

NEWHALL COUNTY WATER DISTRICT

FINANCIAL STATEMENTS

DECEMBER 31, 2017



Leaf & Cole, LLP
Certified Public Accountants

**NEWHALL COUNTY WATER DISTRICT
FINANCIAL STATEMENTS
DECEMBER 31, 2017**

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Leaf & Cole, LLP
Certified Public Accountants
A Partnership of Professional Corporations

Independent Auditor's Report

To the Board of Directors
Newhall County Water District
Post Office Box 220970
Santa Clarita, California 91322

Report on Financial Statements

We have audited the accompanying financial statements of Newhall County Water District, which comprise the statement of net position as of December 31, 2017, and the related statements of revenues, expenses, and changes in net position and cash flows for the period from July 1, 2017 to December 31, 2017, 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.

Auditor's 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 and the State Controller's Minimum Audit Requirements for California Special Districts. 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 risk 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 financial statements referred to above present fairly, in all material respects, the financial position of Newhall County Water District, as of December 31, 2017, and the changes in financial position and cash flows for the period from July 1, 2017 to December 31, 2017 in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Change in Accounting Principle

As described in Note 11 to the financial statements, the District changed its method of accounting and financial reporting for postemployment benefits other than pensions in order to conform with “Governmental Accounting Standards Board Statement No 75, Accounting and Financial Reporting for Postemployment Benefit Other Than Pensions”. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management’s discussion and analysis and the required supplementary information on pages 40 to 44 as identified in the accompanying table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 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.

Leaf & Cole LLP

San Diego, California
November 19, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Newhall County Water District (District), we offer readers of the District's financial statements this narrative overview and analysis of the District's financial performance for the period from July 1, 2017 to December 31, 2017. Please read it in conjunction with the District's financial statements that follow Management's Discussion and Analysis.

The District

Newhall County Water District headquarters is located in the City of Santa Clarita within the northwest region of Los Angeles County and is blessed with all the beauties and amenities of a large city with a small-town charm. The District was formed on January 13, 1953 and is currently one of four water purveyors in the area. Water is received from two sources, District owned groundwater wells and the State Water Project (SWP) via the areas wholesaler.

The District boundaries encompass approximately 37-square miles in portions of the City of Santa Clarita and Los Angeles County. The District provides treated water to areas of Newhall, Canyon Country (Pinetree), Valencia (Tesoro), and Castaic. Today, the District provides treated water to nearly 9,800 metered customers through more than 150 miles of transmission and distribution pipeline, 22 above ground steel reservoirs, 15 booster pump stations, and 11 active groundwater wells.

Financial Highlights

- The District's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at the close of the period by \$83.4 million (net position). Of this amount, \$6.6 million (unrestricted net position) may be used to meet the District's ongoing obligations to its customers and creditors.
- The District's total net position increased by \$1.2 million during the period from July 1, 2017 to December 31, 2017. This is attributable in part to the reduction of current liabilities and long-term debt obligations.
- The District's operating revenues were \$8 million for the period from July 1, 2017 to December 31, 2017.
- The District's total expenses were \$7.3 million for the period from July 1, 2017 to December 31, 2017.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements, which are comprised of the following: 1) Statement of Net Position, 2) Statement of Revenues, Expenses and Changes in Net Position, 3) Statement of Cash Flows, and 4) Notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

The *Statement of Net Position* presents information on all of the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources with the difference 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 weakening. However, one must consider other nonfinancial factors such as changes in economic or environment conditions, population growth, and new or changed government legislation.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The *Statement of Cash Flows* presents information on cash receipts and payments for the period. From this statement, the reader can obtain comparative information on the sources and uses of the District's cash.

The *Notes to the Financial Statements* provide additional information that is essential to fully understand the data supplied in each of the specific financial statements listed above.

Financial Analysis

As noted earlier, the net position may serve over time as a useful indicator of an entity's financial strength. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$83.4 million as of December 31, 2017.

By far, the largest portion of the District's net position, \$76.7 million (92%), reflects its net investment in capital assets, less any related debt used to acquire those assets still outstanding. The District uses these capital assets to provide services to customers; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

There were no major additions to capital assets during the period from July 1, 2017 to December 31, 2017.

