PALMDALE WATER DISTRICT

AUDIT REPORT

For the Years Ended
December 31, 2017 and 2016

PALMDALE WATER DISTRICT
For the Years Ended December 31, 2017 and 2016
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Palmdale Water District
Palmdale, California

Report on the Financial Statements
We have audited the accompanying financial statements of Palmdale Water District, which comprise the balance sheet as of December 31, 2017, and the related statement of revenue, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

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

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

Opinion
In our opinion, the December 31, 2017 financial statements referred to above present fairly, in all material respects, the financial position of Palmdale Water District as of December 31, 2017, and the respective changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Jeff Nigro, CPA, CFE | Elizabeth Nigro, CPA | Kevin Brejnak, CPA, CFE | Peter Glenn, CPA | Michael Klein, CPA, CMA, EA

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Prior Period Financial Statements
The financial statements of Palmdale Water District as of December 31, 2016, were audited by other auditors whose report dated May 15, 2017, expressed an unmodified opinion on those statements.

Other Matters
Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 3 through 10, schedule of funding progress on page 52, schedule of proportionate share of the net pension liability on page 53, and schedule of contributions on page 54 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 opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information on page 56 is the responsibility of management and was derived from and relate 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 basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards,* we have also issued a separate report dated August 16, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Nigro + Nigro, PC.

Murrieta, California
August 16, 2018

Management's Discussion and Analysis (MD&A) offers readers of Palmdale Water District's financial statements a narrative overview of the District's financial activities for the years ended December 31, 2017 and 2016. This MD&A presents financial highlights, an overview of the accompanying financial statements, an analysis of net position and results of operations, a current-to prior year analysis, a discussion on restrictions, commitments and limitations, and a discussion of significant activity involving capital assets and long-term debt. Please read in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- In 2017, the District's net position decreased (1.15%) or ($1,100,559) from the prior year's net position of $96,018,162 to $94,917,603, as a result of this year's operations.

- In 2016, the District's operating revenues increased by 6.30% or $1,338,382 from $21,248,419 to $22,586,801, from the prior year, primarily due to an increase in water sales – commodity charge of $1,244,148 and monthly meter service charge of $517,986.

- In 2017, the District's operating revenues increased by 4.9% or $1,106,294 from $22,586,801 to $23,693,095, from the prior year, primarily due to an increase in water sales and monthly meter service charges.

- In 2016, the District's operating expenses before overhead absorption and depreciation expense increased by 11.74% or $2,385,023 from $20,319,286 to $22,704,309, from the prior year, primarily due to an increase in source of supply – water purchases or $821,790, facilities expense or $781,420, and administration or $523,215.

- In 2017, the District's operating expenses before overhead absorption and depreciation expense increased by 1.54% or $349,196 from $22,704,309 to $23,053,505, from the prior year, primarily due to an increase in source of supply water purchases as a result of the increase in water sales.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the District's financial statements. The District's basic financial statements reflect the combined results of the Operating and Capital Programs and include four components: (1) Balance Sheet; (2) Statement of Revenues, Expenses, and Changes in Net Position; (3) Statement of Cash Flows; and (4) Notes to the Financial Statements.

The financial statements accompanying this MD&A present the net position, results of operations, and changes in cash flow during the years ending December 31, 2017 and 2016. These financial statements have been prepared using the accrual basis of accounting, which is similar to the accounting basis used by for-profit entities. Each financial statement is identified and defined in this section, and analyzed in subsequent sections of this MD&A.

REQUIRED FINANCIAL STATEMENTS

Balance Sheets

The Balance Sheet presents information on the District's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. However, other factors such as changes in economic conditions, population growth, zoning, and new or changed legislation or regulations also need to be considered when establishing financial position. Assets and deferred outflows of resources exceed liabilities and deferred inflow of resources, resulting in a net position of $94,917,603 as of December 31, 2017.

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how the District's net position changed during the year. All of the year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. This statement measures the results of the District's operations for the year and can be used to determine if the District has successfully recovered all of its costs through user fees and other charges. Operating revenues and expenses are related to the District's core activities. Non-operating revenues and expenses are not directly related to the core activities of the District (e.g. interest income, interest expense, property taxes, gain or loss on sale of assets). For the year ended December 31, 2017, net position decreased by $1.1 million.

Statement of Cash Flows

The Statement of Cash Flows presents information regarding the District's use of cash during the year. It reports cash receipts, cash payments, and net changes in cash resulting from operations, financing and investing activities. The Statement of Cash Flows provides answers to such questions as: Where did cash come from? What was cash used for? What was the change in the cash balance during the reporting period?

District cash flows for the year have been categorized into one of the following activities: operating, noncapital financing, capital and related financing, or investing. The total of these categories represents a decrease in cash and cash equivalents of $1,043,260, which is subtracted from beginning cash and cash equivalents of $4,816,122, to arrive at ending cash and cash equivalents of $3,772,862. Cash equivalents managed directly by the District consist of investments in the California Local Agency Investment Fund (LAIF).

FINANCIAL ANALYSIS AND CONDENSED FINANCIAL INFORMATION

Analysis of Net Position

Table A-1: Condensed Statement of Net Position

	Balance, December 31, 2017	Balance, December 31, 2016	Change	Balance, December 31, 2015	Change
Assets:					
Current assets	$ 22,153,998	$ 21,288,561	$ 865,437	$ 20,417,825	$ 870,736
Non-current assets	1,371,868	1,679,251	(307,383)	1,421,189	258,062
Capital assets, net	153,742,324	154,023,911	(281,587)	154,946,564	(922,653)
Total assets	177,268,190	176,991,723	276,467	176,785,578	206,145
Deferred outflows of resources	5,158,974	4,724,093	434,881	3,684,911	1,039,182
Total assets and deferred outflows	$ 182,427,164	$ 181,715,816	$ 711,348	$ 180,470,489	$ 1,245,327
Liabilities:					
Current liabilities	8,077,898	7,707,996	369,902	7,732,125	(24,129)
Non-current liabilities	75,438,581	74,031,763	1,406,818	71,738,424	2,293,339
Total liabilities	83,516,479	81,739,759	1,776,720	79,470,549	2,269,210
Deferred inflows of resources	3,993,082	3,957,895	35,187	4,354,840	(396,945)
Net position:					
Net investment in capital assets	103,487,203	103,339,383	147,820	103,361,934	(22,551)
Restricted	1,371,868	1,275,331	96,537	229,923	1,045,408
Unrestricted	(9,941,468)	(8,596,552)	(1,344,916)	(6,946,757)	(1,649,795)
Total net position	94,917,603	96,018,162	(1,100,559)	96,645,100	(626,938)
Total liabilities, deferred inflows and net position	$ 182,427,164	$ 181,715,816	$ 711,348	$ 180,470,489	$ 1,245,327

The condensed statement above presents a summary of the District's statement of net position. The District's Net Position as of December 31, 2017 totaled $94,917,603 compared with $96,018,162 as of December 31, 2016, a decrease of (1.15%). Net position is accumulated from revenues, expenses, and contributed capital combined with the beginning balance of net position as presented in the Statement of Revenues, Expenses, and Changes in Net Position.

FINANCIAL ANALYSIS AND CONDENSED FINANCIAL INFORMATION (continued)

Analysis of Revenues and Expenses

Table A-2: Condensed Statements of Revenues, Expenses, and Changes in Net Position

	Balance, December 31, 2017	Balance, December 31, 2016	Change	Balance, December 31, 2015	Change
Operating revenues	$ 23,693,095	$ 22,586,801	$ 1,106,294	$ 21,248,419	$ 1,338,382
Operating expenses	(23,053,505)	(22,704,309)	(349,196)	(20,319,286)	(2,385,023)
Operating income before overhead absorption	639,590	(117,508)	757,098	929,133	(1,046,641)
Overhead absorption	46,276	152,890	(106,614)	26,134	126,756
Operating income before depreciation	685,866	35,382	650,484	955,267	(919,885)
Depreciation expense	(6,113,751)	(5,599,740)	(514,011)	(7,957,867)	2,358,127
Operating (loss) after depreciation	(5,427,885)	(5,564,358)	136,473	(7,002,600)	1,438,242
Non-operating revenues(expenses), net	3,195,252	3,441,106	(245,854)	3,870,448	(429,342)
Net loss before capital contributions	(2,232,633)	(2,123,252)	(109,381)	(3,132,152)	1,008,900
Capital contributions	1,132,074	541,662	590,412	367,481	174,181
Change in net position	(1,100,559)	(1,581,590)	481,031	(2,764,671)	1,183,081
Net position:					
Beginning of year	96,018,162	96,645,100	(626,938)	105,637,337	(8,992,237)
Prior period adjustment	-	954,652	(954,652)	(6,227,566)	7,182,218
End of year	$ 94,917,603	$ 96,018,162	$ (1,100,559)	$ 96,645,100	$ (626,938)

The statement of revenues, expenses and changes in net position shows how the District's net position changed during the fiscal years. In the case of the District, the District's net position decreased from operations by ($1,100,599), ($1,581,590) and ($2,764,671) for the years ended December 31, 2017, 2016, and 2015 respectively.

FINANCIAL ANALYSIS AND CONDENSED FINANCIAL INFORMATION (continued)

Total Revenues

	Balance, December 31, 2017	Balance, December 31, 2016	Increase (Decrease)	Balance, December 31, 2015	Increase (Decrease)
Operating revenues:					
Water sales – commodity charge	$ 8,485,152	$ 8,196,842	$ 288,310	$ 6,952,694	$ 1,244,148
Water sales – wholesale	436,055	229,052	207,003	142,749	86,303
Monthly meter service charge	12,710,214	12,176,890	533,324	11,658,904	517,986
Water quality fees	845,526	861,502	(15,976)	898,134	(36,632)
Elevation fees	365,618	349,673	15,945	369,899	(20,226)
Other charges for services	850,530	772,842	77,688	1,226,039	(453,197)
Total operating revenues	23,693,095	22,586,801	1,106,294	21,248,419	1,338,382
Non-operating:					
Property taxes – ad valorum	1,665,812	1,665,002	810	1,634,459	30,543
Property tax assessment for State Water Project	5,102,773	5,168,663	(65,890)	5,207,003	(38,340)
Successor agency component of property taxes	623,525	524,470	99,055	511,352	13,118
Rental revenue – cellular towers	63,716	120,710	(56,994)	-	120,710
Investment earnings	56,054	42,729	13,325	42,705	24
Change in investment – PRWA	96,536	90,756	5,780	164,503	(73,747)
Legal and insurance refunds/settlements	11,812	-	11,812	198,613	(198,613)
Department of Water Resources – FCR	266,638	285,255	(18,617)	332,957	(47,702)
Other non-operating revenues	84,502	117,632	(33,130)	88,285	29,347
Total non-operating	7,971,368	8,015,217	(43,849)	8,179,877	(164,660)
Total revenues	$ 31,664,463	$ 30,602,018	$ 1,062,445	$ 29,428,296	$ 1,173,722

In 2017, the District's operating revenues increased by 4.9% or $1,106,294 from $22,586,801 to $23,693,095, from the prior year, primarily due to an increase in monthly meter service charge of $533,324.

In 2016, the District's operating revenues increased by 6.30% or $1,338,382 from $21,248,419 to $22,586,801, from the prior year, primarily due to an increase in water sales – commodity charge of $1,244,148 and monthly meter service charge of $517,986. Also, non-operating revenues decreased ($164,660) from the decrease of legal and insurance refunds/settlements of ($198,613).

