENTS

Texas statute and the District's investment policy authorize the District to invest in U.S. Treasury, bills, notes and bonds, which are backed by the full faith and credit of the United States government, U.S. governmental agency securities, and insured or collateralized time deposits issued by banks domiciled in the State of Texas.

At the year-end, the carrying amount of the District's deposits was $9,409,104 and the bank balance was $9,427,180. All deposits as of the financial statement date were insured by FDIC coverage or collateralized by a letter of credit and pledged securities held by the depository's agent in the District's name.

Following are the components of the District's cash and investments at June 30, 2019:

	Assets			
	Unrestricted	Restricted	Total	Bond Revenue Requirements
Cash Accounts				
Interest and Sinking	$ -	$ 1,289,196	$ 1,289,196	$ -
Bond Reserves (2011)	-	1,032,124	1,032,124	953,382
Bond Reserves (2013)	-	171,546	171,546	165,236
Bond Proceeds	-	1,625,587	1,625,587	-
Customer Deposits	-	379,792	379,792	-
Other	4,411,290	499,569	4,910,859	-
	$ 4,411,290	$ 4,997,814	$ 9,409,104	$ 1,118,618

NOTE 4 – PROPERTY TAXES

The District's ad valorem property tax is levied each October 1 on the assessed value listed as of January 1 for all real property located in the District. The assessed value of the roll upon which the levy for the 2018 calendar year was based was $436,759,089. The tax rate assessed for the year ended June 30, 2019, to service bonded indebtedness was $0.41063 per $100 valuation.

Property taxes attached as an enforceable lien on the property as of February 1 following the levy date. Taxes are due October 1 and become delinquent by February 1 following the October 1 levy date. Current tax collections for the year ended June 30, 2019 were 91.76% of the tax.

NOTE 5 – CAPITAL ASSETS

Following is a summary of the District's capital asset activity:

	Balance July 1, 2018	Additions	Retire-ments	Transfers	Balance June 30, 2019
Capital Assets					
Capital assets, not being depreciated					
Land	$ 303,729	$ -	$ -	$ -	$ 303,729
Construction-in-progress	3,302,120	175,536	-	(2,561,202)	916,454
Total capital assets, not being depreciated	3,605,849	175,536	-	(2,561,202)	1,220,183
Capital assets, being depreciated					
Buildings	299,166	49,478	-	-	348,644
Improvements other than buildings	61,098,943	-	-	2,561,202	63,660,145
Machinery and equipment	1,233,480	62,750	-	-	1,296,230
Total capital assets, being depreciated	62,631,589	112,228	-	2,561,202	65,305,019
Less accumulated depreciation					
Buildings	176,612	11,069	-	-	187,681
Improvements other than buildings	21,745,195	1,775,713	-	-	23,520,908
Machinery and equipment	779,944	79,954	-	-	859,898
Total accumulated depreciation	22,701,751	1,866,736	-	-	24,568,487
Total capital assets, being depreciation, net	39,929,838	(1,754,508)	-	2,561,202	40,736,532
Total capital assets, net	$ 43,535,687	$ (1,578,972)	$ -	$ -	$ 41,956,715

Depreciation expense was $1,866,736 for the fiscal year ended June 30, 2019.

NOTE 5 – CAPITAL ASSETS (CONTINUED)

The following represents the District's construction commitments for the year ended June 30, 2019:

Project	Commitment	Spent to Date	Remaining Commitment
Contract 3 Water and Sewer Service Extensions Project	$ 677,675	$ 58,794	$ 618,881
Contract 4 Sanitary Sewer System Improvements Project	1,099,114	89,611	1,009,503
TWDB - Lower Lift Station	500,000	17,669	482,331
Well Site 7 TTHM Treatment System	750,380	750,380	-
Totals	$ 3,027,169	$ 916,454	$ 2,110,715

NOTE 6 – ADVANCE REFUNDING OF DEBT

2001 Revenue Notes

On January 15, 2013, the District issued $1,230,000 in revenue refunding bonds with an interest rate of 1.86%. The proceeds were used to advance refund the $1,375,000 outstanding balance of the 2001 revenue notes which had interest rates ranging from 3.15% to 3.9%. From the net proceeds of $1,230,000 plus an additional $193,778 of District funds, $28,120 was used to pay the costs of issuance and $1,395,658 was deposited in an irrevocable trust with an escrow agent to provide funds for the future debt service payment on the refunded revenue notes. As a result, the 2001 revenue notes are considered defeased and the liability for them has been removed from the statement of net position.

The advance refunding of the revenue notes reduced the total debt service payments over 9 years by $108,350. The present value of the saving from cash flow, $99,131, less prior funds on hand of $25,000, resulted in net present value savings of $74,131.

2007 and 2009 Unlimited Tax Bonds Refunding

On May 21, 2019, the District issued $9,015,000 in unlimited tax refunding bonds with an interest rate of 2.0% - 4.0%. The proceeds were used to advance refund $1,470,000 of outstanding 2007 unlimited tax refunding bonds which had interest rates ranging from 3.15% to 4.0%; and $8,199,242.50 was deposited in an irrevocable trust with an escrow agent to provide funds for the advance refunding of $8,010,000 of outstanding 2009 unlimited tax refunding bonds on August 15, 2019. As a result, the 2007 and 2009 unlimited tax refunding bonds are considered defeased and the liability for those bonds has been removed from the statement of net position.

The advance refunding of the 2007 and 2009 bonds reduced the total debt service payments over 12 years by $1,182,123. The present value of the saving from cash flow is $1,051,373.

NOTE 6 – ADVANCE REFUNDING OF DEBT (CONTINUED)

Prior Year Defeasance of Debt

In prior years, the District defeased general obligation bonds by placing the proceeds of new bonds in an irrevocable trust account to provide for all future debt payments on those bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2019, 2013 Revenue Refunding Bonds of 2001 Revenue Notes in the amount of $320,000, remain outstanding at year-end.

NOTE 7 – LONG-TERM DEBT

The District issues General Obligation and Capital Appreciation bonds to provide funds for the acquisition and construction of major capital facilities. General Obligation and Capital Appreciation bonds are direct obligations and pledge the full faith and credit of the District.

