PICO WATER DISTRICT

REPORT ON AUDIT OF FINANCIAL STATEMENTS

December 31, 2018

PICO WATER DISTRICT

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Pico Water District
Pico Rivera, California

Report on the Financial Statements

We have audited the accompanying financial statements of Pico Water District (the District) as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion 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 from material misstatement.

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

INDEPENDENT AUDITORS' REPORT

Board of Directors
Pico Water District
Pico Rivera, California

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2018 and the changes in its financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

Change in Accounting Principle

During fiscal year ended December 31, 2018, the District adopted the provision of Governmental Accounting Standards Board Statement (GASB) No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. As a result of the implementation of Statement No. 75, the District reported a restatement for the change in accounting principal (see Note 1). Our auditors' opinion was not modified with respected to the restatement.

Other Matters

Required Supplementary Information

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

INDEPENDENT AUDITORS' REPORT

Board of Directors
Pico Water District
Pico Rivera, California

Other Information

Our audit was conducted for the purpose of forming an opinion on the District's basic financial statements. The supplementary schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 2019 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen
Glendora, California
May 15, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

PICO WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2018

This section of the District's annual financial report presents our analysis of the District's financial performance during the fiscal year that ended on December 31, 2018. Please read it in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District recorded a restatement of net position of $334,469 in connection with the adoption and implementation of (GASB) No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

- The District's net position increased by $564,771 before restatement for change in accounting principle. Total change to net position after restatement was $230,302. Operating revenue increased by 11%, which was due to restrictions from the State being eased somewhat allowing a slight increase in usage. In addition, water rights lease income also increased. Operating expenses including depreciation increased 6% due primarily to decreased maintenance expenses offset by increased source of supply and water treatment costs.

- Non-operating revenues increased $86,977 due to increased investment revenue. Non-operating expenses decreased $70,710 due to the capitalization of interest expense recorded for long-term debt to fund capital spending.

- The combined effect of these significant issues resulted in an overall increase in the District's net position for 2018.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts: Management's Discussion and Analysis and the Financial Statements. The Financial Statements also include notes that explain in more detail some of the information in the financial statements.

REQUIRED FINANCIAL STATEMENTS

The Financial Statements of the District report information about the District using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about its activities. The Statement of Net Position includes all of the District's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges, profitability, and credit worthiness.

REQUIRED FINANCIAL STATEMENTS (CONTINUED)

The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the District’s cash receipts and cash payments during the reporting period. The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

FINANCIAL ANALYSIS OF THE DISTRICT

Our analysis of the District begins on page 2 of the Financial Section. One of the most important questions asked about the District’s finances is “Is the District as a whole better off or worse off as a result of the year’s activities?” The Statement of Net Position, and the Statement of Revenues, Expenses and Change in Net Position report information about the District’s activities in a way that will help answer this question. These two statements report the net position of the District and changes in them. You can think of the District’s net position - the difference between assets, liabilities and deferred outflows and inflows of resources - as one way to measure financial health or financial position. Over time, increases or decreases in the District’s net position is one indicator of whether its financial health is improving or deteriorating. However, you will need to consider other nonfinancial factors such as changes in economic conditions, population growth, zoning, and new or changed government legislation.

NET POSITION

To begin our analysis, a summary of the District's Statements of Net Position are presented in Table 1.

TABLE 1

Condensed Statements of Net Position

	Year 2018	Year 2017	Dollar Change
Assets:			
Current and other assets	$ 9,352,337	$ 11,390,004	$ (2,037,667)
Capital assets	12,153,240	9,795,263	2,357,977
Total Assets	21,505,577	21,185,267	320,310
Deferred Outflows of Resources:			
Deferred amount pension obligation	243,924	285,395	(41,471)
Deferred amount OPEB obligation	66,422	-	66,422
Total Deferred Outflows	310,346	285,395	24,951
Liabilities:			
Current liabilities	1,345,068	1,558,369	(213,301)
Non-current liabilities	8,474,795	8,169,960	304,835
Total Liabilities	9,819,863	9,728,329	91,534
Deferred Inflows of Resources:			
Deferred amount pension obligation	302,477	279,052	23,425
Total Deferred Inflows	302,477	279,052	23,425
Net Position:			
Net investment in capital assets	9,310,235	9,125,095	185,140
Unrestricted	2,383,348	2,338,186	45,162
Total Net Position	$ 11,693,583	$ 11,463,281	$ 230,302

As can be seen from Table 1, the District's net position increased by $230,302 from fiscal year 2017 to 2018. The net position increase of $230,302 consists of an increase of $185,140 in investment in capital assets, and an increase of $45,162 in unrestricted net position.

NET POSITION (CONTINUED)

TABLE 2

Condensed Statements of Revenues, Expenses and Change in Net Position

	Year 2018	Year 2017	Dollar Change
Revenues			
Operating revenues	$ 4,223,569	$ 3,794,861	$ 428,708
Non-operating revenues	151,080	64,103	86,977
Total Revenues	4,374,649	3,858,964	515,685
Expenses			
Depreciation expense	508,210	496,210	12,000
Other operating expenses	3,349,562	3,134,974	214,588
Nonoperating expense	128	70,838	(70,710)
Total Expenses	3,857,900	3,702,022	155,878
Net position before capital contributions	516,749	156,942	359,807
Other contributions	48,022	17,910	30,112
Change in net position	564,771	174,852	389,919
Net position, beginning of year	11,463,281	11,288,429	174,852
Cumulative effect of change in accounting principal	(334,469)	-	(334,469)
Net position, end of fiscal year	$ 11,693,583	$ 11,463,281	$ 230,302

A closer examination of the source of changes in net position reveals that the District's total revenues increased by $515,685 in 2018. The primary reason for the increase in revenues is due to the state mandated restrictions being somewhat reduced, explained in Financial Highlights on page ii. The rate increase effective for the first billing after 12/14/15, assisted in offsetting the operating expenses (exclusive of depreciation) which increased by $214,588, yielding an increase in net position of $516,749 before capital contributions and restatement for change in accounting principles. The net position at year end indicates a net increase in the amount of $230,302.