FINANCIAL ANALYSIS AND CONDENSED FINANCIAL INFORMATION (continued)

Total Expenses

	Balance, December 31, 2017	Balance, December 31, 2016	Increase (Decrease)	Balance, December 31, 2015	Increase (Decrease)
Operating expenses:					
Source of supply – water purchases	$ 3,090,801	$ 2,464,905	$ 625,896	$ 1,643,115	$ 821,790
Operations and production	3,177,431	3,019,029	158,402	2,767,271	251,758
Facilities	6,580,697	7,347,469	(766,772)	6,566,049	781,420
Engineering	1,632,692	1,523,294	109,398	1,348,743	174,551
Water conservation	343,007	347,909	(4,902)	587,961	(240,052)
Administration	5,280,134	4,738,232	541,902	4,215,017	523,215
Finance and customer care	2,948,743	3,263,471	(314,728)	3,191,130	72,341
Operating expenses before overhead absorption	23,053,505	22,704,309	349,196	20,319,286	2,385,023
Overhead absorption	(46,276)	(152,890)	106,614	(26,134)	(126,756)
Operating expenses before depreciation	23,007,229	22,551,419	455,810	20,293,152	2,258,267
Depreciation	6,113,751	5,599,740	514,011	7,957,867	(2,358,127)
Total operating expenses	29,120,980	28,151,159	969,821	28,251,019	(99,860)
Non-operating expenses:					
State Water Project amortization expense	2,600,856	2,362,788	238,068	2,074,524	288,264
Interest expense – long-term debt	2,175,260	2,211,323	(36,063)	2,234,905	(23,582)
Total non-operating	4,776,116	4,574,111	202,005	4,309,429	264,682
Total expenses	$ 33,897,096	$ 32,725,270	$ 1,171,826	$ 32,560,448	$ 164,822

In 2017, the District's operating expenses before overhead absorption and depreciation expense increased by 1.54% or $349,196 from $22,704,309 to $23,053,505, from the prior year, primarily due to an increase in source of supply – water purchases of $625,896, and administration of $541,902, while facilities decreased by ($766,772). Non-operating expenses increased $202,005 due to an increase in State Water Project amortization expense of $238,068.

In 2016, the District's operating expenses before overhead absorption and depreciation expense increased by 11.74% or $2,385,023 from $20,319,286 to $22,704,309, from the prior year, primarily due to an increase in source of supply – water purchases of $821,790, facilities expense of $781,420, and administration of $523,215. Non-operating expenses increased $264,682 due to an increase in State Water Project amortization expense of $288,264.

CAPITAL ASSETS

At the end of 2017, 2016 and 2015, the District's investment in capital assets was $153,742,324, $154,023,911 and $154,946,564 net of accumulated depreciation respectively. Capital asset additions during the years ended December 31, 2017 and 2016 were $8,433,020 and $7,039,875 for various projects and equipment. (More detailed information about capital assets can be found in Note 5 to the financial statements). Total depreciation expense for the year exceeded $6.1 million.

Table A-5: Capital Assets at Year End, Net of Depreciation

Capital assets:	Balance, December 31, 2017	Balance, December 31, 2016	Balance, December 31, 2015
Non-depreciable assets	$ 7,996,662	$ 8,208,610	$ 7,961,504
Depreciable assets	302,972,181	295,153,330	288,486,356
Accumulated depreciation	(157,226,519)	(149,338,029)	(141,501,296)
Total capital assets, net	$ 153,742,324	$ 154,023,911	$ 154,946,564

LONG-TERM DEBT

At year-end the District had $52.6 million in capital leases, loan payables, and revenue bonds payables – a decrease of ($990,019) and ($1,844,141) in 2017 and 2016 respectively – as shown in Table A-6. (More detailed information about the District's long-term liabilities is presented in Note 7 to the financial statements).

Table A-6: Outstanding Long-Term Debt at Year-End

Long-term debt:	Balance, December 31, 2017	Balance, December 31, 2016	Balance, December 31, 2015
Capital leases payable	$ 769,848	$ 47,286	$ 231,745
Loan payable – 2012	7,462,288	8,577,741	9,660,294
Revenue bonds payable, net – 2013	44,344,809	44,941,937	45,519,066
Total	$ 52,576,945	$ 53,566,964	$ 55,411,105

CONDITIONS AFFECTING CURRENT FINANICAL POSITION

- In March 2017 the District was able to suspend the Stage 1 drought surcharge after the Governor ended the mandatory drought restrictions of 28%.

- The District started to see a slight rebound of water usage over the last eight months of 2017. This signaled District customers were starting to change their water habits after being required to meet the mandatory drought restrictions.

- Billed water consumption for the year ended December 31, 2017 was at 16,176 acre feet compared to 15,213 acre feet for the year ended December 31, 2016.

- The District saw an increase in developers paying capital improvement fees for new development. Total funds received for the year ended December 31, 2017 were $1,021,406 compared to $234,747 for the year ended December 31, 2016.

- The District's assessed valuation has increased to $1.72 billion for FY 2016/2017 from $1.66 billion for FY 2015/2016.

- The District received $1.665 million in ad valorum property tax revenue for 2017.

- The District received $623 thousand in successor agency component property taxes for 2017.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's ratepayer, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the funds it receives and the stewardship of the facilities it owns and operates. If you have questions about this report or need additional information, please contact Palmdale Water District, Finance Department, 2029 East Avenue Q, Palmdale, California 93550 or (661) 947-4111.

PALMDALE WATER DISTRICT
Balance Sheet
December 31, 2017

ASSETS	2017	2016
Current assets:		
Cash and cash equivalents (Note 2)	$ 3,772,862	$ 4,412,202
Investments (Note 2)	10,554,165	8,441,547
Accrued interest receivable	37,582	29,664
Accounts receivable – water sales and services, net (Note 3)	1,759,209	1,937,314
Accounts receivable – property taxes and assessments	4,628,764	4,750,909
Accounts receivable – other	18,508	93,024
Materials and supplies inventory	815,095	910,548
Prepaid items	567,813	713,353
Total current assets	22,153,998	21,288,561
Non-current assets:		
Restricted – cash and cash equivalents (Note 2)	-	403,920
Investment in Palmdale Recycled Water Authority (Note 4)	1,371,868	1,275,331
Capital assets – not being depreciated (Note 5)	7,996,662	8,208,610
Capital assets – being depreciated, net (Note 5)	145,745,662	145,815,301
Total non-current assets	155,114,192	155,703,162
Total assets	177,268,190	176,991,723
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on debt defeasance, net (Note 7)	2,321,824	2,478,516
Deferred amounts related to net pension liability (Note 10)	2,837,150	2,245,577
Total deferred outflows of resources	5,158,974	4,724,093
Total assets and deferred outflows of resources	$ 182,427,164	$ 181,715,816

PALMDALE WATER DISTRICT

Balance Sheet (continued)

December 31, 2017

LIABILITIES	2017	2016
Current liabilities:		
Accounts payable and accrued expenses	$ 1,136,962	$ 815,553
Customer deposits for water service	2,872,519	2,968,372
Construction and developer deposits	1,625,816	1,626,017
Accrued interest payable	518,114	530,522
Long-term liabilities – due within one year:		
Compensated absences (Note 6)	108,258	109,793
Capital lease payable (Note 7)	159,145	47,286
Loan payable (Note 7)	1,147,084	1,115,453
Revenue bonds payable (Note 7)	510,000	495,000
Total current liabilities	8,077,898	7,707,996
Non-current liabilities:		
Long-term liabilities – due in more than one year:		
Compensated absences (Note 6)	324,774	329,375
Capital lease payable (Note 7)	610,703	-
Loan payable (Note 7)	6,315,204	7,462,288
Revenue bonds payable, net (Note 7)	43,834,809	44,446,937
Net other post-employment benefits obligation (Note 11)	14,271,430	13,107,674
Net pension liability (Note 10)	9,265,615	7,779,823
Pension-related debt – CalPERS side-fund (Note 10)	816,046	905,666
Total non-current liabilities	75,438,581	74,031,763
Total liabilities	83,516,479	81,739,759
DEFERRED INFLOWS OF RESOURCES		
Unearned property taxes and assessments	3,500,000	3,500,000
Deferred amounts related to net pension liability (Note 10)	493,082	457,895
Total deferred inflows of resources	3,993,082	3,957,895
NET POSITION		
Net investment in capital assets	103,487,203	103,339,383
Restricted – Palmdale Recycled Water Authority (Note 4)	1,371,868	1,275,331
Unrestricted (Deficit) (Note 12)	(9,941,468)	(8,596,552)
Total net position	94,917,603	96,018,162
Total liabilities, deferred inflows of resources and net position	$ 182,427,164	$ 181,715,816

PALMDALE WATER DISTRICT

Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2017

	2017	2016
Operating revenues:		
Water sales – commodity charge	$ 8,485,152	$ 8,196,842
Water sales – wholesale	436,055	229,052
Monthly meter service charge	12,710,214	12,176,890
Water quality fees	845,526	861,502
Elevation fees	365,618	349,673
Other charges for services	850,530	772,842
Total operating revenues	23,693,095	22,586,801
Operating expenses:		
Source of supply – water purchases	3,090,801	2,464,905
Operations and production	3,177,431	3,019,029
Facilities	6,580,697	7,347,469
Engineering	1,632,692	1,523,294
Water conservation	343,007	347,909
Administration	5,280,134	4,738,232
Finance and customer care	2,948,743	3,263,471
Total operating expenses	23,053,505	22,704,309
Operating income(loss) before overhead absorption	639,590	(117,508)
Overhead absorption	46,276	152,890
Operating income before depreciation expense	685,866	35,382
Depreciation expense	(6,113,751)	(5,599,740)
Operating (loss)	(5,427,885)	(5,564,358)
Non-operating revenues(expenses):		
Property taxes – ad valorem	1,665,812	1,665,002
Property tax assessment for State Water Project	5,102,773	5,168,663
Successor agency component of property taxes	623,525	524,470
Rental revenue – cellular towers	63,716	120,710
Investment earnings	56,054	42,729
Changes in investment – Palmdale Recycled Water Authority (Note 4)	96,536	90,756
Legal and insurance refunds/settlements	11,812	-
Department of Water Resources – fixed charge recovery	266,638	285,255
Other non-operating revenues	84,502	117,632
State Water Project amortization expense	(2,600,856)	(2,362,788)
Interest expense – long-term debt	(2,175,260)	(2,211,323)
Total non-operating revenue(expense), net	3,195,252	3,441,106
Net (loss) before capital contributions	(2,232,633)	(2,123,252)
Capital contributions:		
Capital improvement fees	1,021,406	234,747
Federal and state capital grants	110,668	306,915
Total capital contributions	1,132,074	541,662
Change in net position	(1,100,559)	(1,581,590)
Net position:		
Beginning of year, as previously reported	96,018,162	96,645,100
Prior period adjustment (Note 13)	-	954,652
End of year	$ 94,917,603	$ 96,018,162

PALMDALE WATER DISTRICT
Statements of Cash Flows
For the Year Ended December 31, 2017

	2017	2016
Cash flows from operating activities:		
Cash receipts from water sales and services	$ 23,775,146	$ 22,058,997
Cash receipts from others	501,184	893,066
Cash paid to employees for salaries and wages	(7,411,999)	(7,245,721)
Cash paid to vendors and suppliers for materials and services	(13,081,698)	(13,066,181)
Net cash provided by operating activities	3,782,633	2,640,161
Cash flows from non-capital financing activities:		
Proceeds from property taxes	2,411,482	2,246,904
Proceeds from property tax assessment for State Water Project	5,102,773	5,168,663
Acquisition of State Water Project participation rights	(4,497,112)	(4,649,693)
Net cash provided by non-capital financing activities	3,017,143	2,765,874
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(3,350,357)	(2,390,182)
Proceeds from capital improvement fees and capital grants	1,132,074	541,662
Principal paid on long-term debt	(1,717,891)	(1,742,012)
Interest paid on long-term debt	(1,932,632)	(2,078,530)
Net cash (used in) capital and related financing activities	(5,868,806)	(5,669,062)
Cash flows from investing activities:		
Purchase of investments, net	(2,112,618)	(4,032,562)
Investment earnings	138,388	85,440
Net cash (used in) investing activities	(1,974,230)	(3,947,122)
Net (decrease) in cash and cash equivalents	(1,043,260)	(4,210,149)
Cash and cash equivalents:		
Beginning of year	4,816,122	9,026,271
End of year	$ 3,772,862	$ 4,816,122