The following is a schedule of the open bond series at the end of the fiscal year:

Bond Series	Intrest Rates	Payable At
2009 General Obligation	1.70-5.05%	Wells Fargo Bank NA, Ausitn Texas
2012 Capital Appreciation	1.20-5.30%	N/A Zero Coupon Bonds
2013 Revenue Refunding	1.86%	Bank of Texas, Houston, Texas
2019 General Obilgation Refunding	2.0-4.0%	UMB Bank, N.A., Austin, Texas

Except for the revenue refunding bonds, bonds are payable from the proceeds of ad valorem taxes levied on all property subject to taxation in the District without limit as to rate or amount with no revenue pledge. Payment of the principal and interest on the bonds when due is guaranteed by a municipal bond insurance policy issued with the delivery of the bonds by MBIA Insurance Corporation. The revenue refunding bonds are payable from the District's revenues and ad valorem taxes may not be used for their repayment.

Annual debt service requirements to maturity for the bonds are as follows:

Due During Fiscal Year Ended	Bonds		Revenue Note		Total	Total
	Principal	Interest	Principal	Interest	Principal	Interest
2020	$ 1,328,590	$ 837,065	$ 490,000	$ 357,958	$ 1,818,590	$ 1,195,023
2021	1,230,089	949,935	540,000	345,058	1,770,089	1,294,993
2022	1,434,309	636,241	710,000	327,920	2,144,309	964,161
2023	1,437,516	660,684	730,000	306,487	2,167,516	967,171
2024	1,454,048	674,552	755,000	282,715	2,209,048	957,267
2025-2029	7,725,721	3,612,479	4,205,000	989,346	11,930,721	4,601,825
2030-2034	5,664,965	6,514,235	2,930,000	180,867	8,594,965	6,695,102
2035-2038	2,916,289	7,343,711	-	-	2,916,289	7,343,711
Total	$ 23,191,527	$ 21,228,902	$ 10,360,000	$ 2,790,351	$ 33,551,527	$ 24,019,253

NOTE 7 – LONG-TERM DEBT (CONTINUED)

Changes in long-term liabilities

Long-term liability activity for the year ended June 30, 2019, was as follows:

Bonds Payable:	Interest Rate	Amounts at Original Issue	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
General Obligation							
2007	3.15%-4.00%	$ 2,500,000	$ 1,590,000	$ -	$ (1,590,000)	$ -	$ -
2009	1.70%-5.05%	11,115,000	9,890,000	-	(8,590,000)	1,300,000	600,000
2019 Refunding	2.0%-4.0%	9,015,000	-	9,015,000	-	9,015,000	115,000
Premium - 2019 Refunding			-	928,980	-	928,980	91,374
Revenue Bonds							
2013 Refunding	1.86%	1,230,000	465,000	-	(165,000)	300,000	165,000
Capital Appreciation							
2012	1.2%-5.3%	13,999,994	13,048,294	-	(471,767)	12,576,527	448,590
Accreted Interest Payable							
2012 Unlimited Tax Bonds			5,253,242	807,245	(448,233)	5,612,254	516,410
Total Bonded Debt			30,246,536	10,751,225	(11,265,000)	29,732,761	1,936,374
Notes Payable							
2011 Revenue Notes	0.3%-4.1%	13,610,000	10,840,000	-	(480,000)	10,360,000	490,000
Total GASB 88 Type Debt			41,086,536	10,751,225	(11,745,000)	40,092,761	2,426,374
Compensated Absences Payable			82,340	38,644	-	120,984	-
OPEB Liability			57,253	28,626	-	85,879	-
Accrued Interest Expense			333,202	201,890	(333,202)	201,890	201,890
Customer Deposits			362,805	72,650	(67,645)	367,810	-
Total Long-Term Liabilities			$ 41,922,136	$ 11,093,035	$ (12,145,847)	$ 40,869,324	$ 2,628,264

The Debt Service Fund on June 30, 2019 had combined cash, time deposits, and accrued interest amounting to $362,750. The provisions of the bond resolutions relating to debt service requirements are being met and the cash allocated for these purposes is sufficient to meet upcoming debt service requirements for the remainder of the calendar year.

The funds in the General Funds revenue note payment accounts and the monthly deposits to them are sufficient to meet upcoming debt service requirements for the 2013 revenue refunding bonds and the 2011 revenue notes.

The required reserve account balance for the 2013 revenue refunding bonds is $165,236 at June 30, 2019, and the actual account balance is $171,546. The June 30, 2019, reserve requirement for the 2011 revenue note is $953,382 and the account balance is $1,032,124.

NOTE 8 –PENSION PLAN

Plan Description

Orange County Water Control & Improvement District No. 1 provides retirement, disability and death benefits for all of its full-time employees through participation in the statewide Texas County and District Retirement System (TCDRS), a nontraditional defined benefit pension plan. The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 781 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

The Plan provisions are adopted by the governing body of the employer, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 8 or more years of service or with 30 years regardless of age, or when the sum of their age and years of service equals 75 or more. Members are vested after 8 years of service but must leave their accumulated contributions in the plan to receive any employer-finance benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

Benefit amounts are determined by sum of the employee's contributions to the plan, with interest, and employer-financed monetary credits. The level of those monetary credits is adopted by the governing body of the employer within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer's commitment to contribute. At retirement, death or disability, the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

At June 30, 2019, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	10
Inactive employees entitled to but not yet receiving benefits	6
Active employees	34
	50

NOTE 8 – PENSION PLAN (CONTINUED)

Funding Policy

The employer has elected the annually determined contribution rate (ADCR) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually.

The employer contributed using the actuarially determined rate of 3.78% for the months of the accounting year in 2018 and 6.26% for the months of the accounting year in 2019. The contribution rate payable by the employee members for calendar years 2018 and 2019 is the rate of 7.00%, as adopted by the governing body of the employer. The employee contribution rate and the employer contribution rate may be changed by the governing body of the employer within the options available in the TCDRS Act.

Annual Pension Cost

For the employer's accounting year ended June 30, 2019, the annual pension cost for the TCDRS plan for its employees was $252,277 and the actual contribution was $82,048. The required contribution was determined as part of the December 31, 2018 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at December 31, 2018 included (a) 8.0 percent investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.9 percent. Both (a) and (b) included an inflation component of 2.75 percent. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of covered payroll basis over a closed period with a layered approach.