BUDGETARY HIGHLIGHTS

TABLE 3

2018 Actual vs. 2018 Budget

	2018 Actual	2018 Budget	Variance
Revenues			
Operating revenues	$ 4,223,569	$ 3,746,865	$ 476,704
Non-operating revenues	151,080	31,100	119,980
Total Revenues	4,374,649	3,777,965	596,684
Expenses			
Operating expenses:			
Source of supply	1,054,439	907,850	146,589
Pumping	395,320	342,606	52,714
Water treatment	72,408	67,000	5,408
Transmission and distribution	214,746	162,790	51,956
Customer service	201,581	216,600	(15,019)
Depreciation	508,210	525,000	(16,790)
General and administrative	1,411,068	1,342,380	68,688
Total Operating expenses:	3,857,772	3,564,226	293,546
Nonoperating expenses	128	284,740	(284,612)
Total Expenses	3,857,900	3,848,966	8,934
Change in net position before capital contributions	516,749	(71,001)	587,750
Other Contributions	48,022	-	48,022
Change in net position	$ 564,771	$ (71,001)	$ 635,772

As Table 3 shows actual change in net position is greater than the budgeted change in net position by $635,772. The difference is primarily due to the $476,704 increase in operating revenues that were not anticipated per the budget along with the capitalization of interest expense on the long-term debt, which decreased non-operating expenses from a budgeted amount of $284,740 to an actual amount of $128.

CAPITAL ASSETS AND DEBT ADMINISTRATION CAPITAL ASSETS

At December 31, 2018, the District's investments in a broad range of infrastructure as shown in Table 4 totaled $12,153,240.

TABLE 4

Capital Assets

	Balance at January 1, 2018	Additions	Deletions and Transfers	Balance at December 31, 2018
Capital assets:				
Non-depreciable assets	$ 2,330,034	$ 2,804,352	$ (796,289)	$ 4,338,097
Depreciable assets	17,846,057	858,124	-	18,704,181
Accumulated depreciation and amortization	(10,380,828)	(508,210)	-	(10,889,038)
Total capital assets, net	$ 9,795,263	$ 3,154,266	$ (796,289)	$ 12,153,240

The major capital asset additions for the year ended December 31, 2018 included the construction cost of the Shenandoah Mainline Project for $637,024 and the purchase of two trucks for $72,627.

Additional information regarding capital assets can be found in Note 3 to the financial statements.

DEBT ADMINISTRATION

At year-end, the District had outstanding debt in the amount of $6,991,366 consisting of two infrastructure loans from IBank. This is more fully discussed in Note 7 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The District's Board of Directors and management considered many factors when setting the 2019 budget including user fees, potential water sales, water usage patterns, and increases by regulatory agencies and utilities, and staffing requirements. The 2019 Budget will see water rates increased by 5%.

CONTACTING THE DISTRICT'S FINANCIAL MANAGER

This financial report is designed to provide our citizens, customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the General Manager, Mr. Mark Grajeda at Pico Water District.

FINANCIAL SECTION

PICO WATER DISTRICT

STATEMENT OF NET POSITION
December 31, 2018

Current Assets	
Cash and cash equivalents	$ 4,263,312
Cash held by fiduciary	4,148,361
Accounts receivable	536,262
Accrued interest receivable	17,280
Other receivables	210,201
Inventory of material and supplies	104,346
Prepaid expenses and deposits	72,575
Total Current Assets	9,352,337
Non-Current Assets	
Capital assets not being depreciated	4,338,097
Capital assets being depreciated, net	7,815,143
Total Non-Current Assets	12,153,240
Total Assets	21,505,577
Deferred Outflows of Resources	
Deferred amount pension obligation	243,924
Deferred amount OPEB obligation	66,422
Total Deferred Outflows	310,346
Current Liabilities	
Accounts payable	550,485
Accrued expenses	68,017
Accrued interest payable	107,099
Compensated absences payable - current	29,624
Note payable - current portion	147,127
Refundable deposits	442,716
Total Current Liabilities	1,345,068
Non-Current Liabilities	
Compensated absences	167,872
Note payable, net of current portion	6,844,239
Net pension liability	431,937
Net other post-employment benefits obligation	1,030,747
Total Non-Current Liabilities	8,474,795
Total Liabilities	9,819,863
Deferred Inflows of Resources	
Deferred amount pension obligation	302,477
Total Deferred Inflows	302,477
Net Position	
Net investment in capital assets	9,310,235
Unrestricted	2,383,348
Total Net Position	$ 11,693,583

See independent auditors' report and accompanying notes to the financial statements.