Reconciliation of cash and cash equivalents to the statement of net position:

	2017	2016
Cash and cash equivalents	$ 3,772,862	$ 4,412,202
Restricted assets – cash and cash equivalents	-	403,920
Total cash and cash equivalents	$ 3,772,862	$ 4,816,122

PALMDALE WATER DISTRICT
Statements of Cash Flows
For the Year Ended December 31, 2017

	2017	2016
Reconciliation of operating (loss) to net cash provided by operating activities:		
Operating (loss)	$ (5,427,885)	$ (5,564,358)
Adjustments to reconcile operating (loss) to net cash provided by operating activities:		
Depreciation	6,113,751	5,599,740
Overhead absorption	(46,276)	(152,890)
Rental revenue – cellular towers	63,716	120,710
Legal and insurance refunds/settlements	11,812	-
Department of Water Resources – fixed charge recovery	266,638	285,255
Other non-operating revenues	84,502	117,632
Change in assets – (increase)decrease:		
Accounts receivable – water sales and services, net	178,105	(528,052)
Accounts receivable – other	74,516	369,469
Materials and supplies inventory	95,453	(87,682)
Prepaid items	145,540	(102,096)
Change in deferred outflows of resources – (increase)decrease		
Deferred amounts related to net pension liability	(591,573)	(1,195,875)
Change in liabilities – increase(decrease):		
Accounts payable and accrued expenses	321,409	280,373
Customer deposits for water service	(95,853)	(72,152)
Construction and developer deposits	(201)	72,400
Compensated absences	(6,136)	14,677
Net other post-employment benefits obligation	1,163,756	1,872,374
Net pension liability	1,485,792	2,036,680
Pension-related debt – CalPERS side-fund	(89,620)	(79,099)
Change in deferred inflows of resources – increase(decrease)		
Deferred amounts related to net pension liability	35,187	(346,945)
Total adjustments	9,210,518	8,204,519
Net cash provided by operating activities	$ 3,782,633	$ 2,640,161
Non-cash investing, capital and financing transactions:		
Change in fair-value of investments	$ (90,252)	$ (62,759)
Amortization of deferred amount on debt defeasance	$ (156,692)	$ (156,693)
Amortization of net premium(discount) on revenue bonds	$ 102,128	$ 102,129
Changes in investment – Palmdale Recycled Water Authority	$ 96,536	$ 90,756

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A. Description of Organization

The Palmdale Water District (the District) was formed as an Irrigation District under Division 11 of the California Water Code in 1918. The District provides potable water service to a portion of the City of Palmdale, California, and surrounding unincorporated areas of the County of Los Angeles. The District is operated under the direction of a five-member board of directors. The board members are elected by the public for staggered four-year terms.

B. Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, and agencies that are not legally separate from the District. For Palmdale Water District, this includes general operations, security, and wastewater treatment of the District.

The criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Standards Board Statement No. 61, *The Financial Reporting Entity* (GASB Statement No. 61). The District is the primary governmental unit based on the foundation of a separately elected governing board that is elected by the citizens in a general popular election. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District is financially accountable if it appoints a voting majority of the organization's governing body and: 1) It is able to impose its will on that organization, or 2) There is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

The Palmdale Water District Public Facilities Corporation (the Corporation) was organized on August 22, 1991, pursuant to the Nonprofit Public Benefit Corporation Law of the State of California (Title 1, Division 2, Part 2 of the California Corporations Code), solely for the purpose of acquiring and or constructing various public facilities and providing financial assistance to the District. Accordingly, this component unit is included within the financial statements of the District.

C. Basis of Presentation, Basis of Accounting

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the year in which all eligibility requirements have been satisfied.

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation, Basis of Accounting (continued)

The District distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an entity's ongoing operations. The principle operating revenues of the District are charges to customers for water sales. Operating expenses include cost of sales, water operations and maintenance expenses, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expense.

Taxes and assessments are recognized as revenues based upon amounts reported to the District by the County of Los Angeles.

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position

1. Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid investments with a maturity of three months or less, when purchased, to be cash equivalents. Cash deposits are reported at the carrying amount, which reasonably estimates fair value.

2. Investments

Investments are reported at fair value except for short-term investments, which are reported at cost, which approximates fair value. Cash deposits are reported at carrying amount, which reasonably estimates fair value. Investments in governmental investment pools are reported at fair value based on the fair value per share of the pool's underlying portfolio.

In accordance with fair value measurements, the District categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement.

Financial assets and liabilities recorded on the balance sheet are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Inputs that reflect unadjusted quoted prices in active markets for identical investments, such as stocks, corporate and government bonds. The District has the ability to access the holding and quoted prices as of the measurement date.

Level 2 – Inputs, other than quoted prices, that are observable for the asset or liability either directly or indirectly, including inputs from markets that are not considered to be active.

Level 3 – Inputs that are unobservable. Unobservable inputs reflect the District's own assumptions about the factors market participants would use in pricing an investment, and is based on the best information available in the circumstances.

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position (continued)

3. Allowance for Doubtful Accounts

The District extends credit to customers in the normal course of operations. When management deems customer accounts uncollectible, the District uses the allowance method for the reservation and write-off of those accounts.

4. Prepaids

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

5. Capital Assets

Capital assets are stated at cost or at their estimated fair value at date of donation. It is the District's policy to capitalize assets costing over $5,000. The provision for depreciation is computed using the straight-line method over the estimated service lives of the capital assets. Estimated service lives for the District's classes of assets are as follows:

Description	Estimated Lives
Buildings and wells	50 years
General plant and infrastructure	40 years
Machinery and equipment	3-10 years

6. 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, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has two items that qualify for reporting in this category. The first item is related to its pension plans as more fully described in the footnote entitled "Pension Plans". The second is deferred amounts on refunding, which resulted from the difference in the carrying value of refunded debt and its reacquisition price. This amount is shown as deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. The District has two items that qualify for reporting in this category. The first item is to recognize the District's proportionate share of the deferred inflows of resources related to its pension plans as more fully described in the footnote entitled "Pension Plans". The second item is unearned property taxes and assessments, which represents advanced payments which have not yet been earned.

7. Compensated Absences

The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated annual and vacation leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position (continued)

8. Pensions

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

9. Net Position

Net position is 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 reduced by 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.

- **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.

- **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.

E. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the 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 reported period. Actual results could differ from those estimates.

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Property Taxes

Property tax in California is levied in accordance with Article XIIIA of the State Constitution at one percent of county-wide assessed valuations. This one percent is allocated pursuant to state law to the appropriate units of local government. Tax levies are limited to 1% of full market value which results in a tax rate of $1.00 per $100 assessed valuation, under the provisions of Proposition 13. The County of Los Angeles bills and collects property taxes on behalf of the District. The County's tax year is July 1, to December 31. Property taxes attach as a lien on property on January 1. Taxes are levied on July 1 and are payable in two equal installments on November 1 and March 1, and become delinquent after December 10, and April 10.

G. Materials and Supplies Inventory

Materials and supplies consist primarily of water meters, pipe, and pipefittings for construction and repair to the District's water transmission and distribution system. Materials and supplies are valued at cost using a weighted average method. Materials and supplies are charged to expense at the time that individual items are consumed.

H. State Water Project – Participation Rights

The District participates in the State Water Project (the Project) entitling it to certain participation rights. The District's participation in the Project is through payments to the California Department of Water Resources from tax assessments collected from within the District's service area. Monies used for the construction of capital assets, such as pipelines, pumping facilities, storage facilities, etc., are recorded as participation rights and amortized over the life of the agreements. Certain projects also require payments for on-going maintenance; those payments are charged to expense as incurred.

I. Customer Deposits for Water Service

Based on a customer's credit, the District may require a deposit deemed reasonable by the District. These deposits are held to pay off close out bills or to cover delinquent payments.

J. Water Sales

Most water sales are billed on a monthly cyclical basis. Estimated unbilled water revenue through year-end has been accrued.

K. Capital Improvement Fees

Capital improvement fees represent cash and capital asset additions contributed to the District by property owners, granting agencies or real estate developers desiring services that required capital expenditures or capacity commitment.

L. New GASB Pronouncements

During the 2017 year, the following GASB Pronouncements became effective:

1. **Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68 (Issued 06/15)***

   The requirements of this Statement extend the approach to accounting and financial reporting established in Statement 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and nonemployer contributing entities.

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

L. New GASB Pronouncements (continued)

2. **Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (Issued 06/15)***
   This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans.* Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which will be implemented in 2018, establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. The scope of this Statement includes OPEB plans – defined benefit and defined contribution – administered through trusts that meet the following criteria:

   - Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
   - OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
   - OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members.

3. **Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14 (Issued 01/16)***
   This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member.

4. **Statement No. 81, *Irrevocable Split-Interest Agreements.***
   The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for siturations in which a government is a beneficiary of the agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

L. New GASB Pronouncements (continued)

5. **Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73 (Issued 03/16)***
   The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans,* No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.* Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

NOTE 2 – CASH AND INVESTMENTS

Cash and investments were classified in the accompanying financial statements as follows:

Description	Balance, December 31, 2017	Balance, December 31, 2016
Cash and cash equivalents	$ 3,772,862	$ 4,412,202
Investments	10,554,165	8,441,547
Restricted – cash and cash equivalents	-	403,920
Total	$ 14,327,027	$ 13,257,669

Cash and investments consisted of the following:

Description	Balance, December 31, 2017	Balance, December 31, 2016
Cash on hand	$ 5,700	$ 5,700
Demand deposits held with financial institutions	553,511	438,359
Investments	13,767,816	12,813,610
Total	$ 14,327,027	$ 13,257,669

NOTE 2 – CASH AND INVESTMENTS (continued)

The table below identifies the investment types that are authorized by the California Government Code and the District's investment policy. The table also identifies certain provisions of the District's investment policy that address interest rate risk and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements 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
District issued bonds	5-years	None	None
Government sponsored agency securities	5-years	None	None
Negotiable certificates-of-deposit	5-years	35%	None
Money market mutual funds	N/A	None	None
California Local Agency Investment Fund (LAIF)	N/A	None	None

Disclosures Relating to Interest Rate Risk
Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by maintaining excess cash reserves in the California Local Agency Investment Fund (L.A.I.F.) that mature on a daily basis as to provide the cash flow and liquidity needed for debt service requirements. At December 31, 2017, the District had $11,927 on deposit with the California Local Agency Investment Fund.

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuation
The District's did not hold any investments that are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided above).

Investments Authorized by Debt Agreements
Investment of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustee. The table also identifies certain provisions if these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Investment contracts	None	None	None
Money market mutual funds	N/A	None	None

NOTE 2 – CASH AND INVESTMENTS (continued)

Concentration of Credit Risk
The investment policy of the District limits the amount that can be invested in an external investment pool (LAIF). A maximum limit has been set at $500,000 that can be invested in LAIF at any point in time. All other authorized investments contain limitations stipulated by the California Government Code. The following is a list of the District's investments in a governmental issuer that represet 5% or more of the total District's investments.

Investments as of December 31, 2017, were as follows:

Investments with Maturity Dates	Fair Value	Percentage of Portfolio
U.S. Treasury note – June 15, 2018	$ 998,440	6.97%
U.S. Treasury note - December 15, 2018	994,770	6.94%
U.S. Treasury note - February 15, 2019	1,514,940	10.57%
U.S. Treasury note - February 15, 2019	987,890	6.90%
U.S. Treasury note - February 28, 2019	996,020	6.96%
U.S. Treasury note - March 15, 2019	1,344,366	9.38%
Total	$ 6,836,426	47.72%

Investments as of December 31, 2016, were as follows:

Investments with Maturity Dates	Fair Value	Percentage of Portfolio
U.S. Treasury note - February 28, 2017	$ 1,000,670	7.55%
U.S. Treasury note - June 15, 2018	1,000,980	7.55%
U.S. Treasury note - February 15, 2019	1,547,115	11.67%
U.S. Treasury note - February 15, 2019	990,040	7.47%
Total	$ 4,538,805	34.24%

Custodial Credit Risk
Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

The California Government Code 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. 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 (continued)

Custodial Credit Risk (continued)

As of December 31, 2017, all of the District's deposits with financial institutions were being held in collateralized accounts.

