PICO WATER DISTRICT

REPORT ON AUDIT OF FINANCIAL STATEMENTS

DECEMBER 31, 2017

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, 2017, 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
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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, 2017 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i through vii and the required supplementary information on pages 25 through 27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the District's basic financial statements. The supplementary schedules as listed on 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

INDEPENDENT AUDITORS' REPORT

Board of Directors
Pico Water District
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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 10, 2018 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 10, 2018

MANAGEMENT’S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2017

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, 2017. Please read it in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's net position increased by $174,852. Operating revenue increased by 4% 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 decreased 4% due primarily to decreased maintenance expenses offset by increased source of supply and water treatment costs.

- Non-operating revenues increased $24,478 due to increased investment revenue. Non-operating expenses decreased 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 2017.

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 and liabilities - 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 2017	Year 2016	Dollar Change
Assets:			
Current and other assets	$ 11,390,004	$ 10,046,831	$ 1,343,173
Capital assets	9,795,263	8,483,740	1,311,523
Total Assets	21,185,267	18,530,571	2,654,696
Deferred Outflows of Resources:			
Deferred amount pension obligation	285,395	170,258	115,137
Total Deferred Outflows	285,395	170,258	115,137
Liabilities:			
Current liabilities	1,558,369	1,009,631	548,738
Non-current liabilities	8,169,960	6,201,233	1,968,727
Total Liabilities	9,728,329	7,210,864	2,517,465
Deferred Inflows of Resources:			
Deferred amount pension obligation	279,052	201,536	77,516
Total Deferred Inflows	279,052	201,536	77,516
Net Position:			
Net investment in capital assets	9,125,095	8,483,740	32,503
Unrestricted	2,338,186	2,804,689	142,349
Total Net Position	$ 11,463,281	$ 11,288,429	$ 174,852

As can be seen from Table 1, the District's net position increased by $174,852 from fiscal year 2016 to 2017. The net position increase of $174,852 consists of an increase of $32,503 in investment in capital assets, and an increase of $142,349 in unrestricted net position.

NET POSITION (CONTINUED)

TABLE 2

Condensed Statements of Revenues, Expenses and Change in Net Position

	Year 2017	Year 2016	Dollar Change
Revenues			
Operating revenues	$ 3,794,861	$ 3,664,933	$ 129,928
Non-operating revenues	64,103	39,625	24,478
Total Revenues	3,858,964	3,704,558	154,406
Expenses			
Depreciation expense	496,210	512,833	(16,623)
Other operating expenses	3,134,974	3,166,453	(31,479)
Nonoperating expense	70,838	117,775	(46,937)
Total Expenses	3,702,022	3,797,061	(95,039)
Net position before capital contributions	156,942	(92,503)	249,445
Capital contributions	17,910	95,615	(77,705)
Change in net position	174,852	3,112	171,740
Net position, beginning of year	11,288,429	11,285,317	3,112
Net position, end of fiscal year	$ 11,463,281	$ 11,288,429	$ 174,852

A closer examination of the source of changes in net position reveals that the District's total revenues increased by $154,406 in 2017. 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 also decreased by $31,479, yielding an increase in net position of $156,942 before capital contributions. The net position at year end indicates a net increase in the amount of $174,852.

BUDGETARY HIGHLIGHTS

TABLE 3

2017 Actual vs. 2017 Budget

	2017 Actual	2017 Budget	Variance
Revenues			
Operating revenues	$ 3,794,861	$ 3,601,800	$ 193,061
Non-operating revenues	64,103	35,000	29,103
Total Revenues	3,858,964	3,636,800	222,164
Expenses			
Operating expenses:			
Source of supply	982,798	869,300	113,498
Pumping	371,047	420,300	(49,253)
Water treatment	74,692	60,500	14,192
Transmission and distribution	202,480	181,700	20,780
Customer service	192,952	200,100	(7,148)
Depreciation	496,210	525,000	(28,790)
General and administrative	1,311,005	1,292,000	19,005
Total Operating expenses:	3,631,184	3,548,900	82,284
Nonoperating expenses	70,838	223,200	(152,362)
Total Expenses	3,702,022	3,772,100	(70,078)
Change in net position before capital contributions	156,942	(135,300)	292,242
Capital Contributions	17,910	-	17,910
Change in net position	$ 174,852	$ (135,300)	$ 310,152

As Table 3 shows actual change in net position is greater than the budgeted change in net position by $310,152. The difference is primarily due to the $222,164 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 $223,200 to an actual amount of $70,838.