PICO WATER DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
For the Year Ended December 31, 2018

Operating Revenues	
Water sales	$ 3,409,303
Water services	814,266
Total Operating Revenues	4,223,569
Operating Expenses	
Source of supply	1,054,439
Pumping	395,320
Water treatment	72,408
Transmission and distribution	214,746
Customer service	201,581
Depreciation	508,210
General and administrative	1,411,068
Total Operating Expenses	3,857,772
Operating Income	365,797
Non-Operating Revenues (Expenses):	
Investment earnings	132,080
Rental income	19,000
Other revenues (expenses)	(128)
Non-Operating Income	150,952
Income Before Other Contributions	516,749
Other Contributions	
Grant revenue	48,022
Total Other Contributions	48,022
Change in Net Position	564,771
Net Position at Beginning of Year	11,463,281
Cumulative Effect of Change in Accounting Principle	(334,469)
Net Position at Beginning of Year, After Cumulative Effect	11,128,812
Net Position at End of Year	$ 11,693,583

See independent auditors' report and accompanying notes to the financial statements.

PICO WATER DISTRICT

STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2018

Cash flows from operating activities:	
Cash receipts from water sales and services	$ 4,155,029
Payments for salaries and benefits	(1,399,552)
Payments for materials and services	(2,113,255)
Net cash provided by operating activities	642,222
Cash flows from noncapital financing activities:	
Other non-operating revenue (expense)	14,439
Net cash provided by noncapital and financing activities	14,439
Cash flows from capital and related financing activities:	
Payments of principal and interest on loan	(369,225)
Acquisition and construction of capital assets	(2,606,115)
Net cash used by capital and financing activities	(2,975,340)
Cash flows from investing activities:	
Proceeds from rental property	14,655
Interest and investment earnings received	66,235
Procdess from sale of investment	494,795
Other nonoperating revenue (expense)	11,000
Net cash provided by investing activities	586,685
Net decrease in cash and cash equivalents	(1,731,994)
Cash and cash equivalents, beginning of year	10,143,667
Cash and cash equivalents, end of year	$ 8,411,673
Cash and cash equivalents	$ 4,263,312
Cash held by fiduciary	4,148,361
Cash and cash equivalents, end of year	$ 8,411,673

Supplementary Information non cash item:

Capitalized interest	$ 260,072

See independent auditors' report and accompanying notes to the financial statements.

PICO WATER DISTRICT

STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2018

Reconciliation of operating income to net cash provided by operating activities:	
Operating income	$ 365,797
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	508,210
Changes in assets and liabilities:	
(Increase) decrease in assets and deferred outflows of resources:	
Accounts receivable - water sales and services	(44,644)
Accounts receivable - other	(99,321)
Materials and supplies inventory	10,783
Prepaid expenses	1,765
Deferred outflows of pension obligation	41,471
Deferred outflows of OPEB obligation	(66,422)
Increase (decrease) in liabilities and deferred inflows of resources:	
Accounts payable and accrued expenses - operations	(313,080)
Accrued expenses	12,840
Compensated absences	56,533
Deposits payable	75,425
Net other post-employment benefits obligation	103,845
Net pension liability	(34,405)
Deferred inflows of pension	23,425
Total Adjustments	276,425
Net cash provided by operating activities	$ 642,222

See independent auditors' report and accompanying notes to the financial statements.

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

The Pico Water District (the District) was formed June 22, 1926 pursuant to the provisions of the State of California. The District currently encompasses 1,536 acres and operates six wells, four of which are in use and two of which are inactive, and a 1.25 million gallon reservoir. The purpose of the District is to finance, construct, operate and maintain a water system to serve properties within the District's boundaries.

Basis of Presentation

The District's activities are accounted for in an enterprise fund. An enterprise fund is a proprietary-type fund used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Measurement Focus and Basis of Accounting

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

Change in Accounting Principle

The beginning net position of the financial statements has been decreased by $334,469 to recognize the beginning balance of the net OPEB liability of $1,031,918 resulting from implementation of Governmental Accounting Standards Board (GASB) No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions,* resulting in this cumulative effect of change in accounting principle.

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

New Accounting Pronouncements

The GASB has issued several pronouncements prior to December 31, 2018, that have effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 83

In November 2016, the GASB issued Statement No. 83 ***Certain Asset Retirement Obligations***. This statement addresses accounting and financial reporting for certain asset retirement obligations when a legally enforceable liability is associated with the retirement of a tangible capital asset. The statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflows of resources. The statement is effective for the year 2019.

Governmental Accounting Standards Board Statement No. 84

In January 2017, the GASB issued Statement No. 84 ***Fiduciary Activities***. The objective of the statement is to improve guidance regarding the recognition of fiduciary activities for accounting and financial reporting purposes by establishing criteria for identifying fiduciary activities of all state and local governments. The statement is effective for the year 2020.

Governmental Accounting Standards Board Statement No. 87

In June 2017, the GASB issued Statement No. 86 ***Leases***. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The statement is effective for the year 2021.

Governmental Accounting Standards Board Statement No. 88

In June 2017, the GASB issued Statement No. 88 ***Certain Disclosures Related to Debt, including Direct Borrowings and Direct Replacements***. The statement defines debt for purposes of disclosure in the notes to the financial statements. The statement requires additional disclosures related to debt obligations, including direct borrowings and direct placements. Amounts of unused lines of credit, assets pledged as collateral for debt and terms specified in debt agreements related to significant 1) events or default with finance-related consequences; 2) termination events with finance-related consequences and) subjective acceleration clauses are also required to be disclosed. The statement is effective for the year 2019.

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Governmental Accounting Standards Board Statement No. 89

In June 2018, the GASB issued Statement No. 89 ***Accounting for Interest Cost Incurred Before the End of a Construction Period.*** The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The statement is effective for the year 2019.