Investments for the year ended December 31, 2017, were as follows:

				Maturity		
Type of Investments	Measurement Input	Credit Rating	Fair Value	12 Months or Less	13 to 24 Months	25 to 60 Months
U.S. Treasury notes	Level 1	AAA	$ 6,836,426	$ 1,993,210	$ 4,843,216	$ -
Local Agency Investment Fund (LAIF)	Level 2	Exempt	11,927	11,927	-	-
Money market mutual funds	Level 2	Not Rated	3,213,651	3,213,651	-	-
Negotiable certificates-of-deposit	Level 2	Not Rated	3,705,812	1,599,319	1,393,836	712,657
Total investments			$ 13,767,816	$ 6,818,107	$ 6,237,052	$ 712,657

Investments for the year ended December 31, 2016, were as follows:

				Maturity		
Type of Investments	Measurement Input	Credit Rating	Fair Value	12 Months or Less	13 to 24 Months	25 to 60 Months
U.S. Treasury notes	Level 1	AAA	$ 4,538,805	$ 1,000,670	$ 1,000,980	$ 2,537,155
Local Agency Investment Fund (LAIF)	Level 2	Exempt	11,824	11,824	-	-
Money market mutual funds	Level 2	Not Rated	4,372,063	4,372,063	-	-
Negotiable certificates-of-deposit	Level 2	Not Rated	3,890,918	1,964,900	964,700	961,318
Total investments			$ 12,813,610	$ 7,349,457	$ 1,965,680	$ 3,498,473

NOTE 3 – ACCOUNTS RECEIVABLE – WATER SALES AND SERVICES, NET

The balances consisted of the following;

Description	Balance, December 31, 2017	Balance, December 31, 2016
Accounts receivable – water sales and services	$ 1,912,877	$ 2,093,125
Allowance for doubtful accounts	(153,668)	(155,811)
Accounts receivable – water sales and services, net	$ 1,759,209	$ 1,937,314

NOTE 4 – INVESTMENT IN PALMDALE RECYCLED WATER AUTHORITY

The Palmdale Recycled Water Authority (the Authority) was formed under a Joint Exercise of Powers Authority on September 26, 2012, pursuant to Section(s) 6506 and 6507 of the Exercise of Powers Act, codified by California Government Code section(s) 6500, which authorizes public agencies by agreement to exercise jointly any power common to the contracting parties. The Authority was formed between the City of Palmdale, a California Charter City (the City) and Palmdale Water District, an Irrigation District under Division 11 of the California Water Code (the District). The Authority is an independent public agency separate from its Members.

The purpose of the Authority is to establish an independent public agency to study, promote, develop, distribute, construct, install, finance, use and manage recycled water resources created by the Los Angeles County Sanitation District Nos. 14 and 20 for any and all reasonable and beneficial uses, including irrigation and recharge, and to finance the acquisition and construction or installation of recycled water facilities, recharge facilities and irrigation systems.

The governing body of the Authority is a Board of Directors, which consists of five directors. The governing body of each Member appoints and designates in writing two Directors who are authorized to act for and on behalf of the Member on matters within the powers of the Authority. The person(s) appointed and designated as Director(s) are member(s) of the Member's governing board. The fifth director is appointed jointly by both Members.

The Members share in the revenues and expenses of the Authority on a 50/50 pro-rata share basis. Therefore, the District accounts for its investment in the Authority as an equity interest on the statement of net position. The District reports its equity interest as of the date of the most audited financial statements of the Authority as of December 31, 2017 and 2016, which was audited by other auditors, whose report dated August 7, 2018 and April 15, 2017, respectively, expressed an unmodified opinion on those financial statements.

NOTE 4 – INVESTMENT IN PALMDALE RECYCLED WATER AUTHORITY (continued)

The following is the condensed financial statement of the Authority for the year ended December 31, 2017:

Palmdale Recycled Water Authority
Condensed Statement of Financial Position
December 31, 2017

	Audited Total	City of Palmdale 50% Share	District 50% Share
Assets:			
Total assets	$ 2,785,867	$ 1,392,934	$ 1,392,934
Liabilities:			
Total liabilities	42,132	21,066	21,066
Net position:			
Total net position	2,743,735	1,371,868	1,371,868
Total liabilities and net position	$ 2,785,867	$ 1,392,934	$ 1,392,934

Palmdale Recycled Water Authority
Condensed Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2017

	Audited Total	City of Palmdale 50% Share	District 50% Share
Operating revenues:			
Total operating revenues	$ 250,865	$ 125,433	$ 125,432
Operating expenses:			
Total operating expenses	115,041	57,521	57,520
Operating income	135,824	67,912	67,912
Non-operating revenues:			
Total non-operating revenue	57,249	28,625	28,624
Change in net position	193,073	96,537	96,536
Net position:			
Beginning of year, restated	2,550,662	1,275,331	1,275,331
End of year	$ 2,743,735	$ 1,371,868	$ 1,371,867

Palmdale Recycled Water Authority
Condensed Statement of Cash Flows
For the Year Ended December 31, 2017

	Audited Total	City of Palmdale 50% Share	District 50% Share
Cash flows from operating activities:			
Net cash provided by operating activities	$ 152,018	$ 76,009	$ 76,009
Cash flows from investing activities:			
Net cash provided by investing activities	57,249	28,625	28,624
Net increase in cash and cash equivalents	209,267	104,634	104,633
Cash and cash equivalents:			
Beginning of year	717,540	358,770	358,770
End of year	$ 926,807	$ 463,404	$ 463,403
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$ 135,824	$ 67,912	$ 67,912
Depreciation	53,407	26,703	26,704
Change in assets	3,251	1,626	1,625
Change in liabilities	(40,464)	(20,232)	(20,232)
Net cash provided by operating activities	$ 152,018	$ 76,009	$ 76,009

NOTE 4 – INVESTMENT IN PALMDALE RECYCLED WATER AUTHORITY (continued)

The following is the condensed financial statement of the Authority for the year ended December 31, 2016:

Palmdale Recycled Water Authority
Condensed Statement of Net Position
December 31, 2016

	Audited Total*	City of Palmdale 50% Share	District 50% Share
Assets:			
Total assets	$ 2,630,262	$ 1,315,131	$ 1,315,131
Liabilities:			
Total liabilities	79,600	39,800	39,800
Net position:			
Total net position	2,550,662	1,275,331	1,275,331
Total liabilities and net position	$ 2,630,262	$ 1,315,131	$ 1,315,131

**As restated*

Palmdale Recycled Water Authority
Condensed Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2016

	Audited Total	City of Palmdale 50% Share	District 50% Share
Operating revenues:			
Total operating revenues	$ 291,359	$ 145,680	$ 145,679
Operating expenses:			
Total operating expenses	130,316	65,158	65,158
Operating income	161,043	80,522	80,521
Non-operating revenues:			
Total non-operating revenue	20,469	10,234	10,235
Change in net position	181,512	90,756	90,756
Net position:			
Beginning of year	459,847	229,924	229,923
Prior period adjustment	1,909,303	954,651	954,652
End of year	$ 2,550,662	$ 1,275,331	$ 1,275,331

Palmdale Recycled Water Authority
Condensed Statement of Cash Flows
For the Year Ended December 31, 2016

	Audited Total	City of Palmdale 50% Share	District 50% Share
Cash flows from operating activities:			
Net cash provided by operating activities	$ 225,706	$ 112,853	$ 112,853
Cash flows from investing activities:			
Net cash provided by investing activities	1,051	525	526
Net increase in cash and cash equivalents	226,757	113,378	113,379
Cash and cash equivalents:			
Beginning of year	490,783	245,392	245,392
End of year	$ 717,540	$ 358,770	$ 358,771
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$ 161,043	$ 80,522	$ 80,521
Change in assets	51,488	25,744	25,744
Change in liabilities	13,175	6,587	6,588
Net cash provided by operating activities	$ 225,706	$ 112,853	$ 112,853

NOTE 5 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended December 31, 2017, was as follows:

Description	Balance, January 1, 2017	Additions	Deletions/ Transfers	Balance, December 31, 2017
Non-depreciable assets:				
Land and land rights	$ 1,784,357	$ -	$ -	$ 1,784,357
Construction-in-process	6,424,253	2,636,767	(2,848,715)	6,212,305
Total non-depreciable assets	8,208,610	2,636,767	(2,848,715)	7,996,662
Depreciable assets:				
Buildings, wells and distribution system	212,937,794	3,032,400	(585,551)	215,384,643
SWP – participation rights	71,484,666	4,497,112	-	75,981,778
Machinery and equipment	10,730,870	1,115,456	(240,566)	11,605,760
Total depreciable assets	295,153,330	8,644,968	(826,117)	302,972,181
Accumulated depreciation:				
Buildings, wells and distribution system	(112,826,930)	(5,579,141)	585,551	(117,820,520)
SWP – participation rights	(26,518,289)	(2,600,856)	-	(29,119,145)
Machinery and equipment	(9,992,810)	(534,610)	240,566	(10,286,854)
Total accumulated depreciation	(149,338,029)	(8,714,607)	826,117	(157,226,519)
Total depreciable assets, net	145,815,301	(69,639)	-	145,745,662
Total capital assets, net	$ 154,023,911	$ 2,567,128	$ (2,848,715)	$ 153,742,324

Capital asset activity for the year ended December 31, 2016, was as follows:

Description	Balance, January 1, 2016	Additions	Deletions/ Transfers	Balance, December 31, 2016
Non-depreciable assets:				
Land and land rights	$ 1,784,357	$ -	$ -	$ 1,784,357
Construction-in-process	6,177,147	2,339,995	(2,092,889)	6,424,253
Total non-depreciable assets	7,961,504	2,339,995	(2,092,889)	8,208,610
Depreciable assets:				
Buildings, wells and distribution system	210,967,182	1,970,612	-	212,937,794
SWP – participation rights	66,834,973	4,649,693	-	71,484,666
Machinery and equipment	10,684,201	172,464	(125,795)	10,730,870
Total depreciable assets	288,486,356	6,792,769	(125,795)	295,153,330
Accumulated depreciation:				
Buildings, wells and distribution system	(107,639,534)	(5,187,396)	-	(112,826,930)
SWP – participation rights	(24,155,501)	(2,362,788)	-	(26,518,289)
Machinery and equipment	(9,706,261)	(412,344)	125,795	(9,992,810)
Total accumulated depreciation	(141,501,296)	(7,962,528)	125,795	(149,338,029)
Total depreciable assets, net	146,985,060	(1,169,759)	-	145,815,301
Total capital assets, net	$ 154,946,564	$ 1,170,236	$ (2,092,889)	$ 154,023,911

NOTE 5 – CAPITAL ASSETS AND DEPRECIATION (continued)

Construction-In-Process

The balance consists of the following projects:

Project Description	Balance December 31, 2015	Balance December 31, 2016	Balance December 31, 2017
Sediment removal - Littlerock Dam	$ 1,615,733	$ 1,807,482	$ 2,222,266
Palmdale Regional Groundwater Recharge Project	1,728,372	2,274,315	3,074,489
Clearwell - Booster #2 Replacement	-	-	119,224
Frontier/31st/32nd waterline replacement	1,615,167	-	-
Tierra Subida Ave. waterline replacement	314,929	447,920	-
Replacement Salt Silos - various sites	136,727	-	-
Armagosa Creek project	93,380	129,215	136,561
El Camino Dr. - mainline replacement	16,324	385,798	-
Well 15 - inspection and replacement	18,389	197,014	-
Various other minor projects <$100,000	638,126	1,182,509	659,765
Total construction-in-process	$ 6,177,147	$ 6,424,253	$ 6,212,305

State Water Project – Participation Rights

In 1963, the District contracted with the State of California (the State) for 1,620 acre-feet per year of water from the State Water Project (SWP). In subsequent years, the annual entitlement increased to 21,300 acre-feet. The SWP distributes water from Northern California to Southern California through a system of reservoirs, canals, pumps stations, and power generation facilities.