Net Pension Liability (Asset)

	December 31, 2017	December 31, 2018
Total pension liability	$ 3,245,597	$ 3,590,065
Fiduciary net position	3,415,209	3,382,926
Net pension liability / (asset)	$ (169,612)	$ 207,139
Fiduciary net position as a % of total pension liability	105.23%	94.23%
Pensionable covered payroll[(1)]	$ 1,360,927	$ 1,489,257
Net pension liability as a % of covered payroll	-12.46%	13.91%

[(1)] *Payroll is calculated based on contributions as reported to TCDRS.*

NOTE 8 –PENSION PLAN (CONTINUED)

The total pension liability was determined by an actuarial valuation as of the valuation date, calculated based on the discount rate and actuarial assumptions below.

Discount Rate

	December 31, 2017	**December 31, 2018**
Discount rate [2]	8.10%	8.10%
Long-term expected rate of return, net of investment expenses[2]	8.10%	8.10%
Municipal bond rate[3]	Does not apply	Does not apply

[2] This rate reflects the long-term rate of return funding valuation assumption of 8.00%, plus 0.10% adjustment to be gross of administrative expenses required by GASB 68.

[3] The plan's fiduciary net position is projected to be available to make all projected future benefit payments of current active, inactive and retired members. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return, and the municipal bond rate does not apply.

Other Key Actuarial Assumptions

All actuarial assumptions that determined the total pension liability as of December 31, 2018 were based on the results of an actuarial experience study for the period January 1, 2013 – December 31, 2016, except where required to be different by GASB 68.

	Beginning Date	**Ending Date**
Valuation date	December 31, 2017	December 31, 2018
Measurement date	December 31, 2017	December 31, 2018
Reporting date	July 1, 2018	June 30, 2019

NOTE 8 –PENSION PLAN (CONTINUED)

Actuarial Methods and Assumptions Used for GASB Calculations

Valuation Timing	Actuarially determined contribution rates are calculated on a calendar year basis as of December 31, two years prior to the end of the fiscal year in which contributions are reported.
Actuarial Cost Method	Entry Age Normal[1]
Amortization Method	
Recognition of economic/demographic gains or losses	Straight-Line amortization over Expected Working Life
Recognition of assumptions changes or inputs	Straight-Line amortization over Expected Working Life
Asset Valuation Method	
Smoothing period	5 years
Recognition method	Non-asymptotic
Corridor	None
Inflation	2.75%
Salary Increases	Varies by age and service. 4.9% average over career including inflation.
Investment Rate of Return	8.10%
Cost-of-Living Adjustments	Cost-of-Living Adjustments for Orange County Water Control and Improvement District #1 are not considered to be substantively automatic under GASB 68. Therefore, no assumption for future cost-of-living adjustments is included in the GASB calculations. No assumption for future cost-of-living adjustments is included in the funding valuation.
Retirement Age	60 and above
Mortality	130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Healthy Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.

[1] Individual entry age normal cost method, as required by GASB 68, used for GASB calculations. Note that a slightly different version of the entry age normal cost method is used for the funding actuarial valuation.

NOTE 8 –PENSION PLAN (CONTINUED)

Long-term Expected Rate of Return

The Long-term expected rate of return on TCDRS assets is determined by adding expected inflation to expected long-term real returns, and reflecting expected volatility and correlation. The capital market assumptions and information shown below are provided by TCDRS' investment consultant, Cliffwater LLC. The numbers shown are based on January 2019 information for a 10-year time horizon.

Note that the valuation assumption for long-term expected return is re-assessed at a minimum of every four years, and is set based on a 30-year time horizon; the most recent analysis was performed in 2017.

Asset Class	Benchmark	Target Allocation [1]	Geometric Real Rate of Return (Expected minus Inflation)[2]
US Equities	Dow Jones U.S. Total Stock Market Index	10.50%	5.40%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index [3]	18.00%	8.40%
Global Equities	MSCI World (net) Index	2.50%	5.70%
Int'l Equities - Developed Markets	MSCI World Ex USA (net) index	10.00%	5.40%
Int'l Equities - Emerging Markets	MSCI Emerging Markets (net) Index	7.00%	5.90%
Investment - Grade Bonds	Bloomberg Barclays U.S. Aggregate Bond Index	3.00%	1.60%
Srategic Credit	FTSE High-Yield Cash-Pay Capped Index	12.00%	4.39%
Direct Lending	S&P/LSTA Leveraged Loan Index	11.00%	7.95%
Distressed Debt	Cambridge Assoc. Distressed Securities Index [4]	2.00%	7.20%
REIT Equities	67% FTSE NAREIT All Equity REITs Index + 33% S&P Global REIT (net) Index	2.00%	4.15%
Master Limited Partnership (MLPs)	Alerian MLP Index	3.00%	5.35%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index [5]	6.00%	6.30%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	13.00%	3.90%

(1) Target asset allocation adopted at the April 2019 TCDRS Board Meeting.

(2) Geometric real rates of return equal the expected return minus the assumed inflation rate of 1.70%, per Cliffwater's 2019 capital market assumptions.

(3) Includes vintage years 2006-present of Quarter Pooled Horizon IRRs.

(4) Includes vintage years 2005-present of Quarter Pooled Horizon IRRs.

(5) Includes vintage years 2007-present of Quarter Pooled Horizon IRRs.

NOTE 8 –PENSION PLAN (CONTINUED)

Changes in Net Pension Liability/ (Asset)

	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances as of December 31, 2017	$ 3,245,597	$ 3,415,209	$ (169,612)
Changes for the year:			
Service Cost	147,806	-	147,806
Interest on total pension liability[1]	269,777	-	269,777
Effect of plan changes[2]	119,853	-	119,853
Effect of economic/demographic gains or losses	(64,815)	-	(64,815)
Effect of assumptions changes or inputs	-	-	-
Refund of contributions	(3,986)	(3,986)	-
Benefit payments	(124,167)	(124,167)	-
Administrative expenses	-	(2,717)	2,717
Member contributions	-	104,248	(104,248)
Net Investment income	-	(63,263)	63,263
Employer contributions	-	56,294	(56,294)
Other [3]	-	1,308	(1,308)
Balances as of December 31, 2018	$ 3,590,065	$ 3,382,926	$ 207,139

[1] Reflects the change in the liability due to the time value of money. TCDRS does not charge fees or interest.

[2] Reflects plan changes adopted effective in 2019

[3] Relates to allocation of system-wide items.

NOTE 8 –PENSION PLAN (CONTINUED)

Sensitivity Analysis

The following presents the net pension liability of the county/district, calculated using the discount rate of 8.10%, as well as what the Orange County Water Control & Improvement District No. 1 net pension liability would be if it were calculated using a discount rate that is 1 percent point lower (7.10%) or 1 percent higher (9.10)% than the current rate.