Governmental Accounting Standards Board Statement No. 90

In August 2018, the GASB issued Statement No. 90 ***Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61.*** The statement modifies previous guidance for reporting a majority equity interest in a legally separate organization and provides guidance for reporting a component unit if 100 percent equity interest is acquired in that component unit. The statement is effective for the year 2020.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents have been defined as cash and short-term investments, which have a maturity of three months or less. At December 31, 2018, the District invested with the State Treasurer's Local Agency Investment Fund (LAIF). This is a pooled money investment account and is considered to be a cash equivalent.

Accounts Receivable

The District grants unsecured credit to its customers. Bad debts are accounted for using the direct write off method. Management believes that the bad debt expense under this method approximates the expense that would be recorded using the allowance method.

Inventory

Inventories maintained by the District consist primarily of pipes, construction materials and maintenance supplies. Inventories are priced at the lower of cost or market, determined on a first-in, first-out basis.

Capital Assets and Depreciation

Capital assets are stated at historical cost, net of accumulated depreciation. In accordance with its capitalization policy, the District has set the capitalization threshold for reporting capital assets at $5,000 and a useful life that is more than one year. Depreciation is recorded on the straight-line basis over the estimated useful lives.

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The ranges of lives used for computing depreciation for each capital asset class are as follows:

Wells and reservoirs	20 - 50 years
Wells and reservoirs equipment	5 - 10 years
Pumps and tanks	20 - 25 years
Water treatment equipment	5 - 10 years
Transmission and distribution	15 - 50 years
General plant & other	5 - 25 years

Maintenance and repairs are charged as expenses as incurred. Significant renewals and betterments are capitalized.

Deferred Outflows of Resources

Pension Plan

Deferred outflows of resources represent a consumption of net position that applies to a future period and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The deferred outflows of resources related to the net pension obligation that resulted from District contributions to employee pension plans subsequent to the measurement date of the actuarial valuations for the pension plans, the difference between actual and expected experience, the difference between the estimated and actual return on pension plan investments and changes proportion and assumptions. The deferred outflows related to the net pension obligation will be deferred and amortized as detailed in Note 5 to the financial statements.

Other Post-employment Benefits Other than Pensions (OPEB)

The District recorded deferred outflows of resources related to its (OPEB) obligation that resulted from District contributions to the plan subsequent to the measurement date of the actuarial valuation and to the net difference in earnings on plan investments.

Post-employment Benefits Other than Pension (OPEB)

The District participates in a single employer defined benefit postemployment healthcare plan. For purposes of measuring the net OPEB liability, deferred outflows of resources and OPEB expense information about the fiduciary net position of the District Retiree Benefits Plan (the Plan), and additions to/deductions from the Plan’s fiduciary net positon have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms.

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Net Pension Obligation

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

Compensated Absences

Vested or accumulated vacation and sick leave is recorded as an expense and liability as benefits accrue to employees, in accordance with the District policy.

Deferred Inflows of Resources

The statement of net position and the governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This financial statement element represents an acquisition of resources applicable to future periods and therefore will not be recognized as an inflow of resources (revenue) until that time. The deferred inflows of resources related to pensions results from the difference between the estimated and actual return on pension plan investments, the effect of changes in proportion and changes in assumptions, and the difference between expected and actual experience.

Capital Contributions

Capital contributions represent cash or utility plant additions contributed to the District by property owners or developers desiring services that require capital expenditures or capacity commitments.

Net Position

Net position of the District can be classified into three components - net investment in capital assets, restricted and unrestricted. These classifications are defined as follows:

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

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. As of December 31, 2018, the District did not have restricted net position.

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

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

Operating Revenues and Expenses

Operating revenues, such as water sales and services, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as investment income and rental income, result from non-exchange transactions or ancillary activities in which the District gives (receives) value without directly receiving (giving) equal value in exchange. Operating expenses include the cost of sales and services, administrative expenses and depreciation on capital assets.

Revenue Recognition

Revenue is recognized and accounts receivable recorded as water services are provided. This includes estimated charges for water services delivered prior to year-end and billed during a subsequent billing cycle.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Accordingly, actual results could differ from those estimates.

NOTE 2: CASH AND CASH EQUIVALENTS

Cash and investments at December 31, 2018 are shown herein:

Cash on hand	$	700
Deposits held with financial institutions		1,717,530
Investments in Local Agency Investment Fund		2,545,082
Total cash and cash equivalents on hand and in institutions		4,263,312
Held by fiscal agent		4,148,361
Total cash and cash equivalents	$	8,411,673

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

The table herein identifies the investment types that are authorized for the District by the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. The table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	5 years	None	None
U.S. Government Sponsored Agency Securities	5 years	None	None
State of California Obligations	5 years	None	None
California Warrants, Notes or Bonds	5 years	None	None
Negotiable Certificates of Deposit	5 years	30%	None
CD Placement Services	5 years	30%	None
Banker's Acceptance	180 days	40%	30%
Repurchase Agreements	1 year	20%	None
Commercial Paper	270 days	25%	10%
Medium-term Notes	5 years	30%	None
LAIF	N/A	None	None
County Pooled Investment Funds	N/A	None	None
Joint Powers Authority Pool	N/A	None	None
Mutual Funds and Money Market Mutual Funds	5 years	20%	10%

Concentration of Credit Risk

The District follows the investment policy as stipulated by the California Government Code as to the amount it may invest in any one issuer. At December 31, 2018, the District had no concentration of credit risk.

NOTE 2: CASH AND CASH EQUIVALENTS

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity as necessary to provide the cash flow and liquidity needed for operations. At December 31, 2018, District have no investment that subject to interest rate risk.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investments in LAIF are not rated.