The District is one of many participants contracting with the State of California Department of Water Resources (DWR) for a system to provide water throughout California. Under the terms of the State Water Contract, as amended, the District is obligated to pay allocable portions of the cost of construction of the system and ongoing operations and maintenance costs through at least the year 2035, regardless of the quantities of water available from the project. The District and the other contractors may also be responsible to the State for certain obligations by any contractor who defaults on its payments to the State.

Management's present intention is to exercise the District's option to extend the contractual period to at least 2052, under substantially comparable terms. This corresponds to an estimated 80-year service life for the original facilities. The State is obligated to provide specific quantities of water throughout the life of the contract, subject to certain conditions.

In addition to system on-aqueduct power facilities, the State has, either on their own or through joint ventures financed certain off-aqueduct power facilities (OAPF). The power generated is utilized by the system for water transportation and distribution purposes. Power generated in excess of system needs is marked to various utilities and California's power market.

The District is entitled to a proportionate share of the revenues resulting from sales of excess power. The District and the other water providers are responsible for repaying the capital and operating costs of the OAPF regardless of the amount of power generated.

The District capitalizes its share of system construction costs as participation rights in the State water facilities when such costs are billed by the DWR. Unamortized participation rights essentially represent a prepayment for future water deliveries through the State system. The District's share of system operations and maintenance costs is charged to expenses as incurred.

NOTE 5 – CAPITAL ASSETS AND DEPRECIATION (continued)

The District amortizes a portion of capitalized participation rights each year using a formula that considers the total estimated cost of the project, estimated useful life and estimated production capacity of the assets based upon information provided by the State of California. The participation rights have been included with the District's capital assets as shown in the schedule of changes in capital assets.

NOTE 6 – COMPENSATED ABSENCES

Summary changes to compensated absences balances for the year ended December 31, 2017, were as follows:

Balance, January 1, 2017	Additions	Deletions	Balance, December 31, 2017	Due Within One Year	Due in More Than One Year
$ 439,168	$ 498,806	$ (504,942)	$ 433,032	$ 108,258	$ 324,774

Summary changes to compensated absences balances for the year ended December 31, 2016, were as follows:

Balance, January 1, 2016	Additions	Deletions	Balance, December 31, 2016	Due Within One Year	Due in More Than One Year
$ 424,491	$ 533,037	$ (518,360)	$ 439,168	$ 109,793	$ 329,375

NOTE 7 – LONG-TERM DEBT

Changes in long-term debt for the year ended December 31, 2017, were as follows:

Long-Term Debt	Balance, January 1, 2017	Additions/ Adjustments	Payments/ Amortization	Balance, December 31, 2017	Current Portion	Non-Current Portion
Capital lease payable – 2013	$ 47,286	$ -	$ (47,286)	$ -	$ -	$ -
Capital lease payable – 2017	-	830,000	(60,152)	769,848	159,145	610,703
Loan payable – 2012	8,577,741	-	(1,115,453)	7,462,288	1,147,084	6,315,204
Revenue bonds payable – 2013	42,210,000	-	(495,000)	41,715,000	510,000	41,205,000
Revenue bonds payable – discount	(115,045)	-	4,301	(110,744)	-	(110,744)
Revenue bonds payable – premium	2,846,982	-	(106,429)	2,740,553	-	2,740,553
Revenue bonds payable, net – 2013	44,941,937	-	(597,128)	44,344,809	510,000	43,834,809
Total long-term debt	$ 53,566,964	$ 830,000	$ (1,820,019)	$ 52,576,945	$ 1,816,229	$ 50,150,013

Changes in long-term debt for the year ended December 31, 2016, were as follows:

Long-Term Debt	Balance, January 1, 2016	Additions/ Adjustments	Payments/ Amortization	Balance, December 31, 2016	Current Portion	Non-Current Portion
Capital lease payable – 2013	$ 231,745	$ -	$ (184,459)	$ 47,286	$ 47,286	$ -
Loan payable – 2012	9,660,294	-	(1,082,553)	8,577,741	1,115,453	7,462,288
Revenue bonds payable – 2013	42,685,000	-	(475,000)	42,210,000	495,000	41,715,000
Revenue bonds payable – discount	(119,346)	-	4,301	(115,045)	-	(115,045)
Revenue bonds payable – premium	2,953,412	-	(106,430)	2,846,982	-	2,846,982
Revenue bonds payable, net – 2013	45,519,066	-	(577,129)	44,941,937	495,000	44,446,937
Total long-term debt	$ 55,411,105	$ -	$ (1,844,141)	$ 53,566,964	$ 1,657,739	$ 51,909,225

NOTE 7 – LONG-TERM DEBT (continued)

A. Capital Leases Payable

Capital Lease Payable–2013
The District had leased $863,876 in equipment under a capital lease agreement, upon which the District took ownership of the equipment at the end of the lease-term. Capital lease payments of $15,868 were due on a monthly-basis from April 2013 to March 2017 at an annual interest rate of 4.030%.

As of December 31, 2017, there is no balance owed on the lease.

Capital Lease Payable–2017
On January 18, 2017, the District entered into an $830,000 installment purchase agreement in order to acquire, construct, equip, and furnish certain improvements to its facilities. Capital lease payments consisting of principal and interest in the amount of $89,476.70 are due every six months beginning in July, 2017 until January, 2022 at an annual interest rate of 2.78%.

Annual debt service requirements for the capital lease payable are as follows:

Year	Principal	Interest
2018	$ 159,145	$ 19,809
2019	163,599	15,354
2020	168,179	10,774
2021	172,887	6,066
2022	106,038	1,227
Total	$ 769,848	$ 53,230

B. Loan Payable–2012
In November 2012, the District issued $12,765,208 in a private-placement Loan Payable-2012, with maturities from 2013 through 2023 and an interest rate of 3.10%. The net proceeds of the issuance were used to advance refund (an in-substance defeasance) $12,505,000 of aggregate principal amount of the District's COPs-1998 with an average interest rate of 4.73%.

The initial escrow deposit was used to purchase government sponsored agency obligation securities. These securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the COPs-1998.

The advance refunding resulted in a difference between the reacquisition price and the net carrying value amount of the old debt of $846,845. This difference is being amortized through 2023 (the life of the debt) using the straight-line method as a deferred loss on debt defeasance. The District completed the advance refunding to reduce its total debt service payments over the next 11 years by approximately $1.293 million and to obtain an economic gain (the difference between the present values of the old and new debt service payments) of approximately $1.154 million.

NOTE 7 – LONG-TERM DEBT (continued)

B. Loan Payable–2012 (continued)

Annual debt service requirements for the refunding certificates of participation are as follows:

Year	Principal	Interest	Total
2018	$ 1,147,084	$ 222,509	$ 1,369,593
2019	1,186,595	186,646	1,373,241
2020	1,224,583	149,569	1,374,152
2021	1,261,008	111,327	1,372,335
2022	1,300,396	71,933	1,372,329
2023	1,342,622	31,296	1,373,918
Total	7,462,288	$ 773,280	$ 8,235,568
Less: current	(1,147,084)		
Total non-current	$ 6,315,204		

C. Revenue Bonds Payable

Certificates of Participation-2004

In August 2004, the District issued $38,285,000 of Certificates of Participation-2004 (COPs-2004), with maturities from 2008 through 2034 and an average interest rate of 4.90%. The net proceeds are to be used to finance the acquisition, construction, and improvement of certain water facilities and to pay issuance costs of the debt. Issuance of the COPs-2004 resulted in a premium of $328,767 which was being amortized over the life of the issue using the straight-line method. In 2013, the District advance refunded the remaining $35,560,000 of the COPs-2004 into the revenue bonds payable issuance.

Revenue Bonds Payable-2013

The Palmdale Water District Public Facilities Corporation (the Corporation) issued $44,350,000 in Revenue Bonds Payable-2013 (Bonds-2013) with maturities from 2013 through 2043 with an interest rate range between 2.00% and 5.00% pursuant to an Indenture of Trust, dated as of May 1, 2013, by and between the Corporation and The Bank of New York Mellon Trust Company, N.A., as trustee. The Bonds-2013 were issued: (i) to prepay the District's outstanding Certificates of Participation-2004; (ii) to finance certain improvements to the District's Water System; (iii) to purchase a municipal bond insurance policy to guarantee payment of the principal of and interest on the Bonds-2013; (iv) to purchase a municipal bond debt service reserve insurance policy for deposit in the Reserve Fund; and (v) to pay the costs of issuing the Bonds-2013. The refunding resulted in a premium on the issuance of $3,228,354 and a discount of ($130,456) which are being amortized over the remaining debt service years. Principal and interest payments are due in April and October of each year.

The advance refunding resulted in a difference between the reacquisition price and the net carrying value amount of the old debt of $2,278,663. This difference is being amortized through 2043 (the life of the debt) using the straight-line method as a deferred amount on debt defeasance.

NOTE 7 – LONG-TERM DEBT (continued)

D. Revenue Bonds Payable (continued)

Annual debt service requirements for the revenue bonds payable are as follows:

Year	Principal	Interest	Total
2018	$ 510,000	$ 1,841,125	$ 2,351,125
2019	520,000	1,825,825	2,345,825
2020	535,000	1,810,225	2,345,225
2021	565,000	1,783,475	2,348,475
2022	595,000	1,755,225	2,350,225
2023-2027	9,735,000	8,017,675	17,752,675
2028-2032	13,935,000	5,329,225	19,264,225
2033-2037	9,105,000	2,153,250	11,258,250
2038-2042	5,075,000	853,000	5,928,000
2043	1,140,000	45,600	1,185,600
Total	41,715,000	$ 25,414,625	$ 67,129,625
Less: current	(510,000)		
Total non-current	$ 41,205,000		

Deferred Amount on Debt Defeasance, Net

Changes in the deferred amount on long-term debt defeasance, net for the year ended December 31, 2017, was as follows:

	Balance, January 1, 2017	Additions	Amortization	Balance, December 31, 2017
Deferred amount on debt defeasance, net	$ 2,478,516	$ -	$ (156,692)	$ 2,321,824

Changes in the deferred amount on long-term debt defeasance, net for the year ended December 31, 2016, was as follows:

	Balance, January 1, 2016	Additions	Amortization	Balance, December 31, 2016
Deferred amount on debt defeasance, net	$ 2,635,209	$ -	$ (156,693)	$ 2,478,516

NOTE 8 – COMMITMENTS AND CONTINGENCIES

State Water Contract

Estimates of the District's share of the project fixed costs of the State Water Project (SWP) are provided annually by the State. The estimates are subject to future increases or decreases resulting from changes in planned facilities, refinements in cost estimates, and inflation. During the next five years, payments under the State Water Contract, exclusive of variable power costs, are currently estimated by the State to be as follows:

Fiscal Year	Amount
2017	$ 6,403,865
2018	6,964,246
2019	7,054,106
2020	7,119,107
2021	7,048,728

As of December 31, 2017, the District has expended approximately $107,717,328 since the District started participating in the State Water Contract.