CAPITAL ASSETS AND DEBT ADMINISTRATION CAPITAL ASSETS

At December 31, 2017, the District's investments in a broad range of infrastructure as shown in Table 4 totaled $9,795,263.

TABLE 4

Capital Assets

	Balance at January 1, 2017	Additions	Deletions and Transfers	Balance at December 31, 2017
Capital assets:				
Non-depreciable assets	$ 696,201	$ 1,633,833	$	$ 2,330,034
Depreciable assets	17,685,907	173,900	(13,750)	17,846,057
Accumulated depreciation and amortization	(9,898,368)	(496,210)	13,750	(10,380,828)
Total capital assets, net	$ 8,483,740	$ 1,311,523	$ -	$ 9,795,263

The major capital asset additions for the year ended December 31, 2017 was the construction cost of the District's new well for $1,425,550 and the District's new financial accounting and billing software system for $113,420.

Additional information regarding capital assets can be found in Note 4 to the financial statements.

DEBT ADMINISTRATION

At year-end, the District had outstanding debt in the amount of $7,133,291 consisting of two infrastructure loans from IBank. This is more fully discussed in Note 8 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 2018 budget including user fees, potential water sales, water usage patterns, increases by regulatory agencies and utilities, and staffing requirements. The 2018 Budget will see water rates increased by 5%, with additional increases taking place each year for the next two years.

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, 2017

Current Assets		
Cash and cash equivalents	$	3,680,544
Cash held by fiduciary		6,463,123
Accounts receivable		491,618
Accrued interest receivable		7,597
Other receivables		62,858
Inventory of material and supplies		115,129
Prepaid expenses and deposits		74,340
Total Current Assets		10,895,209
Non-Current Assets		
Investments		494,795
Capital assets, net		9,795,263
Total Non-Current Assets		10,290,058
Total Assets		21,185,267
Deferred Outflows of Resources		
Deferred amount pension obligation		285,395
Total Deferred Outflows		285,395
Current Liabilities		
Accounts payable		863,565
Accrued expenses		55,177
Accrued interest payable		109,267
Compensated absences payable - current		21,144
Note payable - current portion		141,925
Refundable deposits		367,291
Total Current Liabilities		1,558,369
Non-Current Liabilities		
Compensated absences		119,819
Note payable, net of current portion		6,991,366
Net pension liability		466,342
Net other post-employement benefits obligation		592,433
Total Non-Current Liabilities		8,169,960
Total Liabilities		9,728,329
Deferred Inflows of Resources		
Deferred amount pension obligation		279,052
Total Deferred Inflows		279,052
Net Position		
Net investment in capital assets		9,125,095
Unrestricted		2,338,186
Total Net Position	$	11,463,281

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, 2017

Operating Revenues		
Water sales	$	3,108,695
Water services		686,166
Total Operating Revenues		3,794,861
Operating Expenses		
Source of supply		982,798
Pumping		371,047
Water treatment		74,692
Transmission and distribution		202,480
Customer service		192,952
Depreciation		496,210
General and administrative		1,311,005
Total Operating Expenses		3,631,184
Operating Income		163,677
Non-Operating Revenues (Expenses):		
Investment earnings		46,103
Rental income		18,000
Other revenues (expenses)		(70,838)
Non-Operating Loss, net		(6,735)
Income before capital contribution		156,942
Capital Contributions		
Contributed capital		11,646
Grant revenue		6,264
Total Capital Contributions		17,910
Change in Net Position		174,852
Net Position at Beginning of Year		11,288,429
Net Position at End of Year	$	11,463,281

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

PICO WATER DISTRICT

STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2017

Cash flows from operating activities:	
Cash receipts from water sales and services	$ 3,712,007
Payments for salaries and benefits	(763,736)
Payments for materials and services	(1,671,545)
Net cash provided by operating activities	1,276,726
Cash flows from noncapital financing activities:	
Grants received	6,264
Other non-operating revenue (expense)	(8,546)
Net cash used by noncapital and financing activities	(2,282)
Cash flows from capital and related financing activities:	
Proceeds from loan	2,020,200
Payments on loan and origination fees	(247,076)
Acquisition and construction of capital assets	(1,807,733)
Capital contributions	11,646
Net cash used by capital and financing activities	(22,963)
Cash flows from investing activities:	
Proceeds from rental property	18,000
Interest and investment earnings received	48,447
Other nonoperating revenue (expense)	37,323
Net cash provided by investing activities	103,770
Net increase in cash and cash equivalents	1,355,251
Cash and cash equivalents, beginning of year	8,788,416
Cash and cash equivalents, end of year	$ 10,143,667
Cash and cash equivalents	$ 3,680,544
Cash held by fiduciary	6,463,123
Cash and cash equivalents, end of year	$ 10,143,667