Custodial Credit Risk

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

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair

NOTE 2: CASH AND CASH EQUIVALENTS

value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. LAIF is not subject to categorization to indicate the level of custodial risk assumed by the District at year end.

NOTE 3: CAPITAL ASSETS:

Changes in capital assets at December 31, 2018 are shown herein.

	Balance at 1/1/2018	Additions	Transfers/ Deletions	Balance at 12/31/2018
Non-depreciable assets:				
Land and Easements	$ 382,175	$ -	$ -	$ 382,175
Water rights	216,000	-	-	216,000
Construction in Progress	1,731,859	2,804,352	(796,289)	3,739,922
Total Capital Assets, not being depreciated	2,330,034	2,804,352	(796,289)	4,338,097
Depreciable assets:				
Wells and reservoirs	3,011,756	-	-	3,011,756
Pumps and tanks	727,014	14,460	-	741,474
Water treatment equipment	47,678	-	-	47,678
Transmission and distributions	11,982,674	715,279	-	12,697,953
General plant	1,976,746	72,762	-	2,049,508
Rental house	100,189	18,840	-	119,029
SCADA System & Equipment	-	36,783	-	36,783
Total Depreciable Assets	17,846,057	858,124	-	18,704,181
Less Accumulated Depreciation	(10,380,828)	(508,210)	-	(10,889,038)
Total Capital Assets, being depreciated	7,465,229	349,914	-	7,815,143
Total Capital Assets, Net	$ 9,795,263	$ 3,154,266	$ (796,289)	$ 12,153,240

NOTE 4: RISK MANAGEMENT

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

At December 31, 2018, the District participated in the self-insurance programs of the Insurance Authority as discussed herein:

NOTE 4: RISK MANAGEMENT

Property Loss - The Insurance Authority has pooled self-insurance up to $100,000 per occurrence and has purchased excess insurance coverage of $100,000,000 (total insurable value of $3,797,251). The District has a $2,500 deductible for buildings, personal property, fixed and mobile equipment and a $500 deductible for licensed vehicles.

General Liability - The District is insured up to $60,000,000 with no deductible. The Insurance Authority has pooled self-insurance of $2,000,000 per occurrence and has purchased excess insurance coverage of $58,000,000.

Auto Liability - The District is insured up to $60,000,000 with no deductible. The Insurance Authority has pooled self-insurance of $2,000,000 per occurrence and has purchased excess insurance coverage of $58,000,000.

Workers' Compensation - Workers' compensation and employer's liability are insured up to $4,000,000. The Insurance Authority has pooled self-insurance of $2,000,000 per occurrence and has purchased excess insurance coverage of $2,000,000.

Public Officials' Liability - The District has coverage for errors and omissions for up to $60,000,000. The Insurance Authority has pooled self-insurance of $2,000,000 per occurrence and has purchased excess insurance coverage of $58,000,000.

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

Earthquake and Flood - The District is insured up to $25,000,000. The earthquake deductible is 5% of the total insurable values ($3,379,311) at the time of loss, subject to a $25,000 minimum per occurrence. The flood deductible is $25,000 per occurrence.

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

NOTE 5: PENSION PLAN – CALIFORNIA PUBLIC EMPLOYEE'S RETIREMENT SYSTEM (CalPERS)

The District participates in a cost sharing multiple-employer defined benefit plan through the California Public Employees' Retirement System (CalPERS) which covers substantially all regular full-time employees of the District. CalPERS acts as a common investment and administrative agent for participating public entities within the state of California and reports information to the District in accordance with reporting standards established by the GASB.

NOTE 5: PENSION PLAN – CALIFORNIA PUBLIC EMPLOYEE'S RETIREMENT SYSTEM (CalPERS)

The District has implemented all applicable GASB Statements related to the area of pension plans and as a result, reported its proportionate share of the net pension liability, pension expense, deferred outflows of resources, and deferred inflow of resources for the above plan as shown herein:

Pension Plan	Proportionate Share of Net Pension Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	Proportionate Share of Pension Expense
CalPERS	$ 431,937	$ 243,924	$ 302,477	$ 30,491

Plan Description

Qualified employees are eligible to participate in the Public Agency Cost-Sharing Multiple-Employer Plan under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The Public Agency Cost-Sharing Multiple-Employer Plan is comprised of a Miscellaneous Risk Pool and a Safety Risk Pool. Individual employers may sponsor more than one Miscellaneous or Safety plan. The District sponsors one Miscellaneous Risk pool plan and the information presented below represents the allocated pension amounts for the District's plan (the Plan). The Plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

The Plan provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on year of service credit, a benefit factor and the member's final compensation. Members hired by the district, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for employment-related disability benefits regardless of length of service and non-duty disability benefits after 4 years of service. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. The Post-Retirement Death Benefit is a one-time payment made to a retiree's designated survivor or estate upon the retiree's death. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is a least age 50 (or 52 for members hired on or after January 1, 2013), and has at least 5 years of credited service.

NOTE 5: PENSION PLAN – CALIFORNIA PUBLIC EMPLOYEE'S RETIREMENT SYSTEM (CalPERS)

The cost of living adjustments for the Plan are applied as specified by the Public Employees' Retirement Law.