According to the State's latest estimates, the District's long-term obligations under the contract, for capital and minimum operations and maintenance costs, including interest to the year 2035, are as follows:

Type of Long-Term Obligation	Amount
State Water Project Contract:	
Transportation facilities	$ 95,610,745
Delta water charges	26,407,278
Off-aqueduct power facilities	75,251
Revenue bond surcharge	5,233,106
Total	$ 127,326,380

Bay/Delta Regulatory and Planning Activities

The State Water Resources Control Board (State Board) is the agency responsible for setting water quality standards and administering water rights throughout California. Decisions of the State Board can affect the availability of water to the District and other water users by means of public proceedings leading to regulations and decisions. In 1995, the State Board adopted a Water Quality Control Plan establishing water quality standards and flow improvements in the Bay/Delta watershed. In August 2000, the California Federal (CALFED) Bay/Delta Program Record of Decision (the Decision) was approved with mandates to improve water quality, enhance water supply reliability, augment ecosystem restoration, and assure long-term protection for Delta levees. During its first three years, CALFED has invested more than $2.0 billion in hundreds of local and regional projects to meet these program goals. In May 2004, a Delta Improvement Package was proposed to facilitate implementation of the Decision. Funding is expected to be provided by state and federal appropriations and contributions from local users, including the District. CALFED's objective is to allocate project costs based on beneficiaries pay policy, that is new costs commensurate with benefits received. At this time, the exact allocation of costs between the federal, state, and local users has not been determined, and therefore, the District cannot estimate the extent of timing of its contributions at this time.

Construction Contracts

The District has a variety of agreements with private parties relating to the installation, improvement, or modification of water facilities and distribution systems within its service area. The financing of such construction contracts is being provided primarily from the District's replacement reserves and advances for construction.

NOTE 8 – COMMITMENTS AND CONTINGENCIES (continued)

The District has committed to approximately $10,021,439 to complete the open construction contracts as of December 31, 2017. These include the following:

Project Description	Cost of Project to Date	Estimated Costs to Complete	Total Expected Project Cost
Sediment removal - Littlerock Dam	$ 2,222,231	$ 248,000	$ 2,470,231
Grade Control Structure - Littlerock Dam	-	8,160,000	8,160,000
Palmdale Regional Groundwater Recharge Project	3,074,489	500,000	3,574,489
Upper Armargosa Recharge Project	136,561	1,113,439	1,250,000
Total	$ 5,433,281	$ 10,021,439	$ 15,454,720

Other Litigation
In the ordinary course of operations, the District is subject to claims and litigation from outside parties. Nevertheless, after consultation with legal counsel, the District believes that these actions, when finally concluded and determined are not likely to have a material adverse effect on the District's financial position, results of operations, or cash flows.

NOTE 9 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California water agencies. The purpose of the ACWA/JPIA is to arrange and administer programs of self-insured losses and to purchase the appropriate amount of insurance coverage. At December 31, 2017 and 2016, the District participated in the self-insured liability, property, and worker's compensation insurance programs provided by ACWA/JPIA through AON Risk Insurance Services West, Inc. as follows:

General and Auto Liability
Each member limits of $60 million per occurrence for auto and general liability coverage. The program protects the member agencies against third-party claims for bodily injury and property damage. The following coverages are also included:

- Personal Injury
- Errors and Omissions
- Products Hazard
- Inverse Condemnation
- Employment Practices
- Broadened Pollution
- Failure to Supply Water
- Care, Custody, & Control

Property
Each member Special Form Property Coverage including coverage for buildings, personal property, fixed equipment, mobile equipment, and licensed vehicles. Member agencies have various deductible selections. Boiler and Machinery Coverage is also included.

NOTE 9 – RISK MANAGEMENT (continued)

The following is an overview of the program:

- Real Property, Fixed Equipment, Personal Property at replacement cost
- Crime Coverage – up to $100,000 Public Employee Dishonesty and Computer Fraud
- Terrorism Coverage – up to $100 million per occurrence for property damage caused by an act declared to involve terrorism
- $10 million Accounts Receivables for the amount of accounts uncollectible due to a covered loss
- $100,000 Catastrophic coverage for vehicles

Workers' Compensation
Each member is covered for bodily injury by accident, $2 million each accident, or bodily injury by disease, $2 million each employee, including death, of employee arising out of and in the course of employment.

In addition, the District since August 2014 continued a separate policy with underwriters at Landmark American Insurance Company for commercial earthquake/business income interruption insurance. This insurance was purchased to safeguard the District in case of a major earthquake until disaster relief funds are made available by state and federal agencies. This policy has provisions as follows:

- The loss limit is $9,284,980 per occurrence and in the annual aggregate.
- Deductible is 5% of values per unit of insurance subject to $25,000 minimum per occurrence.
- Coverage for 2029 East Avenue Q location is $2.891 million building limit and $393,120 contents, including $6 million business income.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the years ending December 31, 2017, 2016, and 2015. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of December 31, 2017, 2016, and 2015.

NOTE 10 – PENSION PLAN

Qualified employees are covered under a multiple-employer defined benefit pension plan maintained by agencies of the State of California known as the California Public Employees' Retirement System (CalPERS), or "The Plan".

The net pension liability balances have a Measurement Date of June 30, 2017 and June 30, 2016, respectively, which are rolled-forward for the District's fiscal years ended December 31, 2017 and December 31, 2016.

The District's Net Pension Liability CalPERS – Miscellaneous Plan is comprised of a net pension liability balance and the balance of the District's pension-related debt – CalPERS side-fund as follows:

Description	Balance, December 31, 2017	Balance, December 31, 2016
Net pension liability	$ 9,265,615	$ 7,779,823
Pension-related debt – CalPERS side-fund	816,046	905,666
Total Net Pension Liability CalPERS – Miscellaneous Plan	$ 10,081,661	$ 8,685,489

NOTE 10 – PENSION PLAN (continued)

Pension-Related Debt – CalPERS Side-Fund

As of June 30, 2003, CalPERS implemented risk-pooling for the District's agent multiple-employer public employee defined benefit pension plan. As a result, the District's defined benefit pension plan with CalPERS converted from an agent multiple-employer plan to a cost sharing multiple-employer plan. This change in the type of the plan created the CalPERS Side-Fund, which CalPERS financed at a 7.75% interest rate. CalPERS actuarially calculated the amount needed to bring the District into the cost sharing multiple-employer plan on an equal basis with other governmental agencies that had less than 100 active and retired employees combined. The reason that CalPERS switched these governmental agencies into the cost sharing multiple-employer plan was to smooth the annual costs related to the pension benefit over a longer period of time resulting in a lower cost of service to the governmental agencies.

A portion of the District's annual required contributions to CalPERS are actuarially determined and shared by all governmental agencies within the cost sharing risk pool. Also, the District is required to make annual payments to pay-down the CalPERS Side-Fund, as well. The responsibility for paying-down the District's CalPERS Side-Fund is specific to the District and is not shared by all governmental agencies within the cost sharing risk pool. Therefore, the Side Fund falls under the definition of pension-related debt and recorded as liability on the District's financial statements.

Annual payments on the CalPERS Side-Fund represent principal and interest payments on the pension-related debt. Debt principal and interest expense is blended into the CalPERS pension benefit rate by individual class of District employee and repaid to CalPERS each payroll period throughout the fiscal year. The following is a pay-down schedule of the remaining payments of the District's CalPERS Side-Fund at a 7.50% interest rate, which was reduced by CalPERS in fiscal year 2012, for fiscal years 2012 and beyond as follows:

Fiscal Year	Principal	Interest	Total
July 1, 2017 to June 30, 2018	$ 101,068	$ 55,441	$ 156,509
July 1, 2018 to June 30, 2019	113,517	47,688	161,205
July 1, 2019 to June 30, 2020	127,045	38,966	166,011
July 1, 2020 to June 30, 2021	141,736	29,284	171,020
July 1, 2021 to June 30, 2022	157,688	18,465	176,153
July 1, 2022 to June 30, 2023	174,992	6,562	181,554
Total	$ 816,046	$ 196,406	$ 1,012,452

NOTE 10 – PENSION PLAN (continued)

A. General Information about the Pension Plan

The Plan

The District has engaged with CalPERS to administer the following pension plans for its employees (members):

	Miscellaneous Plans	
	Classic Tier 1	**PEPRA Tier 2**
Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.0% @ 55	2.0% @ 62
Benefit vesting schedule	5-years of service	5-years of service
Benefits payments	monthly for life	monthly for life
Retirement age	50 - 67 & up	52 - 67 & up
Monthly benefits, as a % of eligible compensation	1.426% to 2.418%	1.0% to 2.5%
Required member contribution rates	8.000%	6.500%
Required employer contribution rates – FY 2017	8.901%	6.544%
Required employer contribution rates – FY 2016	8.512%	6.237%

Plan Description, Benefits Provided and Employees Covered

The Plan is a cost-sharing multiple-employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). The District contributes to the miscellaneous risk pool within the Plan. A full description of the pension plan benefit provisions, assumptions for funding purposes but not accounting purposes, and membership information is listed in the June 30, 2016 Annual Actuarial Valuation Report. This report is a publicly available valuation report that can be obtained at CalPERS website under Forms and Publications.

The California Public Employees' Pension Reform Act (PEPRA), which took effect in January 2013, changes the way CalPERS retirement benefits are applied, and places compensation limits on members. As a result of these changes since PEPRA's adoption in January 2013, the District now has two unique CalPERS plans to which it makes contributions within the miscellaneous risk pool: the "classic" plan, which includes covered employees who have established membership in a CalPERS plan prior to January 2013, as well as the "PEPRA/new" plan, which includes covered employees who have established membership in a CalPERS plan after January 2013. Each plan or membership contains unique benefits levels, which are enumerated in the June 30, 2016 Annual Actuarial Valuation Reports.

At June 30, 2017, the following members were covered by the benefit terms:

	Miscellaneous Plans		
Plan Members	**Classic Tier 1**	**PEPRA Tier 2**	**Total**
Active members	65	17	82
Transferred and terminated members	41	2	43
Retired members and beneficiaries	52	-	52
Total plan members	158	19	177

NOTE 10 – PENSION PLAN (continued)

A. General Information about the Pension Plan (continued)

Plan Description, Benefits Provided and Employees Covered (continued)
At June 30, 2016, the following members were covered by the benefit terms:

	Miscellaneous Plans		
Plan Members	**Classic Tier 1**	**PEPRA Tier 2**	**Total**
Active members	72	12	84
Transferred and terminated members	45	1	46
Retired members and beneficiaries	43	-	43
Total plan members	160	13	173

Contribution Description
Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS annual actuarial valuation process. For public agency cost-sharing plans covered by either the Miscellaneous or Safety risk pools, the Plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

Contributions for the year ended December 31, 2017, were as follows:

	Miscellaneous Plans		
Contribution Type	**Classic Tier 1**	**PEPRA Tier 2**	**Total**
Contributions – employer	$ 435,010	$ 75,037	$ 510,047
Contributions – members	245,166	69,780	314,946
Total contributions	$ 680,176	$ 144,817	$ 824,993

Contributions for the year ended December 31, 2016, were as follows:

	Miscellaneous Plans		
Contribution Type	**Classic Tier 1**	**PEPRA Tier 2**	**Total**
Contributions – employer	$ 474,105	$ 27,847	$ 501,952
Contributions – members	212,930	28,055	240,985
Total contributions	$ 687,035	$ 55,902	$ 742,937

Employer contributions rates may change if plan contracts are amended. It is the responsibility of the employer to make necessary accounting adjustments to reflect the impact due to any Employer Paid Member Contributions or situations where members are paying a portion of the employer contribution.

For the year ended December 31, 2017, the contributions recognized as part of pension expense for the Plan were $1,828,199.