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

PICO WATER DISTRICT

STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2017

Reconciliation of operating income to net cash provided by operating activities:	
Operating income	$ 163,677
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	496,210
Changes in assets and liabilities:	
(Increase) decrease in assets and deferred outflows of resources:	
Accounts receivable - water sales and services	(46,212)
Accounts receivable - other	(3,377)
Materials and supplies inventory	33,948
Prepaid expenses	25,375
Deferred outflows of resources	(115,137)
Increase (decrease) in liabilities and deferred inflows of resources:	
Accounts payable and accrued expenses - operations	518,594
Accrued expenses	28,405
Compensated absences	(1,539)
Unearned revenue	(37,000)
Deposits payable	3,735
Net other post-employment benefits obligation	48
Net pension liability	132,483
Deferred inflows of resources	77,516
Total Adjustments	1,113,049
Net cash provided by operating activities	$ 1,276,726

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.

New Accounting Pronouncements

GASB Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*

This statement was issued in June 2015. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement establishes new accounting and financial reporting

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

requirements for OPEB plans. This Statement is effective for the calendar year 2018.

Governmental Accounting Standards Board Statement No. 83 – *Certain Asset Retirement Obligations*.

This statement was issued in November 2016 and 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 outflow of resources. The statement is effective for the calendar year 2019.

Governmental Accounting Standards Board Statement No. 85 - *Omnibus 2017*

This statement was issued in March 2017 addresses practice issues that have been identified during implementation and application of certain GASB Statements. Specific topics addressed in this statement are related to blended component units, goodwill, fair value measurement and application, and postemployment benefits (OPEB). The statement is effective for the calendar year 2018.

Governmental Accounting Standards Board Statement No. 87

This statement was issued in June 2017. 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 calendar year 2021.

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. 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.

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

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, 2017, 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.

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, 2017, 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. The District also maintains certain cash balances held with a broker. See Note 2 for reconciliation of cash and cash equivalents reported on the statement of net position.

Accounts Receivable

The District grants unsecured credit to its customers. Bad debts are accounted for by the reserve method, which establishes an allowance for doubtful accounts based upon historical losses and a review of past due accounts as of December 31, 2017. The reserve at year end was $0.

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	5 - 25 years

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

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. Nonoperating revenues, such as investment income and rental income, result from nonexchange 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.

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.

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.

Net Pension Liability

The total pension liability for the District was determined by applying update procedures to an actuarial valuation as of June 30, 2016 which was rolled forward to the June 30, 2017 measurement date. As permitted by GASB standards, at December 31, 2017, the District's net pension liability was determined based upon the measurement date of June 30, 2017.

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until that time.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time.

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.

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 INVESTMENTS

Cash and investments at December 31, 2017 are shown herein:

Cash on hand	$ 700
Deposits held with financial institutions	1,171,990
Held by broker- money-market funds	10,360
Investments in Local Agency Investment Fund	2,497,494
Total cash and cash equivalents on hand and in institutions	3,680,544
Held by fiscal agent	6,463,123
Total cash and cash equivalents	10,143,667
Held by broker - US Agency Securities	494,795
Total cash equivalents and investments	$ 10,638,462

NOTE 2: CASH AND INVESTMENTS

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, 2017, the District had no concentration of credit risk.

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

NOTE 2: <u>CASH AND INVESTMENTS</u>

longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the table herein that shows the distribution of the District's investments by maturity as of December 31, 2017.

		Remaining Maturity	
Investment Type	Totals	12 Months Or Less	13 to 60 Months
Local Agency Investment Fund (LAIF)	$ 2,497,494	$ 2,497,494	$ -
Held by Broker -Money-market funds	10,360	10,360	-
Held by Broker -US Agency Securities	494,795	-	494,795
Total	$ 3,002,649	$ 2,507,854	$ 494,795

<u>Credit Risk</u>

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 and broker-held securities are not rated.