The Plan provisions and benefits in effect at December 31, 2018, are shown herein:

	Miscellaneous Risk Pool	
	Classic	PEPRA
Hire date	On or Before December 31, 2012	On or After January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of services	5 years of services
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Required employee contribution rates	7.00%	6.25%
Required employer contribution rates	9.887%	7.045%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are determined annually through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for the fiscal year ended December 31, 2018 are presented above and the total District required contributions to the Plan were $69,561.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

As of December 31, 2018, the District reported net pension liability for its proportionate share of the Miscellaneous Risk Pool net pension liability totaling $431,937. As permitted by GASB standards, the net pension liability was determined based upon the measurement date of June 30, 2018. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

NOTE 5: <u>PENSION PLAN – CALIFORNIA PUBLIC EMPLOYEE'S RETIREMENT SYSTEM (CalPERS)</u>

For the year ended December 31, 2018, the District recognized pension expense of $30,491. At December 31, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the sources herein :

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contribution subsequent to measurement date	$ 60,370	$ -
Change in assumptions	133,018	(32,600)
Differences between expected and actual experience	44,768	(15,235)
Differences between projected and actual earnings on plan investments	5,768	-
Adjustments due to difference in proportion	-	(134,892)
Difference in proportionate share of contributions	-	(119,750)
	$ 243,924	$ (302,477)

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. The deferred inflows of resources and any remaining deferred outflows of resources will be amortized over a closed period of between 3.8 and 5 years and will be recognized as a reduction in pension expense are shown herein:

Year Ended December 31,	Amortization
2019	$ 114,646
2020	(65,310)
2021	(112,311)
2022	(55,949)
	$ (118,924)

Actuarial Methods and Assumptions

The total pension liability for the Plan was determined by applying update procedures to an actuarial valuation as of June 30, 2017, which was rolled forward to the June 30, 2018 measurement date. As permitted by GASB standards, the District's net pension liability was determined based upon the measurement date of June 30, 2018.

NOTE 5: PENSION PLAN – CALIFORNIA PUBLIC EMPLOYEE'S RETIREMENT SYSTEM (CalPERS)

The financial reporting actuarial valuation as of June 30, 2017 used the methods and assumptions herein, applied to all prior periods included in the measurement.

Valuation date	June 30, 2017
Measurement date	June 30, 2018
Experience study	July 1, 1997 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.15%
Consumer price inflation	2.50%
Wage growth	Varies by entry age and service

Mortality assumptions are based on mortality rates resulting from the most recent CalPERS experience study adopted by the CalPERS Board. For purposes of the post-retirement mortality rates, those revised rates include 15 years of mortality improvement using 90 percent of scale MP 2016 published by the Society of Actuaries.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. In determining the long-term expected rate of return, CalPERS took into account, both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all of the funds' asset classes, expected compound (geometric) returns were calculated over the short term (first 10 years) and the long term (11+ years) using a building-block approach. Using the expected nominal returns for both short term and long term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses. The target allocation and best estimates of long-term expected real rate of return by asset class are summarized in the following table:

Asset Class	Current Target Allocation	Real Return Years 1-10	Real Return Years 11+
Global equity	50.00%	4.80%	5.98%
Global fixed income	28.00%	1.00%	2.62%
Inflation sensitive	0.00%	0.77%	1.81%
Private Equity	8.00%	6.30%	7.23%
Real Estate	13.00%	3.75%	4.93%
Liquidity	1.00%	0.00%	-0.92%

NOTE 5: PENSION PLAN – CALIFORNIA PUBLIC EMPLOYEE'S RETIREMENT SYSTEM (CalPERS)

Discount Rate

The discount rate used to measure the total pension liability was 7.15%. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

The following presents the District's proportionate share of the net pension liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

Discount rate	Net Pension Liability (Asset)
1% decrease (6.15%)	$ 1,155,449
Current discount rate (7.15%)	431,937
1% increase (8.15%)	(104,389)

Plan Fiduciary Net Position

Detailed information about CalPERS Miscellaneous Risk Plan fiduciary net position is available in a separate comprehensive annual financial report. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

NOTE 6: POSTEMPLOYMENT HEALTHCARE BENEFITS

Plan Description and Eligibility

In addition to the pension benefits described in Note 5, the District provides a post-retirement health care benefit for retired employees and directors who have served the District full-time for at least six consecutive years and who are at least 55 years of age at the time of retirement, and spouses. In accordance with statutory requirements, a director must have commenced his or her service on or before January 1, 1995 in order to be entitled to receive District-paid health insurance after completing service on the Board.

NOTE 6: POSTEMPLOYMENT HEALTHCARE BENEFITS

Funding Policy

The contribution requirements of the plan are set by the District and the District's Board of Directors. Currently, contributions are not required from plan members. The District has established a trust to fund future other postemployment benefits (OPEB). The required contribution is based on projected pay-as-you-go financing requirements with an additional amount to prefund benefits as determined annually by the District. For the year ended December 31, 2018, the District contributed $112,968 to the plan including the implicit rate subsidy.

The table herein shows the participants as of December 31, 2018.

Participant Type:	Number of Participants
Inactive participants currently receiving benefits	4
Inactive participants entitled to but not yet receiving benefit payments	-
Active employees	11
Total	15

Net OPEB Liability (Asset)

The table herein shows the components of the net OPEB liability of the District:

Total OPEB liability	$	1,507,367
Plan fiduciary net position		476,620
District's net OPEB liability (asset)	$	1,030,747
Plan fiduciary net position as a percentage of the total OPEB liability (asset)		31.62%

Investments

At December 31, 2018, all Plan investments are held in the California Employers' Retiree Benefit Trust Program (CERBT) through CalPERS.

Actuarial Methods and Assumptions

The District's net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2107. Liabilities in this report were calculated as of the valuation date.

The total OPEB liability was determined by using the actuarial assumptions shown herein, applied to all periods included in the measurement, unless otherwise specified.