	1% Decrease 7.10%	Current Discount Rate 8.10%	1% Increase 9.10%
Total pension liability	$ 4,067,400	$ 3,590,065	$ 3,186,571
Fiduciary net position	3,382,926	3,382,926	3,382,926
Net pension liability / (asset)	$ 684,474	$ 207,139	$ (196,355)

Pension Expense/ (Income)

	January 1, 2018 to December 31, 2018
Service cost	$ 147,806
Interest on total pension liability[1]	269,777
Effect on plan changes	119,853
Administrative expenses	2,717
Member contributions	(104,248)
Expected investment return net of investment expenses	(277,862)
Recognition of deferred inflows/outflows of resources	
Recognition of economic/demographic gains or losses	5,518
Recognition of assumption changes or inputs	6,016
Recognition of investment gains or losses	84,008
Other[2]	(1,308)
Pension expense / (income)	$ 252,277

[1] *Reflects the change in the liability due to the time value of money. TCDRS does not charge fees or interest.*

[2] *Relates to allocation of system-wide items.*

NOTE 8 –PENSION PLAN (CONTINUED)

Deferred Inflows/ Outflows of Resources

As of June 30, 2019, the deferred inflow and outflow resources are as follows:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual experience	$ 56,244	$ 63,468
Changes of assumption	-	22,395
Net difference between projected and actual earnings	-	209,541
Contributions made subsequent to measurement date	n/a	51,962
	$ 56,244	$ 347,366

Amounts currently reported as deferred outflows of resources and deferred inflow of resources related to pensions, excluding contributions made subsequent to the measurement date, will be recognized in pension expense as follows:

Year ended December 31:	
2019	$ 88,702
2020	45,794
2021	40,236
2022	74,963
2023	(1,274)
Thereafter	(9,261)

NOTE 9 –OTHER REQUIRED INDIVIDUAL FUND DISCLOSURES

Generally accepted accounting principles require disclosure, as part of the basic financial statements, of certain information concerning individual funds including the following:

In the General Fund, actual expenditures exceeded the budget by the following amounts:

	Amount	Percent of Line Item
Water amd Sewer Service	$ (163,052)	22.6%
Salaries, Benefits and Payroll Taxes	(168,206)	8.4%
Administrative Expenses	(80,330)	41.4%
Other	(17,128)	50.7%
Capital Outlay	(3,864)	6.0%
Line items with positive savings	25,915	40.9%
Total Budget	$ (406,665)	9.9%

NOTE 10 –COMMITMENTS AND CONTINGENCIES

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District obtains insurance coverage through commercial insurance carriers. Workers' compensation and auto liability insurance are covered through participation in a public entity risk pool, where risk is transferred to the pool within policy limits purchased. There have been no significant reductions in insurance coverage from the preceding year and settlement amounts have not exceeded insurance coverage for the current year.

NOTE 11 – SUBSEQUENT EVENT

On September 17-19, 2018, the Orange County Water Control and Improvement District No. 1's physical plant, its supporting infrastructure and its customer/taxpayer base were negatively impacted by the record rainfalls of Tropical Storm Imelda. The District remains operational and has the liquid assets to address a significant portion of the ongoing required system repairs and replacements on a timely basis. As this time the extent of the damage cannot be accurately assessed.

NOTE 12 – TEXAS WATER DEVELOPMENT BOARD PRINCIPAL FORGIVENESS AGREEMENT

On January 22, 2019, the Texas Water Development Board approved the District's Project No. 73825 for $500,000 from their Clean Water State Revolving Fund with 100 percent of the loan to be forgiven. The $500,000 was deposited into an escrow account controlled by the Texas Water Development Board. Money is transferred from the escrow account to the District's account as project milestones are achieved and approved by the Texas Water Development Board. Interest income is credited to the escrow account and is used for payment before principal. The unspent balance in the escrow account of $492,110 is shown as restricted cash and unearned revenue at June 30, 2019. Project activity for the year ended June 30, 2019 is shown below:

Escrow balance 7/01/2018	$ -
TWDB Deposit to escrow account	500,000
Interest Income	1,745
Project milestones transferred to the District	(9,635)
Escrow balance 6/30/2019	$ 492,110

REQUIRED SUPPLEMENTARY INFORMATION

ORANGE COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

SCHEDULE OF CHANGES IN EMPLOYER'S NET PENSION LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED JUNE 30, 2019

EXHIBIT G-1

	Year Ended December 31, 2018	Year Ended December 31, 2017	Year Ended December 31, 2016	Year Ended December 31, 2015	Year Ended December 31, 2014
Total Pension Liability					
Service cost	$ 147,806	$ 124,504	$ 122,477	$ 101,557	$ 103,617
Interest on total pension liability	269,777	243,472	215,074	197,203	180,582
Effect of plan changes	119,853	-	-	(17,589)	-
Effect of assumption changes or inputs	-	15,212	56,100	26,900	-
Effect of economic/demographic (gains)or losses	(64,815)	40,659	-	(1,604)	8,286
Benefit payments/refunds of contributions	(128,153)	(116,871)	(98,503)	(84,829)	(96,633)
Net change in total pension liability	344,468	306,976	295,148	221,638	195,852
Total pension liability, beginning	3,245,597	2,938,621	2,643,473	2,421,835	2,225,983
Total pension liability, ending (a)	3,590,065	3,245,597	2,938,621	2,643,473	2,421,835
Fiduciary Net Position					
Employer contributions	56,294	47,633	50,942	45,340	49,669
Member contributions	104,248	95,265	114,310	74,328	75,419
Investment income net of investment expenses	(63,263)	432,303	197,926	1,695	165,930
Benefit payments/refunds of contributions	(128,153)	(116,871)	(98,503)	(84,829)	(96,633)
Administrative expenses	(2,717)	(2,271)	(2,150)	(1,909)	(1,952)
Other	1,308	327	28,507	6,726	664
Net change in fiduciary net position	(32,283)	456,386	291,032	41,351	193,097
Fiduciary net position, beginning	3,415,209	2,958,823	2,667,791	2,626,440	2,433,343
Fiduciary net position, ending (b)	3,382,926	3,415,209	2,958,823	2,667,791	2,626,440
Net pension liability / (asset), ending = (a) - (b)	$ 207,139	$ (169,612)	$ (20,202)	$ (24,318)	$ (204,605)
Fiduciary net position as a % of total pension liability	94.23%	105.23%	100.69%	100.92%	108.45%
Pensionable covered payroll	$ 1,489,257	$ 1,360,927	$ 1,235,678	$ 1,061,834	$ 1,077,414
Net pension liability as a % of covered payroll	13.91%	-12.46%	-1.63%	-2.29%	-18.99%