Statements of Net Position

| | <u>December 31, 2017</u> |
|---------------------------------------|--------------------------|
| Assets | |
| Current and Other Assets | \$ 11,788,317 |
| Capital Assets | 80,691,676 |
| Total Assets | <u>92,479,993</u> |
| Deferred Outflows of Resources | |
| Deferred Amount on Refunding | 6,213 |
| Deferred Outflows | 995,640 |
| Total Deferred Outflows of Resources | <u>1,001,853</u> |
| Liabilities | |
| Non-Current Liabilities | 6,546,518 |
| Current Liabilities | 3,303,951 |
| Total Liabilities | <u>9,850,469</u> |
| Deferred Inflows of Resources | |
| Deferred Inflows | 270,607 |
| Net Position | |
| Net Investment in Capital Assets | 76,724,489 |
| Unrestricted | 6,636,281 |
| Total Net Position | <u>\$ 83,360,770</u> |

MANAGEMENT'S DISCUSSION AND ANALYSIS

Unrestricted net position (which represents the residual balance of total net position after the elimination of net investment in capital assets) increased by \$482 thousand from \$6.2 million at June 30, 2017 to \$6.7 million at December 31, 2017.

Statements of Revenues, Expenses, and Changes in Net Position

| | <u>December 31, 2017</u> |
|-------------------------------------|--------------------------|
| Water Sales | \$ 7,979,956 |
| Taxes and Assessments | 314,379 |
| Other Nonoperating Income | 63,551 |
| Other Operating Revenues | 53,515 |
| Investment Income | <u>50,174</u> |
| Total Revenues | <u>8,461,575</u> |
| General and Administrative | 2,060,064 |
| Source of Supply | 1,720,306 |
| Depreciation Expense | 1,695,119 |
| Pumping Plant | 720,580 |
| Other | 326,894 |
| Transmission and Distribution | 267,821 |
| Customer Accounts | 233,097 |
| Water Treatment | 225,873 |
| Interest Expense | <u>68,693</u> |
| Total Expenses | <u>7,318,447</u> |
| Income Before Capital Contributions | 1,143,128 |
| Capital Contributions | <u>73,322</u> |
| Change in Net Position | 1,216,450 |
| Net Position at Beginning of Year | <u>82,144,320</u> |
| Net Position at End of Year | <u>\$ 83,360,770</u> |

Total revenues of \$8,461,575 were offset by \$7,318,447 in operating and nonoperating expenses.

The District received \$73,322 in Capital Contributions from the period from July 1, 2017 to December 31, 2017 due in part to the services installed for the Walnut Park Cottages. It is expected that Capital Contributions will continue to fluctuate.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Assets and Debt Administration

Capital Assets

The District's capital assets for the period ended December 31, 2017, totaled \$81 million (net of accumulated depreciation).

Capital Assets

| | <u>December 31, 2017</u> |
|--------------------------|--------------------------|
| Water System | \$ 99,686,865 |
| General Plant | 13,444,799 |
| Land | 9,808,489 |
| Construction in Progress | 1,885,942 |
| Organization Costs | 40,486 |
| Depreciation | <u>(44,174,905)</u> |
| | <u>\$ 80,691,676</u> |

Noncurrent Liabilities

At December 31, 2017, the District had \$6.5 million in noncurrent liabilities, net of current position.

Additional information on the District's noncurrent liabilities can be found in Note 6 of the Notes to Financial Statements. Noncurrent liabilities consist of the following:

Noncurrent Liabilities

| | <u>December 31, 2017</u> |
|------------------------------|--------------------------|
| Installment Notes Payable | \$ 2,833,582 |
| Net Pension Liability | 3,316,991 |
| Net OPEB Liability | 277,233 |
| Compensated Absences | <u>118,712</u> |
| Total Noncurrent Liabilities | <u>\$ 6,546,518</u> |

Fiscal Year 2018 Budget

Economic Factors

The District's long-standing commitment to living within our means through both good and bad times has enabled the District to maneuver through the past drought without major impacts on the District customers. It should be clearly understood we have not been immune to its effects. The District continues to evaluate the way we do business and engage our employees to help find innovative and effective ways of serving our customers.

On June 15, 2015, the District adopted changes to the water rate, based on the updated Report of Revenue Requirements and Water Rates, to become effective July 1, 2015. The rate study took into account a 14% reduction in commodity sales and developed a Water Revenue Adjustment Factor (WRAF) as a means to mitigate potential fluctuations in water commodity revenues due to additional conservation. The District adopted Resolution 2015-5 that allows the District to make adjustments to recover any shortage of revenue due to inflation attributed to fluctuations in real demand and to create a balancing account. The WRAF was implemented at the beginning of FY 2017.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Based on current trends, the District is projecting little growth in FY 2018/19. In addition, the District has assumed customers (as a whole) will continue to respond to the District's messages of conservation and efficient use of water and reduce consumption by 25% (from 2013 consumption). The District has already met and exceeded the conservation mandates as required in SBx7-7.