NOTE 6: POSTEMPLOYMENT HEALTHCARE BENEFITS

Actuarial Methods and Assumptions	
Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Inflation	2.75%
Salary Increases	2.75%
Investment Rate of Return	6.50%
Health Care Trend Rate	4.00%

Mortality rates were based on the 2014 rates used by CalPERS.

The long-term expected rate of return on Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Shown herein is the assumed asset allocation and assumed rate of return for each asset class.

Asset Class	Percentage of Portfolio	Assumed Gross Return
US Large Cap	40%	7.80%
US Small Cap	10%	7.80%
Long-Term Corporate Bonds	18%	5.30%
Long-Term Government Bonds	6%	4.50%
Treasurey Inflated Protected Securities (TIPS)	15%	7.80%
US Real estate	8%	7.80%
All Commodities	3%	7.80%

The discount rate used to measure the total OPEB liability was 6.5 percent. It is assumed that contributions would be sufficient to fully fund the obligation over a period not to exceed 30 years. Historic 35-year real rates of return for each asset class were used, along with an assumed long-term inflation assumption, to set the discount rate. The expected investment return was offset by investment expenses of 25 basis points. Rolling periods of time for all assets, in combination, were reviewed to appropriately reflect the correlation between asset classes. That means that the average returns for any asset class will not necessarily reflect the averages over time individually, but do reflect the return for the asset class for the portfolio average. Geometric means were used.

Since the most recent valuation, there were no changes to the actuarial assumptions.

NOTE 6: POSTEMPLOYMENT HEALTHCARE BENEFITS

Changes in the Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (Asset) (a) - (b)
Balances at June 30, 2017	$ 1,418,012	$ 386,094	$ 1,031,918
Changes for the year:			
Service cost	43,241	-	43,241
Interest	92,082	-	92,082
Employer contributions	-	112,968	(112,968)
Expected investment income	-	27,250	(27,250)
Expected gains/losses		(3,001)	3,001
Benefit payments	(45,968)	(45,968)	-
Administrative expense	-	(723)	723
Net change	89,355	90,526	(1,171)
Balances at June 30, 2018	$ 1,507,367	$ 476,620	$ 1,030,747

The following presents the District's net OPEB liability calculated using the discount rate of 6.5 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.5 percent) or 1-percentage-point higher (7.5 percent) than the current rate:

Discount rate	Net OPEB Liability (Asset)
1% decrease (5.50%)	$ 1,250,524
Current discount rate (6.50%)	1,030,747
1% increase (7.50%)	851,009

The following presents the District's net OPEB liability calculated using the current healthcare cost trend rate of 4.0 percent, as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (3.0 percent) or 1-percentage-point higher (5.0 percent) than the current rate:

Healthcare trend rate	Net OPEB Liability (Asset)
1% decrease (3.00%)	$ 831,582
Current healthcare trend rate (4.00%)	1,030,747
1% increase (5.00%)	1,272,129

OPEB Expense

For the year ended December 31, 2018, the District recognized OPEB expense of $109,397.

NOTE 7: NOTES PAYABLE

As of December 31, 2018, the District had entered into two Installment Sale Agreements with the California Infrastructure and Economic Development Bank in the amount of $2,020,200 and $5,250,000, respectively. The proceeds of the loan are held by a fiscal agent and are released as infrastructure expenditures are incurred. The loans bears interest at 3.84% per annum. Principal payments commence in August 2017 and are due annually. Interest payments commenced February 2017 and are payable biannually. The total future debt obligations under these agreements are as shown herein.

Year Ended December 31	Principal	Interest
2019	$ 147,127	$ 257,038
2020	152,520	251,645
2021	158,112	246,053
2022	163,910	240,255
2023	169,922	234,243
Thereafter	6,199,775	3,096,027
Total future debt service	$ 6,991,366	$ 4,325,261

The schedule below summarizes changes in long-term debt during the year ended December 31, 2018:

	Balance January 1, 2018	Additions	Reductions	Balance December 31, 2018	Amount Due in One Year
California Infrastructure	$ 5,153,862	$ -	$ 99,829	$ 5,054,033	$ 103,663
Economic Development Bank	1,979,429	-	42,096	1,937,333	43,464
Total	$ 7,133,291	$ -	$ 141,925	$ 6,991,366	$ 147,127

For the year ended December 31, 2018, the District capitalized $260,072 of interest expense, which was the actual borrowing costs incurred.

NOTE 8: COMMITMENTS AND CONTINGENCIES

Litigation

In the ordinary course of operations, the District is subject to claims and litigation form outside parties. After consultation with legal counsel, the District believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

REQUIRED SUPPLEMENTARY INFORMATION

PICO WATER DISTRICT

SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY – OTHER POSTEMPLOYMENT BENEFITS OBLIGATION
For the Year Ended December 31, 2018

Total OPEB Liability	2018
Service Cost	$ 43,241
Interest	92,082
Benefit Payments	(45,968)
Net Change in Total OPEB Liability	89,355
Total OPEB Liability - beginning	1,418,012
Total OPEB Liability - ending (a)	$ 1,507,367

Plan Fiduciary Net Position	2018
Contributions - Employer	$ 112,968
Net Investment Income	27,250
Investment Gains/Losses	(3,001)
Benefit Payments	(45,968)
Administrative Expense	(723)
Net Change in Plan Fiduciary Net Position	90,526
Plan Fiduciary Net Position - beginning	386,094
Plan Fiduciary Net Position - ending (b)	$ 476,620
Net OPEB Liability (Asset) - ending (a) - (b)	$ 1,030,747
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	31.62%
District's covered-employee payroll	$ 727,985
Net OPEB liability (asset) as a percentage of covered-employee payroll	141.59%

Note: Accounting standards require presentation of 10 years of information. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule as future data becomes available.