ORANGE COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

SCHEDULE OF EMPLOYER CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2019

EXHIBIT G-2

Year Ending December 31,	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Pensionable Covered Payroll[1]	Actual Contribution as a % of Covered Payroll
2009	$ 15,124	$ 15,124	$ -	$ 844,942	1.8%
2010	32,191	32,191	-	972,546	3.3%
2011	36,287	36,287	-	1,045,735	3.5%
2012	42,031	42,031	-	1,091,718	3.8%
2013	47,052	47,052	-	1,131,051	4.2%
2014	49,669	49,669	-	1,077,414	4.6%
2015	45,340	45,340	-	1,061,834	4.3%
2016	50,910	50,942	(32)	1,235,678	4.1%
2017	47,633	47,633	-	1,360,927	3.5%
2018	56,294	56,294	-	1,489,257	3.8%

(1) Payroll is calculated based on contribution as reported to TCDRS

EXHIBIT G-3

ORANGE COUNTY WATER CONTROL & IMPROVEMENT DISTRICT #1
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2019

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Water Services	$ 1,420,000	$ 1,420,000	$ 1,500,804	$ 80,804
Sewer Services	1,450,000	1,450,000	1,428,107	(21,893)
Other Service Fees	166,000	166,000	94,857	(71,143)
FEMA Funding	-	-	107,568	107,568
Investment Earnings	25,000	25,000	46,664	21,664
Revenue Note Collections	1,030,000	1,030,000	1,018,122	(11,878)
Other Revenue	109,000	109,000	133,317	24,317
Total Revenues	4,200,000	4,200,000	4,329,439	129,439
EXPENDITURES:				
Current:				
General Government:				
Water and Sewer Service	722,500	722,500	885,552	(163,052)
Salaries, Benefits and Payroll Taxes	2,000,120	2,000,120	2,168,326	(168,206)
Professional Fees	61,500	61,500	36,319	25,181
Administrative Expenses	194,000	194,000	274,330	(80,330)
Other	33,800	33,800	50,928	(17,128)
Debt Service:				
Bond Principal	645,000	645,000	645,000	-
Bond Interest and Fiscal Charges	379,080	379,080	378,346	734
Capital Outlay:				
Capital Outlay	64,000	64,000	67,864	(3,864)
Total Expenditures	4,100,000	4,100,000	4,506,665	(406,665)
Excess (Deficiency) of Revenues Over (Under) Expenditures	100,000	100,000	(177,226)	(277,226)
OTHER FINANCING SOURCES (USES):				
Transfers In	-	-	408,000	408,000
Transfers Out (Use)	(100,000)	(100,000)	(108,000)	(8,000)
Total Other Financing Sources (Uses)	(100,000)	(100,000)	300,000	400,000
Net Change	-	-	122,774	122,774
Fund Balance - July 1 (Beginning)	3,170,138	3,170,138	3,170,138	-
Fund Balance - June 30 (Ending)	$ 3,170,138	$ 3,170,138	$ 3,292,912	$ 122,774

TEXAS SUPPLEMENTARY INFORMATION

ORANGE COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

NOTES REQUIRED BY THE TEXAS COMMISSION ON ENVIRONMENTAL QUALITY

<u>Note A – Creation of District</u>

See the General Statement in Note 1 to the Financial Statements.

<u>Note B – Contingent Liabilities</u>

The District has no contingent liabilities. See Note 10 to the Financial Statement

<u>Note C – Pension Coverage</u>

See Schedule of Funding Progress.

<u>Note D – Pledge of Revenues</u>

See Note 7 to the Financial Statements.

<u>Note E – Compliance with Debt Service Requirements</u>

See Note 7 to the Financial Statements.

<u>Note F – Bond Redemption</u>

See Note 6 to the Financial Statements.

ORANGE COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

SCHEDULE OF SERVICES AND RATES
FOR THE YEAR ENDED JUNE 30, 2019

1) SERVICES PROVIDED BY DISTRICT:

X Retail Water	___ Wholesale Water	___ Drainage
X Retail Wastewater	___ Wholesale Wastewater	___ Irrigation
___ Parks/recreation	___ Fire Protection	___ Security
___ Solid Waste	___ Flood Control	___ Roads

___ Participates in joint venture, regional system, and/or wastewater service (other then emergency interconnect)

___ Other (specify): ______________________________

2) RETAIL RATES BASED ON 5/8" METER:

	Residential Minimum Charge	Residential Minimum Usage	Flat Rate Y/N	Rate per 100 Gallons over Minimum Use	Usage Levels
Water:	$ 14.17	2,000	N	$ 0.31	2,000 Gal & Over
Wastewater:	$ 17.01	2,000	N	$ 0.31	2,000 Gal & Over
Surcharge:	$ -	-	-	$ -	-

Total Charges per 10,000 gallons usage: Water: $38.97 Sewer: $41.81

	Commercial Minimum Charge	Commercial Minimum Usage	Flat Rate Y/N	Rate per 1000 Gallons over Minimum Use	Usage Levels
Water:	$ 15.91	2,000	N	$ 0.34	2,000 Gal & Over
Wastewater:	$ 19.10	2,000	N	$ 0.34	2,000 Gal & Over
Surcharge:	$ -	-	-	$ -	-

Total Charges per 10,000 gallons usage: Water: $43.19 Sewer: $46.38

District employs winter averaging for wastewater usage? Yes____ No X

Water and Wastewater Retail connections:

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFC'S
Unmetered		40	1.0	40
< 3/4"		4,701	1.0	4,701
1"		66	2.5	165
1 1/2"		33	5.0	165
2"		34	8.0	272
3"		1	16.0	16
4"		1	25.0	25
6"		7	50.0	Firelines
8"		5	80.0	Firelines
10"		-	115.0	-
Total Water		4,888		5,384
Total Wastewater		4,169	1.0	4,169

3) TOTAL WATER CONSUMPTION DURING THE FISCAL YEAR (ROUNDED TO THE NEAREST THOUSAND):