NOTE 10 – PENSION PLAN (continued)

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

Summary of the pension plan for the year ended December 31, 2017, is as follows:

Type of Account	Balance as of January 1, 2017	Additions	Deletions	Balance as of December 31, 2017
Deferred Outflows of Resources:				
Pension contributions made after the measurement date:				
CalPERS – Miscellaneous Plan	$ 501,952	$ 502,091	$ (501,952)	$ 502,091
Differences between projected and actual earnings on pension plan investments:				
CalPERS – Miscellaneous Plan	1,600,390	-	(1,224,616)	375,774
Difference between actual and proportionate share of employer contributions:				
CalPERS – Miscellaneous Plan	14,255	-	(14,255)	-
Adjustment due to differences in proportions:				
CalPERS – Miscellaneous Plan	103,926	180,418	-	284,344
Differences between expected and actual experience:				
CalPERS – Miscellaneous Plan	25,054	-	(11,663)	13,391
Change in assumptions	-	1,661,550		1,661,550
Total deferred outflows of resources	$ 2,245,577	$ 2,344,059	$ (1,752,486)	$ 2,837,150
Net Pension Liability:				
CalPERS – Miscellaneous Plan	$ 8,685,489	$ 1,898,124	$ (501,952)	$ 10,081,661
Deferred Inflows of Resources:				
Differences between projected and actual earnings on pension plan investments:				
CalPERS – Miscellaneous Plan	$ -	$ -	$ -	$ -
Difference between actual and proportionate share of employer contributions:				
CalPERS – Miscellaneous Plan	128,388	46,143	-	174,531
Adjustment due to differences in proportions:				
CalPERS – Miscellaneous Plan	22,016	-	(22,016)	-
Differences between expected and actual experience:				
CalPERS – Miscellaneous Plan	-	191,856	-	191,856
Changes in assumptions:				
CalPERS – Miscellaneous Plan	307,491	-	(180,796)	126,695
Total deferred inflows of resources	$ 457,895	$ 237,999	$ (202,812)	$ 493,082

NOTE 10 – PENSION PLAN (continued)

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

Summary of the pension plan for the year ended December 31, 2016, is as follows:

Type of Account	Balance as of January 1, 2016	Additions	Deletions	Balance as of December 31, 2016
Deferred Outflows of Resources:				
Pension contributions made after the measurement date:				
CalPERS – Miscellaneous Plan	$ 996,550	$ 501,952	$ (996,550)	$ 501,952
Differences between projected and actual earnings on pension plan investments:				
CalPERS – Miscellaneous Plan		1,600,390		1,600,390
Difference between actual and proportionate share of employer contributions:				
CalPERS – Miscellaneous Plan	-	32,075	(17,820)	14,255
Adjustment due to differences in proportions:	-	145,716	(41,790)	103,926
CalPERS – Miscellaneous Plan				
Differences between expected and actual experience:				
CalPERS – Miscellaneous Plan	53,152	-	(28,098)	25,054
Total deferred outflows of resources	$ 1,049,702	$ 2,280,133	$ (1,084,258)	$ 2,245,577
Net Pension Liability:				
CalPERS – Miscellaneous Plan	$ 6,727,908	$ 2,954,131	$ (996,550)	$ 8,685,489
Deferred Inflows of Resources:				
Differences between projected and actual earnings on pension plan investments:				
CalPERS – Miscellaneous Plan	$ 252,092	$ -	$ (252,092)	$ -
Difference between actual and proportionate share of employer contributions:				
CalPERS – Miscellaneous Plan	28,055	155,043	(54,710)	128,388
Adjustment due to differences in proportions:				
CalPERS – Miscellaneous Plan	21,824	27,708	(27,516)	22,016
Changes in assumptions:				
CalPERS – Miscellaneous Plan	502,869	-	(195,378)	307,491
Total deferred inflows of resources	$ 804,840	$ 182,751	$ (529,696)	$ 457,895

NOTE 10 – PENSION PLAN (continued)

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

Proportionate Share of Net Pension Liability and Pension Expense
The following table shows the plan's proportionate share of the risk pool collective net pension liability over the measurement period:

Changes in the net pension liability for the year ended June 30, 2017, were as follows:

Plan Type and Balance Descriptions	Plan Total Pension Liability	Plan Fiduciary Net Position	Change in Plan Net Pension Liability
CalPERS – Miscellaneous Plan:			
Balance as of June 30, 2016 (Measurement Date)	$ 35,580,180	$ 26,894,691	$ 8,685,489
Balance as of June 30, 2017 (Measurement Date)	$ 39,818,738	$ 29,737,077	$ 10,081,661
Change in Plan Net Pension Liability	$ 4,238,558	$ 2,842,386	$ 1,396,172

Changes in the net pension liability for the year ended June 30, 2016, were as follows:

Plan Type and Balance Descriptions	Plan Total Pension Liability	Plan Fiduciary Net Position	Change in Plan Net Pension Liability
CalPERS – Miscellaneous Plan:			
Balance as of June 30, 2015 (Measurement Date)	$ 33,061,883	$ 26,333,975	$ 6,727,908
Balance as of June 30, 2016 (Measurement Date)	$ 35,580,180	$ 26,894,691	$ 8,685,489
Change in Plan Net Pension Liability	$ 2,518,297	$ 560,716	$ 1,957,581

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

(1) In determining a cost-sharing plan's proportionate share, total amounts of liabilities and assets are first calculated for the risk pool as a whole on the valuation dates (June 30, 2016 and 2015). The risk pool's fiduciary net position ("FNP") subtracted from its total pension liability (TPL) determines the net pension liability (NPL) at the valuation date.

(2) Using standard actuarial roll forward methods, the risk pool TPL is then computed at the measurement date (June 30, 2017 and 2016). Risk pool FNP at the measurement date is then subtracted from this number to compute the NPL for the risk pool at the measurement date. For purposes of FNP in this step and any later reference thereto, the risk pool's FNP at the measurement date denotes the aggregate risk pool's FNP at June 30, 2017 and 2016 less the sum of all additional side fund (or unfunded liability) contributions made by all employers during the measurement period (FY 2016-2017 and FY 2015-2016).

(3) The individual plan's TPL, FNP and NPL are also calculated at the valuation date.

NOTE 10 – PENSION PLAN (continued)

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

Proportionate Share of Net Pension Liability and Pension Expense (continued)

(4) Two ratios are created by dividing the plan's individual TPL and FNP as of the valuation date from (3) by the amounts in step (1), the risk pool's total TPL and FNP, respectively.

(5) The plan's TPL as of the Measurement Date is equal to the risk pool TPL generated in (2) multiplied by the TPL ratio generated in (4). The plan's FNP as of the Measurement Date is equal to the FNP generated in (2) multiplied by the FNP ratio generated in (4) plus any additional side fund (or unfunded liability) contributions made by the employer on behalf of the plan during the measurement period.

(6) The plan's NPL at the Measurement Date is the difference between the TPL and FNP calculated in (5).

As of December 31, 2017, the District reported a net pension liability for its proportionate share of the net pension liability of the Plan of $10,081,661.

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of December 31, 2016, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015 rolled forward to December 31, 2016 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

The District's proportionate share of the net pension liability for the June 30, 2017, measurement date was as follows:

	Percentage Share of Risk Pool		
	Fiscal Year Ending December 31, 2017	Fiscal Year Ending December 31, 2016	Change Increase/ (Decrease)
Measurement Date	June 30, 2017	June 30, 2016	
Percentage of Risk Pool Net Pension Liability	0.248610%	0.250020%	-0.001410%
Percentage of Plan (PERF C) Net Pension Liability	0.101658%	0.100374%	0.001284%

The District's proportionate share of the net pension liability for the June 30, 2016, measurement date was as follows:

	Percentage Share of Risk Pool		
	Fiscal Year Ending December 31, 2016	Fiscal Year Ending December 31, 2015	Change Increase/ (Decrease)
Measurement Date	June 30, 2016	June 30, 2015	
Percentage of Risk Pool Net Pension Liability	0.250020%	0.245234%	0.004786%
Percentage of Plan (PERF C) Net Pension Liability	0.100374%	0.098019%	0.002355%

NOTE 10 – PENSION PLAN (continued)

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

The total amount of $502,091 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. At December 31, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Account Description	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Pension contributions made after the measurement date	$ 502,091	$ -
Difference between actual and proportionate share of employer contributions	-	(174,531)
Adjustment due to differences in proportions	284,344	-
Differences between expected and actual experience	13,391	(191,856)
Differences between projected and actual earnings on pension plan investments	375,774	-
Changes in assumptions	1,661,550	(126,695)
Total Deferred Outflows/(Inflows) of Resources	$ 2,837,150	$ (493,082)

The total amount of $501,952 reported as deferred outflows of resources related to contributions subsequent to the measurement date was recognized as a reduction of the net pension liability in the year ended December 31, 2017. At December 31, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Account Description	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Pension contributions made after the measurement date	$ 501,952	$ -
Difference between actual and proportionate share of employer contributions	14,255	(128,388)
Adjustment due to differences in proportions	103,926	(22,016)
Differences between expected and actual experience	25,054	-
Differences between projected and actual earnings on pension plan investments	1,600,390	-
Changes in assumptions	-	(307,491)
Total Deferred Outflows/(Inflows) of Resources	$ 2,245,577	$ (457,895)

NOTE 10 – PENSION PLAN (continued)

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

Other remaining amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions for the year ended December 31, 2017, will be amortized to pension expense in future periods as follows:

Amortization Period Fiscal Year Ended December 31	Deferred Outflows/(Inflows) of Resources
2018	$ 435,685
2019	1,012,387
2020	617,008
2021	(223,104)
2022	-
Total	$ 1,841,976

Other remaining amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions for the year ended December 31, 2016, will be amortized to pension expense in future periods as follows:

Amortization Period Fiscal Year Ended December 31	Deferred Outflows/(Inflows) of Resources
2017	$ 56,213
2018	96,842
2019	718,159
2020	414,516
2021	-
Total	$ 1,285,730

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

For the measurement period ending June 30, 2017 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2017, total pension liability. The December 31, 2016, total pension liability and the December 31, 2017, total pension liability were based on the following actuarial methods and assumptions:

	2017
Actuarial Cost Method	Entry age normal
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table	Derived using CalPERS' Membership Data
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

NOTE 10 – PENSION PLAN (continued)

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

	2016
Actuarial Cost Method	Entry age normal
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table	Derived using CalPERS' Membership Data
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

All other actuarial assumptions used in the June 30, 2016, valuation were based on the results of an actuarial experience study for the years 1997 to 2007, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS website under Forms and Publications.

Discount Rate
The discount rate used to measure the total pension liability for PERF B was 7.65%. A projection of expected benefit payments and contributions was performed to determine if the assets would run out. The test revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for PERF B. The results of the crossover testing for the Plan are presented in a detailed report that can be obtained on CalPERS' website.

The long-term expected rate of return on pension 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 pension plan investment expense and inflation) are developed for each major asset class.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

Investment Type	New Strategic Allocation	Real Return Years 1 - 10[1]	Real Return Years 11+[2]
Global Equity	47%	4.90%	5.38%
Global Fixed Income	19%	0.80%	2.27%
Inflation Sensitive	6%	0.60%	1.39%
Private Equity	12%	6.60%	6.63%
Real Estate	11%	2.80%	5.21%
Infrastructure and Forestland	3%	3.90%	5.36%
Liquidity	2%	-0.40%	-0.90%
	100%		

[1] An expected inflation rate-of-return of 2.5% is used for years 1-10.
[2] An expected inflation rate-of-return of 3.0% is used for years 11+.

NOTE 10 – PENSION PLAN (continued)

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

Sensitivity of the Net Pension Liability to Changes in the Discount Rate
The following presents the net pension liability/(asset) of the Plan as of the measurement date, calculated using the discount rate of 7.65%, as well as what the net pension liability/(asset) would be if it were calculated using a discount rate that is 1 percentage-point lower (6.65%) or 1 percentage-point higher (8.65%) than the current rate:

Changes in the discount rate for the year ended June 30, 2017, was as follows:

	Plan's Net Pension Liability/(Asset)		
Plan Type	**Discount Rate - 1% 6.65%**	**Current Discount Rate 7.65%**	**Discount Rate + 1% 8.65%**
CalPERS – Miscellaneous Plan	$ 15,558,604	$ 10,081,661	$ 5,545,557

Changes in the discount rate for the year ended June 30, 2016, was as follows:

	Plan's Net Pension Liability/(Asset)		
Plan Type	**Discount Rate - 1% 6.65%**	**Current Discount Rate 7.65%**	**Discount Rate + 1% 8.65%**
CalPERS – Miscellaneous Plan	$ 13,475,689	$ 8,685,489	$ 4,726,626

Pension Plan Fiduciary Net Position
Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial report and can be obtained from CalPERS' website under Forms and Publications.