PICO WATER DISTRICT

SCHEDULE OF DISTRICT'S CONTRIBUTION – OTHER POSTEMPLOYMENT BENEFITS OBLIGATION
For the Year Ended December 31, 2018

OPEB Contributions		2018
Actuarially Determined Contribution (ADC) (1)	$	112,968
Contributions in relation to the ADC		112,968
Contribution deficiency (excess)	$	-
District's covered-employee payroll	$	727,985
Contributions as a percentage of covered-employee payroll		15.52%

(1) The District did not calculate an ADC. The District contributes on a pay as you go method assumed to be an amount sufficient to fully fund the obligation over a period not to exceed 30 years.

Note: Accounting standards require presentation of 10 years of information. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule as future data becomes available.

PICO WATER DISTRICT

SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
For the Year Ended December 31, 2018

	2018	2017	2016	2015
District's proportion of the net pension liability (assets)	4.482000%	0.031280%	0.030930%	0.0318836%
District's proportionate share of the net pension liability (assets)	$ 431,937	$ 466,342	$ 333,859	$ 64,847
District's covered payroll reported as of the previous fiscal year to align with the measurement date of the net pension liability	$ 707,715	$ 685,639	$ 644,476	$ 616,120
District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	61.03%	68.02%	51.80%	10.53%
Plan fiduciary net position as a percentage of the total pension liability	91.74%	90.69%	92.50%	98.47%

Note: Accounting standards require presentation of 10 years of information. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule as future data becomes available.

Amounts for covered payroll are reported as of the previous fiscal year to align with the measurement date of the net pension liability.

PICO WATER DISTRICT

SCHEDULE OF DISTRICT'S CONTRIBUTIONS
CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
For the Year Ended December 31, 2018

	2018	2017	2016	2015
Contractually required contribution	$ 69,561	$ 69,915	$ 75,888	$ 60,692
Contributions in relation to the contractually required contribution	69,561	69,915	75,888	60,692
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
District's covered payroll	$ 684,785	$ 707,715	$ 685,639	$ 644,476
Contributions as a percentage of covered payroll	10.16%	9.88%	11.07%	9.42%

Note: Accounting standards require presentation of 10 years of information. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule as future data becomes available.

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended December 31, 2018

NOTE 1: PURPOSE OF SCHEDULES

Schedule of Changes in the Net OPEB Liability

The schedule is intended to show the funded status of the District's actuarially determined liability for post-employment benefits other than pensions. In the future, as data becomes available, 10 years of information will be presented.

Schedule of Postemployment Healthcare Contributions

The schedule presents information on the District's required contribution, the amounts actually contributed and an excess or deficiency related to the required contribution. In the future, as data becomes available, 10 years of information will be presented.

Schedule of District's Proportionate Share of the Net Pension Liability

The schedule presents information on the District's proportionate share of the net pension liability, and the plans' fiduciary net position associated with the District. In the future, as data becomes available, 10 years of information will be presented.

Schedule of District's Contributions

The schedule presents information on the District's required contribution, the amounts actually contributed and any excess or deficiency related to the required contribution. In the future, as data becomes available, 10 years of information will be presented.

SUPPLEMENTARY INFORMATION

PICO WATER DISTRICT

SCHEDULE OF OPERATING REVENUES
For the Year Ended December 31, 2018

Water sales revenues	
Residential	$ 1,862,152
Multi-user	561,596
Business	534,047
Other	451,508
Total water sales revenues	3,409,303
Water service revenues	
Late charges	62,412
Fire protection	57,945
Infrastructure Surcharge	419,648
Other	274,261
Total water service revenues	814,266
Total operating revenues	$ 4,223,569

See independent auditors' report.

PICO WATER DISTRICT

SCHEDULE OF OPERATING EXPENSES
For the Year Ended December 31, 2018

Source of supply	
Ground water replenishment	$ 928,114
Recycled water	56,912
Salaries and wages	69,413
Total source of supply	1,054,439
Pumping	
Power	196,378
Maintenance	36,932
Salaries and wages	162,010
Total pumping	395,320
Water treatment	
Water treatment regulations	29,421
Chemicals and lab testing	39,716
Salaries and wages	3,271
Total water treatment	72,408
Transmission and distribution	
Maintenance	21,900
Vehicle expenses	89,514
Salaries and wages	103,332
Total transmission and distribution	214,746
Customer accounts	
Supplies	47,935
Salaries and wages	153,646
Total customer accounts	201,581
Depreciation	
Depreciation	508,210

(Continued on following page)

PICO WATER DISTRICT

SCHEDULE OF OPERATING EXPENSES
For the Year Ended December 31, 2018

General and administrative	
Salaries and wages	$ 342,087
Insurance	338,231
Pension expenses	160,440
Professional services	160,810
Payroll taxes	72,146
Other post-employment benefits expense	119,423
Directors' fees	43,200
Meetings and dues	46,346
Repairs and maintenance	26,758
Telephone and utilities	24,182
Office supplies	20,510
Conservation	21,154
Education	2,035
Miscellaneous	33,746
Total general and administrative	1,411,068
Total operating expenses	$ 3,857,772

See independent auditors' report.

OTHER INDEPENDENT AUDITORS' REPORT

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

Board of Directors
Pico Water District
Pico Rivera, California

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 Pico Water District (District), as of and for the year ended December 31, 2018 and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 15, 2019.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the 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.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the 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 non-compliance 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen
Glendora, California
May 15, 2019