Gallons pumped into system:	383,643,000	Water Accountability Ratio: (Gallons billed/Gallons pumped)
Gallons billed to customers	289,002,700	75%

ORANGE COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

SCHEDULE OF GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2019

Personnel Expenditures (Including benefits)*	$ 1,889,961
Professional fees:	
Engineering	5,540
Accounting	16,500
Legal	14,280
Utilities	250,421
Repairs and Maintenance	334,429
Administrative Expenditures	
Office Expense	86,200
Insurance	328,812
Capital Outlay	68,707
Solid Waste Disposal	52,281
Plant Operations	436,887
Debt Service and Reserve	1,022,647
TOTAL EXPENDITURES	$ 4,506,665

*Number of persons employed by the District: 33 Full-Time, and 4 Part-Time

ORANGE COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

SCHEDULE OF TEMPORARY INVESTMENTS – MONEY MARKET ACCOUNTS
JUNE 30, 2019

Funds	Identification or Certificate Number	Interest Rate	Maturity Date	Balances at End of Year
General Funds				
Money Market Account	1132778	1.70%	N/A	$ 128,492
Contingency Fund				
Money Market Account	1132836	1.70%	N/A	2,808,268
Debt Service Fund				
Money Market Account	1132786	1.70%	N/A	362,750
Total				$ 3,299,510

ORANGE COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

ANALYSIS OF TAXES LEVIED AND RECEIVABLE
JUNE 30, 2019

Taxes Receivable, Beginning of Year		$ 488,982
2018 Original Tax Levy		1,793,479
Plus (Less): Net adjustments		(18,635)
Total to be Accounted for		2,263,826
Tax Collections:		
Current Year	$ 1,645,757	
Prior Years	104,965	
Total Collections		1,750,722
Taxes Receivable, End of Year		$ 513,104

Property valuations	2018	2017	2016	2015
Land	$ 95,124,058	$ 95,225,496	$ 92,227,971	$ 90,843,246
Improvements	390,486,428	403,603,853	385,025,221	369,721,813
Personal Property	51,825,659	48,324,110	45,319,413	46,836,260
Less Exemptions	(100,677,056)	(63,973,620)	(59,833,765)	(59,414,142)
TOTAL	$ 436,759,089	$ 483,179,839	$ 462,738,840	$ 447,987,177
Tax rate per $100 Valuation (All Debt Service)	0.4106%	0.3596%	0.3889%	0.3873%
Original Tax Levy	$ 1,793,479	$ 1,737,707	$ 1,799,360	$ 1,734,875
Percent of Taxes Collected to Taxes Levied	91.76%	92.14%	92.11%	91.87%

NOTE: Debt service taxes are the only taxes levied by the District.

ORANGE COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

GENERAL LONG – TERM DEBT SERVICE REQUIREMENTS BY YEAR
JUNE 30, 2019

Due During Fiscal Years Ending June 30,	Series 2009 Bonds Principal	Interest	Total Principal and Interest
2020	$ 600,000	$ 51,562	$ 651,562
2021	625,000	28,463	653,463
2022	75,000	3,150	78,150
	$ 1,300,000	$ 83,175	$ 1,383,175

Due During Fiscal Years Ending June 30,	Series 2013 Revenue Refunding Bonds Principal	Interest	Total Principal and Interest
2020	$ 165,000	$ 5,580	$ 170,580
2021	135,000	2,511	137,511
	$ 300,000	$ 8,091	$ 308,091

Due During Fiscal Years Ending June 30,	Series 2019 Unlimited Tax Refunding Bonds Principal	Interest	Total Principal and Interest
2020	$ 115,000	$ 263,513	$ 378,513
2021	55,000	349,050	404,050
2022	640,000	347,400	987,400
2023	740,000	328,200	1,068,200
2024	780,000	298,600	1,078,600
2025	790,000	267,400	1,057,400
2026	940,000	235,800	1,175,800
2027	985,000	198,200	1,183,200
2028	1,020,000	158,800	1,178,800
2029	1,060,000	118,000	1,178,000
2030	925,000	75,600	1,000,600
2031	965,000	38,600	1,003,600
	$ 9,015,000	$ 2,679,163	$ 11,694,163

ORANGE COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

GENERAL LONG – TERM DEBT SERVICE REQUIREMENTS BY YEAR
JUNE 30, 2019

	Series 2012 Capital Appreciation Bonds	
Due During Fiscal Years Ending June 30,	Total Maturity Value Due	Total Due
2020	$ 965,000	$ 965,000
2021	985,000	985,000
2022	1,005,000	1,005,000
2023	1,030,000	1,030,000
2024	1,050,000	1,050,000
2025	1,070,000	1,070,000
2026	1,090,000	1,090,000
2027	1,110,000	1,110,000
2028	1,135,000	1,135,000
2029	1,160,000	1,160,000
2030	1,360,000	1,360,000
2031	1,385,000	1,385,000
2032	2,455,000	2,455,000
2033	2,475,000	2,475,000
2034	2,500,000	2,500,000
2035	2,525,000	2,525,000
2036	2,550,000	2,550,000
2037	2,580,000	2,580,000
2038	2,605,000	2,605,000
	$ 31,035,000	$ 31,035,000

ORANGE COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

GENERAL LONG – TERM DEBT SERVICE REQUIREMENTS BY YEAR
JUNE 30, 2019

	Annual Requirements for All Series		
Due During Fiscal Years Ending June 30,	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2020	$ 1,845,000	$ 320,655	$ 2,165,655
2021	1,800,000	380,024	2,180,024
2022	1,720,000	350,550	2,070,550
2023	1,770,000	328,200	2,098,200
2024	1,830,000	298,600	2,128,600
2025	1,860,000	267,400	2,127,400
2026	2,030,000	235,800	2,265,800
2027	2,095,000	198,200	2,293,200
2028	2,155,000	158,800	2,313,800
2029	2,220,000	118,000	2,338,000
2030	2,285,000	75,600	2,360,600
2031	2,350,000	38,600	2,388,600
2032	2,455,000	-	2,455,000
2033	2,475,000	-	2,475,000
2034	2,500,000	-	2,500,000
2035	2,525,000	-	2,525,000
2036	2,550,000	-	2,550,000
2037	2,580,000	-	2,580,000
2038	2,605,000	-	2,605,000
	$ 41,650,000	$ 2,770,429	$ 44,420,429