<u>Custodial Credit Risk</u>

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.

NOTE 2: CASH AND INVESTMENTS

The District has certain investments which are not Federal Deposit Insurance Corporation (FDIC) insured; however, the investments are eligible for Securities Investor Protection Corporation (SIPC) coverage. SIPC does not provide blanket coverage. Instead, SIPC protects customers of SIPC-member broker-dealers if the firm fails financially. Coverage is up to $500,000 per customer for all accounts at the same institution, including a $250,000 limit for cash. At December 31, 2017, the District's deposits were either insured by the FDIC, SIPC, or collateralized as required under California Law.

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 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: FAIR VALUE OF INVESTMENTS

Investments are measured at fair value on a recurring basis. Recurring fair value measurements are those that GASB require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments' fair value measurements at December 31, 2017 are presented herein.

	Fair Value Measurement Using			
Investment Type	Fair Value	Level 1 Input	Level 2 Input	Level 3 Input
Held by Broker - US Agency Securities	$ 494,795	$ 494,795	$ -	$ -
Total	$ 494,795	$ 494,795	$ -	$ -

PICO WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

NOTE 4: CAPITAL ASSETS:

Changes in capital assets at December 31, 2017 are shown herein.

	Balance at 1/1/2016	Additions	Deletions	Balance at 12/31/2016
Non-depreciable assets:				
Land and Easements	$ 382,175	$ -	$ -	$ 382,175
Water rights	216,000	-	-	216,000
Construction in Progress	98,026	1,633,833		1,731,859
Total Capital Assets, not being depreciated	696,201	1,633,833	-	2,330,034
Depreciable assets:				
Wells and reservoirs	3,007,511	4,245	-	3,011,756
Pumps and tanks	716,014	11,000	-	727,014
Water treatment equipment	47,678	-	-	47,678
Transmission and distributions	11,916,297	66,377	-	11,982,674
General plant	1,962,519	27,977	(13,750)	1,976,746
Rental house	35,888	64,301	-	100,189
Total Depreciable Assets	17,685,907	173,900	(13,750)	17,846,057
Less Accumulated Depreciation	(9,898,368)	(496,210)	13,750	(10,380,828)
Total Capital Assets, being depreciated	7,787,539	(322,310)	-	7,465,229
Total Capital Assets, Net	$ 8,483,740	$ 1,311,523	$ -	$ 9,795,263

NOTE 5: 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, 2017, the District participated in the self-insurance programs of the Insurance Authority as discussed herein:

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 $3,705,779). 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.

NOTE 5: RISK MANAGEMENT

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 ($3,271,193) 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 6: 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.

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	$ 466,342	$ 285,395	$ 279,052	$ 225,137

NOTE 6: PENSION PLAN – CALIFORNIA PUBLIC EMPLOYEE'S RETIREMENT SYSTEM (CalPERS)

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

NOTE 6: PENSION PLAN – CALIFORNIA PUBLIC EMPLOYEE'S RETIREMENT SYSTEM (CalPERS)

The Plan provisions and benefits in effect at December 31, 2017, are shown herein:

	Miscellaneous Risk Pool	
	Classic	PEPRA
	On or Before	On or After
Hire date	December 31, 2012	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 rate for fiscal year ended June 30, 2016	8.00%	6.25%
Required employer contribution rate for fiscal year ended June 30, 2016	9.846%	7.066%

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 June 30, 2017 are presented above and the total District contributions to the Plan were $69,915.

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

As of December 31, 2017, the District reported net pension liability for its proportionate share of the Miscellaneous Risk Pool net pension liability totaling $466,342. As permitted by GASB standards, the net pension liability was determined based upon the measurement date of June 30, 2017. 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.

For the year ended December 31, 2017, the District recognized pension expense of $225,137. At December 31, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the sources herein :

NOTE 6: PENSION PLAN – CALIFORNIA PUBLIC EMPLOYEE'S RETIREMENT SYSTEM (CalPERS)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contribution subsequent to measurement date	$ 44,996	$
Change in assumptions	193,116	
Differences between expected and actual experience		(22,455)
Differences between projected and actual earnings on plan investments	47,283	
Adjustments due to difference in proportion		(145,828)
Difference in proportionate share		(110,769)
	$ 285,395	$ (279,052)

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, 2018. 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
2018	$ (66,534)
2019	24,354
2020	31,597
2021	(28,070)
	$ (38,653)

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, 2016 which was rolled forward to the June 30, 2017 measurement date. As permitted by GASB standards, the District's net pension liability was determined based upon the measurement date of June 30, 2017.