C. Payable to the Pension Plans
At December 31, 2017, the District reported no payables for outstanding contributions to the CalPERS pension plan required for the year ended December 31, 2017.

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS

Plan Description - Eligibility
The District administers its post-employment benefits plan, a single-employer defined benefit plan (the Plan). The following requirements must be satisfied in order to be eligible for post-employment medical, dental, and vision benefits: (1) Attainment of age 55, and 20 years for full-time service, and (2) retirement from the District (the District must be the last employer prior to retirement).

Plan Description - Benefits
The District offers post-employment medical, dental, and vision benefits to retired employees who satisfy the eligibility rules. Spouses and surviving spouses are also eligible to receive benefits. Retirees may enroll in any plan available through the ACWA-JPIA medical, dental, and vision programs. The contribution requirements of plan members and the District are established and may be amended by the Board of Directors.

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (continued)

Funding Policy
The District contributes the *Annual Required Contribution (ARC) of the Employer*, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The District will pay 100% of the cost of the post-employment benefit plan. The District funds the Plan on a pay-as-you-go basis and maintains reserves (and records a liability) for the difference between pay-as-you-go and the actuarially determined ARC cost.

Annual OPEB Cost and Net OPEB Obligation
The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

Description	2017	2016	2015
Annual OPEB cost:			
Annual required contribution (ARC)	$ 1,682,759	$ 2,350,322	$ 2,350,322
Interest on net OPEB obligation	327,692	224,706	186,660
Adjustment to annual required contribution	(477,929)	(380,233)	(315,850)
Total annual OPEB cost	1,532,522	2,194,795	2,221,132
Contributions made	(368,766)	(322,421)	(318,694)
Total contributions made	(368,766)	(322,421)	(318,694)
Total change in net OPEB obligation	1,163,756	1,872,374	1,902,438
Net OPEB obligation:			
Beginning of year	13,107,674	11,235,300	9,332,862
End of year	$ 14,271,430	$ 13,107,674	$ 11,235,300

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017 and the preceding two years are as follows:

Fiscal Year Ended	Annual OPEB Cost	Contributions Made	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation Payable(Asset)
December 31, 2017	$ 1,532,522	$ 368,766	24.06%	$ 14,271,430
December 31, 2016	$ 2,194,795	$ 322,421	14.69%	$ 13,107,674
December 31, 2015	$ 2,221,132	$ 318,694	14.35%	$ 11,235,300

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (continued)

Funded Status and Funding Progress – OPEB Plans
As of December 31, 2017, the most recent actuarial valuation date, the District did not have a funded plan. The actuarial accrued liability (AAL) for benefits was $20.2 million and the unfunded actuarial accrued liability (UAAL) was $20.2 million.

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 future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions
Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and 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 plan members to that point. The actuarial methods and assumptions used include techniques that are designated to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Additional information as of the latest actuarial valuation follows:

Valuation date	December 31, 2017
Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll amortization
Remaining amortization period	30 Years as of the valuation date
Asset valuation method	30 Year smoothed market
Actuarial assumptions:	
Investment rate of return	2.50% – Current LAIF rating (rounded)
Projected salary increase	2.00%
Inflation - discount rate	2.50%
Health care trend rate	3.00%

NOTE 12 – UNRESTRICTED (DEFICIT) NET POSITION

As of December 31, 2017 and 2016, the District has an unrestricted net position deficit of ($9,941,468) and ($8,596,552). Due to the nature of the deficit from the implementation of GASB No. 68/71 in fiscal year 2015, the District will continue to make its actuarial determined contributions to CalPERS and annually review its outstanding net pension obligation funding requirements for future periods to reduce the deficit position.

NOTE 13 – PRIOR PERIOD ADJUSTMENT

The Palmdale Recycled Water Authority (Authority) required a prior period adjustment to be made on their financials to account for transferred asset rights on a recycled water pipeline and pumping facilities. This transaction occurred because the City of Palmdale had not transferred the asset as part of the original formation of the joint powers agreement from 2012. To become in compliance with the agreement, the Authority has made the prior period adjustment as part of the 2017 audit. In order for the District to realize its 50% portion of the Authority the following adjustment has been made.

Description	Balance
Net position as of January 1, 2016 – as previously reported	$ 95,063,510
Investment in Palmdale Recycled Water Authority	954,652
Net position as of January 1, 2016 – as restated	$ 96,018,162

NOTE 14 – DEFERRED COMPENSATION SAVINGS PLAN

For the benefit of its employees, the District participates in a 457 Deferred Compensation Program. The purpose of this Program is to provide deferred compensation for public employees that elect to participate in the Program. Generally, eligible employees may defer receipt of a portion of their salary until termination, retirement, death, or unforeseeable emergency. Until the funds are paid or otherwise made available to the employee, the employee is not obligated to report the deferred salary for income tax purposes.

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. Accordingly, the District is in compliance with this legislation. Therefore, these assets are not the legal property of the District, and are not subject to claims of the District's general creditors.

The District has implemented GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. Since the District has little administrative involvement and does not perform the investing function for this plan, the assets and related liabilities are not shown on the accompanying financial statements.

NOTE 15 – SUBSEQUENT EVENT

The District issued $12,805,000 in revenue bonds on June 28, 2018. The bonds are being issued to finance improvements to the District water system, pay for insurance policies for principal and interest, and to pay the costs of issuing the bonds.

Required Supplementary Information

PALMDALE WATER DISTRICT
Schedule of Funding Progress
For the Year Ended December 31, 2017

Actuarial Valuation Date	Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
December 31, 2017	$ -	$ 20,240,870	$ 20,240,870	0.00%	$ 7,388,637	273.95%
December 31, 2014	$ -	$ 25,778,850	$ 25,778,850	0.00%	$ 7,010,439	367.72%
December 31, 2010	$ -	$ 16,234,820	$ 16,234,820	0.00%	$ 6,547,188	247.97%

PALMDALE WATER DISTRICT

Schedule of Proportionate Share of the Net Pension Liability
For the Year Ended December 31, 2017 and 2016

Last Ten Fiscal Years*

California Public Employees' Retirement System (CalPERS) Miscellaneous Plan

Measurement Date:	**June 30, 2017**	**June 30, 2016**	**June 30, 2015**
District's proportion of the net pension liability	0.101658%	0.100374%	0.098019%
District's proportionate share of the net pension liability	$ 10,081,661	$ 8,685,489	$ 6,727,907
District's covered-employee payroll	$ 6,482,822	$ 6,778,010	$ 6,377,315
District's proportionate share of the net pension liability as a percentage of covered-employee payroll	155.51%	128.14%	105.50%
Plan's fiduciary net position as a percentage of the plan's total pension liability	73.31%	74.06%	78.40%

** This schedule is required to show information for ten years; however, until a full ten year trend is compiled, information is presented for those years for which information is available.*

PALMDALE WATER DISTRICT

Schedule of Contributions

For the Year Ended December 31, 2017 and 2016

Last Ten Fiscal Years*

California Public Employees' Retirement System (CalPERS) Miscellaneous Plan

Contributions for the years ending	**2017**	**2016**	**2015**	**2014**
Actuarially required contribution	988,410	$ 914,747	$ 819,205	$ 805,370
Contributions in relation to the contractually required contribution	(988,410)	(914,747)	(819,205)	(805,370)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
District's Covered-Employee Payroll	6,482,822	$ 6,589,909	$ 6,497,710	$ 5,907,552
Contributions as a Percentage of Covered-Employee Payroll	15.25%	13.88%	12.610%	13.630%

** This schedule is required to show information for ten years; however, until a full ten year trend is compiled, information is presented for those years for which information is available.*

[1] Employers are assumed to make contributions equal to the actuarially determined contributions. However, some employers may choose to make additional contributions towards their side-fund or their unfunded liability. Employer contributions for such plan exceed the actuarial determined contributions. CalPERS has determined that employer obligations referred to as *side-funds* are not considered separately financed specific liabilities.

[2] Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB No. 68 defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different than total earnings for covered-employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll-related ratios.

Notes to the Schedule:

Change in Benefit Terms: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2013 as they have minimal cost impact. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes)

NOTE 1 – PURPOSE OF SCHEDULES

Schedule of Funding Progress

This schedule is required by GASB Statement No. 45 for all sole and agent employers that provide other postemployment benefits (OPEB). The schedule presents, for the most recent actuarial valuation and the two preceding valuations, information about the funding progress of the plan, including, for each valuation, the actuarial valuation date, the actuarial value of assets, the actuarial accrued liability, the total unfunded actuarial liability (or funding excess), the actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio), the annual covered payroll, and the ratio of the total unfunded actuarial liability (or funding excess) to annual covered payroll.

Schedule of Proportionate Share of the Net Pension Liability

This schedule is required by GASB Statement No. 68 and is required for all employers in a cost-sharing pension plan. The schedule reports the following information:

- The proportion (percentage) of the collective net pension liability (similar to the note disclosure)
- The proportionate share (amount) of the collective net pension liability
- The employer's covered-employee payroll
- The proportionate share (amount) of the collective net pension liability as a percentage of the employer's covered-employee payroll
- The pension plan's fiduciary net position as a percentage of the total pension liability

Schedule of Pension Contributions

This schedule is required by GASB Statement No. 68 and is required for all employers in a cost-sharing pension plan. The schedule reports the following information:

- If an employer's contributions to the plan are actuarially determined or based on statutory or contractual requirements: the employer's actuarially determined contribution to the pension plan (or, if applicable, its statutorily or contractually required contribution), the employer's actual contributions, the difference between the actual and actuarially determined contributions (or statutorily or contractually required), and a ratio of the actual contributions divided by covered-employee payroll.

NOTE 2 – SUMMARY OF CHANGES OF BENEFITS OR ASSUMPTIONS

Benefit Changes

There were no changes to benefit terms that applied to all members of the Miscellaneous Risk Pool.

Changes of Assumptions

There were no changes of assumptions.

Supplementary Information

PALMDALE WATER DISTRICT
Schedules of Debt Service Net Revenues Coverage
For the Year Ended December 31, 2017 and 2016

Total revenues:	**2017**	**2016**
Operating revenues	$ 23,693,095	$ 22,586,801
Non-operating revenues	7,971,368	7,894,507
Capital contributions – capital improvement fees and grants	1,132,074	541,662
Total revenues	32,796,537	31,022,970
Total expenses:		
Operating expenses before depreciation expense	23,053,505	22,704,309
Non-operating expenses	4,776,116	4,574,111
Less debt service items:		
Interest expense – long-term debt	(2,175,260)	(2,211,323)
Total non-operating expenses adjusted for debt service items	2,600,856	2,362,788
	25,654,361	25,067,097
Net revenues available for debt service	$ 7,142,176	$ 5,955,873
Debt service for the fiscal year	$ 3,995,279	$ 3,909,338
Debt service net revenues coverage ratio	179%	152%

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
Palmdale Water District
Palmdale, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Palmdale Water District as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise Palmdale Water District's basic financial statements, and have issued our report thereon dated August 16, 2018.

Internal Control Over Financial Reporting
In planning and performing our audit of the financial statements, we considered Palmdale Water 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 Palmdale Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Palmdale Water 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 District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Jeff Nigro, CPA, CFE | Elizabeth Nigro, CPA | Kevin Brejnak, CPA, CFE | Peter Glenn, CPA | Michael Klein, CPA, CMA, EA

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Compliance and Other Matters
As part of obtaining reasonable assurance about whether Palmdale Water 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 noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Nigro + Nigro, PC.

Murrieta, California
August 16, 2018

Findings and Recommendations

SECTION I - FINANCIAL STATEMENT FINDINGS

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards.*

There were no audit findings or recommendations in 2017.

PALMDALE WATER DISTRICT
Summary Schedule of Prior Audit Findings
For the Year Ended December 31, 2017

There were no findings or recommendations in 2016.