ORANGE COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

ANALYSIS OF CHANGES IN LONG-TERM BONDED DEBT
FOR THE YEAR ENDED JUNE 30, 2019

	Bond Issues					
	Series 2007	Series 2009	Series 2012 CAB	Series 2013 Rev. Bond	Series 2019	Total
Interest rates	3.15% - 4.00%	1.70% - 5.05%	1.20% - 5.30%	1.86%	2% - 4%	
Dates interest payable	8/17 - 2/18	8/17 - 2/18	8/17 - 2/18	8/17 - 2/18	02/20 - 02/31	
Maturity dates	2029	2031	2038	2021	2031	
Bonds outstanding, beginning of current period	$ 1,590,000	$ 9,890,000	$ 18,301,536	$ 465,000	$ -	$ 30,246,536
New bond proceeds	-	-	-	-	9,015,000	9,015,000
Interest accreted on CAB's	-	-	807,245	-	-	807,245
Retirements, principal	1,590,000	8,590,000	920,000 (a)	165,000	-	11,265,000
Bonds outstanding, end of current period	$ -	$ 1,300,000	$ 18,188,781	$ 300,000	$ 9,015,000	$ 28,803,781
Interest paid during current period	$ 60,612	$ 450,058	$ - (a)	$ 8,649	$ -	$ 519,319

Bond authority	Revenue Notes	Revenue Bonds	Tax Bonds	Totals
Amount authorized by voters	$ -	$ 1,230,000	$ 34,129,994	$ 35,359,994
Amount authorized by board	13,610,000	-	-	13,610,000
Amount issued	13,610,000	1,230,000	34,129,994	48,969,994
Remaining to be issued	-	-	-	-
Debt service fund cash and temporary investment balances as of June 30, 2019	-	-	362,750	362,750
Average annual debt service payment (principal and interest) for remaining term of all debt				$ 3,030,041

(a) CAB retirements include original principal and accreted interest.

ORANGE COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

COMPARATIVE STATEMENT OF REVENUES AND EXPENDITURES – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2019

	AMOUNTS					PERCENTAGE OF FUND REVENUES				
	2019	2018	2017	2016	2015	2019	2018	2017	2016	2015
GENERAL FUND REVENUES										
Service Revenues	$ 2,938,709	$ 2,757,550	$ 2,994,770	$ 3,093,332	$ 2,844,866	67.9%	69.8%	71.4%	72.6%	68.7%
Tap connection fees	55,157	70,579	39,652	34,754	30,484	1.3%	1.8%	0.9%	0.8%	0.7%
Interest on Temporary investments	46,664	29,319	13,455	4,128	791	1.1%	0.7%	0.3%	0.1%	0.0%
Revenue Note Collections	1,018,122	970,067	1,036,043	1,031,645	1,035,650	23.5%	24.6%	24.7%	24.2%	25.0%
Other	270,787	121,090	107,620	96,964	231,358	6.3%	3.1%	2.6%	2.3%	5.6%
TOTAL GENERAL FUND REVENUES	4,329,439	3,948,605	4,191,540	4,260,823	4,143,149	100.0%	100.0%	100.0%	100.0%	100.0%
GENERAL FUND EXPENDITURES										
Bad debts	13,087	43,796	252,955	456	66,730	0.3%	1.1%	6.0%	0.0%	1.6%
Chemicals	23,955	15,804	32,289	35,235	30,073	0.6%	0.4%	0.8%	0.8%	0.7%
Employee retirement	82,048	53,019	50,334	64,259	46,442	1.9%	1.3%	1.2%	1.5%	1.1%
Engineering	5,540	33,025	22,895	38,225	11,065	0.1%	0.8%	0.5%	0.9%	0.3%
Fuel and lubricants	56,428	39,825	28,417	25,079	34,136	1.3%	1.0%	0.7%	0.6%	0.8%
Grinder Installations	162,938	76,136	83,380	94,951	84,714	3.8%	1.9%	2.0%	2.2%	2.0%
Insurance	328,812	276,531	249,045	243,474	219,783	7.6%	7.0%	5.9%	5.7%	5.3%
Interest	377,647	389,939	400,001	408,091	415,561	8.7%	9.9%	9.5%	9.6%	10.0%
Legal and auditing	30,780	33,874	40,050	34,733	38,504	0.7%	0.9%	1.0%	0.8%	0.9%
Maintenance & repair - Equipment	37,479	24,287	27,367	22,229	368	0.9%	0.6%	0.7%	0.5%	0.0%
Maintenance & repair - Water & Sewer	218,054	219,493	158,976	156,556	169,574	5.0%	5.6%	3.8%	3.7%	4.1%
Maintenance & repair - Bldg & Office Eq.	78,896	50,663	59,109	39,062	42,057	1.8%	1.3%	1.4%	0.9%	1.0%
Other	168,058	148,233	126,364	139,702	129,692	3.9%	3.8%	3.0%	3.3%	3.1%
Payroll taxes	128,372	117,849	96,205	103,147	91,397	3.0%	3.0%	2.3%	2.4%	2.2%
Postage	26,941	23,439	25,254	24,593	20,742	0.6%	0.6%	0.6%	0.6%	0.5%
Printing & office supplies	86,200	63,845	49,246	78,763	54,770	2.0%	1.6%	1.2%	1.8%	1.3%
Salaries & wages	1,679,541	1,463,229	1,277,309	1,310,046	1,210,338	38.8%	37.1%	30.5%	30.7%	29.2%
Utilities	250,421	251,115	263,446	260,737	282,037	5.8%	6.4%	6.3%	6.1%	6.8%
Capital outlay	68,707	106,785	119,530	63,624	94,753	1.6%	2.7%	2.9%	1.5%	2.3%
Principal retirement	645,000	635,000	620,000	615,000	610,000	14.9%	16.1%	14.8%	14.4%	14.7%
TCEQ & Department of Health	37,761	36,426	36,056	34,655	29,546	0.9%	0.9%	0.9%	0.8%	0.7%
TOTAL GENERAL FUND EXPENDITURES	4,506,665	4,102,313	4,018,228	3,792,617	3,682,282	104.1%	103.9%	95.9%	89.0%	88.9%
Operating Transfer In	408,000	-	-	-	-	9.4%	0.0%	0.0%	0.0%	0.0%
Operating Transfers Out	(108,000)	(108,000)	(613,652)	(114,416)	(532,880)	-2.5%	-2.7%	-14.6%	-2.7%	-12.9%
	300,000	(108,000)	(613,652)	(114,416)	(532,880)	6.9%	-2.7%	-14.6%	-2.7%	-12.9%
EXCESS OF GENERAL FUND REVENUES OVER (UNDER) EXPENDITURES	$ 122,774	$ (261,708)	$ (440,340)	$ 353,790	$ (72,013)	2.8%	-6.6%	-10.5%	8.3%	-1.7%