NOTE 6: PENSION PLAN – CALIFORNIA PUBLIC EMPLOYEE'S RETIREMENT SYSTEM (CalPERS)

The financial reporting actuarial valuation as of June 30, 2016 used the methods and assumptions herein, applied to all prior periods included in the measurement.

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.15%
Consumer price inflation	2.75%
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 20 years of mortality improvement using Scale BB published by the Society of Actuaries. 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 the Plan's asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for the Plan. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent. The 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	47.00%	4.90%	5.38%
Global fixed income	19.00%	0.80%	2.27%
Inflation sensitive	6.00%	0.60%	1.39%
Private Equity	12.00%	6.60%	6.63%
Real Estate	11.00%	2.80%	5.21%
Infrastructure and Forestland	3.00%	3.90%	5.36%
Liquidity	2.00%	-0.40%	-0.90%

NOTE 6: 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%)	466,342
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 7: OTHER POST-EMPLOYMENT BENEFITS

Plan Description

In addition to the pension benefits described in Note 6, the District provides a post-retirement health care benefits for retired employees, 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. As of the June 30, 2017 actuarial report, 4 retired employees, directors and spouses were eligible to receive health, vision and dental benefits.

NOTE 7: OTHER POST-EMPLOYMENT 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 post-employment benefits (OPEB). During the year ended December 31, 2017, the District paid $53,421 in benefits for its retirees and their covered dependents and made a contribution of $67,000 to the OPEB trust.

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs and to amortize any unfunded actuarial liabilities of the plan over a period not to exceed 30 years. The ARC for the year ended December 31, 2017 was $114,853 and was determined as part of an actuarial valuation as of June 30, 2017.

The following table shows the component of the District's annual OPEB costs for the year, the amount actually contributed to the plan, and changes in the District's net OPEB asset.

Annual OPEB cost:	
Annual required contribution (ARC)	$ 114,853
Interest on net OPEB obligation	38,505
Adjustment to ARC	(32,889)
Total annual OPEB cost	120,469
Change in net OPEB obligation:	
Actual contributions made	(120,421)
Total change in Net OPEB obligation	48
Net OPEB obligation - beginning of year	592,385
Net OPEB obligation - end of year	$ 592,433

NOTE 7: OTHER POST-EMPLOYMENT BENEFITS

Three-Year Trend Information

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation (asset) for the years ended December 31, 2017, 2016 and 2015 are shown herein.

Fiscal Year Ended	Annual OPEB Cost	Actual Contribution	Percent of Annual OPEB Cost Contributed	Net OPEB Obligation Payable
12/31/2015	$ 107,254	$ 122,705	114%	$ 619,129
12/31/2016	110,147	136,891	124%	592,385
12/31/2017	120,469	120,421	100%	592,433

Funded Status and Funding Progress

As of June 30, 2017, the most recent actuarial valuation date, the plan was 28% funded. The actuarial accrued liability for benefits was $1,422,296, and the actuarial value of assets was $393,689 resulting in an unfunded actuarial accrued liability (UAAL) of $1,028,607. There are 11 active employees and directors covered by the plan. The covered payroll (annual payroll of active employees covered by the plan) was $878,378 and the ratio of the UAAL to the covered payroll was 117%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about mortality, and the healthcare costs trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the District are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to basic financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial report purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members at that point. The actuarial methods and assumptions used include techniques that are designated to reduce the effect of short-term volatility in actuarial accrued liabilities and the actuarial value of assets consistent with the long-term perspective of the calculation.

NOTE 7: OTHER POST-EMPLOYMENT BENEFITS

In the June 30, 2017 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a discount rate of 6.5% per annum using the Building Block Method" as described in ASOP 27 Paragraph 3.6.2. A healthcare cost trend rate of 4% per year was used. Retirement rates and mortality rates are consistent with those used in the most recent CalPERS Miscellaneous 2% at 55 Risk Pool actuarial valuation. The District's initial unfunded actuarial liability is amortized using a level percent closed 30-year amortization. A level percent open 22-year amortization period was used for any residual UAAL. A 5 year smoothing formula with a 20% corridor around market value was used for the actuarial value of plan assets.

NOTE 8: NOTES PAYABLE

As of December 31, 2017 and 2016, 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
2018	$ 141,925	$ 262,240
2019	147,127	257,038
2020	152,520	251,645
2021	158,112	246,053
2022	163,910	240,255
Thereafter	6,369,697	3,330,269
Total future debt service	$ 7,133,291	$ 4,587,500

For the year ended December 31, 2017, the District capitalized $244,557 of interest expense which was the actual borrowing costs incurred. In addition, the District paid $72,700 in loan origination fees which was expensed in the year ended December 31, 2017.

REQUIRED SUPPLEMENTARY INFORMATION

PICO WATER DISTRICT

SCHEDULE OF FUNDING STATUS
OTHER POST-EMPLOYMENT BENEFITS OBLIGATION
For the Year Ended December 31, 2017

Actuarial Valuation Date	Actuarial Accrued Liability	Actuarial Value of Assets	Actuarial Unfunded Liability	Funded Ratio	Annual Covered Payroll	% of Unfunded Liability to Annua Covered Payroll
1/1/2013	$ 1,496,829	$ -	$ 1,496,829	0%	$ 801,405	187%
7/1/2015	1,208,959	190,793	1,018,166	16%	838,288	121%
6/30/2017	1,422,296	393,689	1,028,607	28%	878,378	117%

In 2014, the board of directors and management decided to pre-fund the District's other post-employment benefit program by contributing each year's Annual OPEB cost to a Trust beginning in 2014. The District made contributions to the trust of $70,000 in 2015, $90,000 in 2016, and $67,000 in 2017.

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, 2017

	2017	2016	2015
District's proportion of the net pension liability (assets)	0.031280%	0.030930%	0.0318836%
District's proportionate share of the net pension liability (assets)	$ 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	$ 685,639	$ 644,476	$ 616,120
District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	68.02%	51.80%	10.53%
Plan fiduciary net position as a percentage of the total pension liability	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.

See notes to required supplementary information and independent auditors' report.

PICO WATER DISTRICT

SCHEDULE OF DISTRICT'S CONTRIBUTIONS
CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
For the Year Ended December 30, 2017

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

See notes to required supplementary information and independent auditors' report.

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended December 31, 2017

NOTE 1: PURPOSE OF SCHEDULES

Schedule of Funding Status

The schedule is intended to show trends about the funding progress of the District's actuarially determined liability for postemployment benefits other than pensions.

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, 2017

Water sales revenues:	
Residential	$ 1,608,107
Multi-user	540,234
Business	520,429
Other	439,925
Total water sales revenues	3,108,695
Water service revenues	
Late charges	57,684
Fire protection	56,971
Infrastructure Surcharge	443,485
Other	128,026
Total water service revenues	686,166
Total operating revenues	$ 3,794,861

See independent auditors' report.

PICO WATER DISTRICT

SCHEDULE OF OPERATING EXPENSES
For the Year Ended December 31, 2017

Source of supply	
Ground water replenishment	$ 883,562
Recycled water	35,751
Salaries and wages	63,485
Total source of supply	982,798
Pumping	
Power	185,170
Maintenance	28,622
Salaries and wages	157,255
Total pumping	371,047
Water treatment	
Water treatment regulations	44,983
Chemicals and lab testing	24,605
Salaries and wages	5,104
Total water treatment	74,692
Transmission and distribution	
Maintenance	87,806
Vehicle expenses	19,015
Salaries and wages	95,659
Total transmission and distribution	202,480
Customer accounts	
Supplies	37,671
Salaries and wages	155,281
Total customer accounts	192,952
Depreciation	
Depreciation	496,210

(Continued on following page)

PICO WATER DISTRICT

SCHEDULE OF OPERATING EXPENSES
For the Year Ended December 31, 2017

General and administrative	
Salaries and wages	380,323
Insurance	268,842
Pension expenses	194,037
Professional services	153,879
Payroll taxes	75,464
Other post-employment benefits expense	67,048
Directors' fees	49,200
Meetings and dues	43,714
Repairs and maintenance	35,957
Telephone and utilities	17,318
Office supplies	14,927
Conservation	7,628
Education	1,005
Miscellaneous	1,663
Total general and administrative	1,311,005
Total operating expenses	$ 3,631,184

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, 2017 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 10, 2018.

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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the 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 10, 2018