ORANGE COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

COMPARATIVE STATEMENT OF REVENUES AND EXPENDITURES – DEBT SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2019

	AMOUNTS					PERCENTAGE OF FUND REVENUES				
	2019	2018	2017	2016	2015	2019	2018	2017	2016	2015
DEBT SERVICE FUND REVENUES										
Tax Revenues	$ 1,746,953	$ 1,801,286	$ 1,782,525	$ 1,704,955	$ 1,775,532	96.4%	96.4%	96.7%	97.1%	96.9%
Penalty and Interest	54,728	59,709	59,003	49,380	54,970	3.0%	3.2%	3.2%	2.8%	3.0%
Interest on Temporary Investments	10,450	7,000	1,781	1,289	1,129	0.6%	0.4%	0.1%	0.1%	0.1%
Miscellaneous Revenues	-	-	-	-	-	0.0%	0.0%	0.0%	0.0%	0.0%
TOTAL DEBT SERVICE REVENUES	1,812,131	1,867,995	1,843,309	1,755,624	1,831,631	100.0%	100.0%	100.0%	100.0%	100.0%
DEBT SERIVCE EXPENDITURES										
Tax Collection Services	1,298	1,299	1,360	1,352	1,285	0.1%	0.1%	0.1%	0.1%	0.1%
Principal Retirement	1,620,000	1,240,000	1,200,000	1,110,000	1,095,000	89.4%	66.4%	65.1%	63.2%	59.8%
Debt Service, Interest, and Fees	837,139	583,397	625,293	649,996	670,666	46.2%	31.2%	33.9%	37.0%	36.6%
TOTAL DEBT SERVICE FUND EXPENDITURES	2,458,437	1,824,696	1,826,653	1,761,348	1,766,951	135.7%	97.7%	99.1%	100.3%	96.5%
EXCESS OF DEBT SERVICE FUND REVENUES OVER (UNDER) EXPENDITURES	$ (646,306)	$ 43,299	$ 16,656	$ (5,724)	$ 64,680	-35.7%	2.3%	0.9%	-0.3%	3.5%
Total active retail water and/or wastewater connections	5,384	5,311	5,251	5,187	5,149					

ORANGE COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

BOARD MEMBERS, KEY PERSONNEL, AND CONSULTANTS
FOR THE YEAR ENDED JUNE 30, 2019

Complete District Mailing Address:	460 E. Bolivar Vidor, TX 77662
District Business Telephone Number:	(409) 769-2669

Name and Address	Term of Office Date Elected or Hired	Salary or Fees and Expense Reimbursements Year Ended 6/30/2019	Title at 6/30/2019	Resident of District
Board Members				
Robert Viator 855 Evangeline Vidor, TX 77612	Elected 05/18-05/22	None	President	No
Frank Inzer 315 S Main Vidor, TX 77662	Elected 05/16-05/20	None	Vice-President	Yes
Tim Beard 4575 Brookhollow Drive Vidor, TX 77662	Elected 05/18-05/22	None	Secretary	Yes
Trey Haney 1250 Lamar Street Vidor, TX 77662	Elected 05/18-05/22	None	Director	Yes
Guy Groves 290 Triangle Drive Vidor, TX 77662	Elected 07/16-05/20	None	Director	Yes

NOTE: No Director is disqualified from serving on this Board under the Texas Water Code.

BOARD MEMBERS, KEY PERSONNEL, AND CONSULTANTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2019

Name and Address	Term of Office Date, Date Elected or Hired	Salary or Fees and Expense Reimbursements 6/30/2019	Title at 6/30/2019	Resident of District
Key Administrative Personnel				
Norman Blackman 185 Claiborne Vidor, TX 77662	10/2012	$ 131,246	General Manager	Yes
Chris Serres 2856 State Hwy. 62 Buna, Texas 77662	4/1/2009	$ 84,149	Assistant General Manager/ CFO	No
David B. LeJune 305 Denver Street Vidor, TX 77662	08/1982	$ 91,674	Operations Manager	Yes
Consultants				
The Ferguson Law Firm Larry C. Hunter 350 Pine Street Suite 1440 Beaumont, TX 77701	10/2015	$ 14,280	Attorney	Yes
Karen Fisher Orange County Tax Assessor/Collector PO Box 670 Orange, TX 77631	07/1992	$ 1,297	Tax Assessor/Collector	No
Orange County Appraisal District PO Box 457 Orange, TX 77631	01/1983	$ 24,483	Appraisal District	No
LJA Engineering, Inc. 2929 Briarpark Drive Houston, TX 77042	03/2016	$ 60,400	Engineering Consultants	No
Wathen, DeShong & Juncker, L.L.P. 4140 Gladys Ave. Suite 101 Beaumont, TX 77706	06/2016	$ 16,500	Auditor	No

J. Pat O'Neill, III, CPA
Michael W. Kiefer, CPA (Dave Ramsey ELP)

Wathen, DeShong & Juncker, L.L.P.
CPAs & BUSINESS ADVISORS

Troy W. Domingue, CPA
Stanley (Chip) Majors, Jr., CPA.CITP, CGMA
Jane P. Burns, CPA, CDFA

November 1, 2019

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

To the Board of Directors
Orange County Water Control and Improvement District No. 1
Vidor, Texas

We have audited, 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, the financial statements of the governmental activities, and each major fund of Orange County Water Control and Improvement District No. 1 as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the basic financial statements of Orange County Water Control and Improvement District No. 1 and have issued our report thereon dated November 1, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Orange County Water Control and Improvement District No. 1's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Orange County Water Control and Improvement District No. 1's internal control. Accordingly, we do not express an opinion on the effectiveness of the Orange County Water Control and Improvement District No. 1's internal control.

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

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

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Members of the American Institute of Certified Public Accountants

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Orange County Water Control and Improvement District No. 1'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.

Wathen, DeShong & Juncker, L.L.P.

WATHEN, DeSHONG & JUNCKER, L.L.P.
Certified Public Accountants