Looking ahead, the District will continue to monitor and make appropriate adjustments to ensure the organization's financial integrity is maintained, while continuing to meet its obligation to provide a safe and reliable water supply.

Financial

Challenging fluctuations in weather continue to impact local and State communities. Southern California has seen its share of highs and lows. The annual budget was presented nearly nine years after the most challenging period in District history. Like many who were affected by the downturn in the housing market and the increasing cost of goods and supplies, the District has had to adjust its budget to accommodate changing economic conditions. The most recent recession helped prepare the District to react quickly to changes. We have endured nine years of belt tightening and cost containment and will continue to do more through this period of drought and financial instability. We believe we emerged with an annual budget which meets the needs of our customers. It sets our spending and staffing to affordable and sustainable levels while maintaining a high level of service quality.

Our success as an organization is vastly enhanced by the practices and policies put in place by the Board of Directors to ensure the strength and stability of the District. We are fully confident that with these policies and practices, supported by dedicated and talented staff, we will achieve continued success as an organization and thus assure the well-being of the people we serve.

Management is unaware of any other conditions that could have a material impact on the District's current financial position or operating results.

FUTURE OF WATER GOVERNANCE IN THE REGION

The District has been working with Castaic Lake Water Agency (CLWA) for more than two years to settle litigation and create a new water governance structure. This process led to legislation (SB 634 – Wilk) that was signed into law on October 15, 2017 and created the Santa Clarita Valley Water Agency – a new water agency for the region.

The purpose of this new agency is to begin to unify and modernize water governance in the Santa Clarita Valley. Currently, in addition to the District, three other water retailers and one wholesale agency compose a patchwork of water providers that can lead to redundancies, service inefficiencies, conflict, excess costs and reduced economies of scale that limit optimized water management in the region. The new agency consolidated on January 1, 2018.

According to a comprehensive Governance & Finance Study (Study), the new agency would save costs – upwards of \$14 million in its first 10 years. It would enhance service by integrating currently disparate systems. It would create economies of scale to ensure the development of new water supplies, including a regional recycled water system. It would create a new, modernized water governance structure that is California Voting Rights Act-compliant and provides an equal voice for all corners of the Santa Clarita Valley.

MANAGEMENT'S DISCUSSION AND ANALYSIS

As reported in the Study, the District anticipated limited short-term costs in both its FY 2017 and FY 2018 budgets. These costs are far less than the anticipated litigation that would have advanced if the District and CLWA had not reached compromise. Overall, the new agency will save the District significant amounts in both the short- and long-term.

This financial report is designed to provide a general overview of the Newhall County Water District's finances for the Board of Directors, customers, taxpayers, creditors and other interest parties. Questions concerning any of the information provided in the report or requests for additional information should be addressed to the District's Financial Department, PO Box 220970, Santa Clarita, CA 91322-0970.

**NEWHALL COUNTY WATER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2017**

ASSETS

Current Assets: (Notes 1 and 2)

| | |
|-----------------------------|--------------|
| Cash and cash equivalents | \$ 6,580,484 |
| Investments | 2,240,000 |
| Accounts receivable, net | 1,477,261 |
| Taxes receivable | 59,751 |
| Accounts receivable - other | 185,674 |
| Accrued interest receivable | 24,818 |
| Inventory | 794,392 |
| Prepaid expenses | 217,717 |
| Total Current Assets | 11,580,097 |

Noncurrent Assets:

Restricted Assets: (Notes 1, 2 and 3)

| | |
|---------------------------|---------|
| Cash and cash equivalents | 208,220 |
| Total Restricted Assets | 208,220 |

Capital Assets: (Notes 1 and 4)

| | |
|--|------------|
| Nondepreciable | 11,694,431 |
| Depreciable, net of accumulated depreciation | 68,997,245 |
| Total Capital Assets, net | 80,691,676 |

| | |
|-------------------------|------------|
| Total Noncurrent Assets | 80,899,896 |
|-------------------------|------------|

| | |
|---------------------|------------|
| TOTAL ASSETS | 92,479,993 |
|---------------------|------------|

DEFERRED OUTFLOWS OF RESOURCES: (Notes 1, 6, 7 and 8)

| | |
|--|-----------|
| Deferred amount on refunding | 6,213 |
| Deferred outflows related to OPEB contributions | 78,125 |
| Deferred outflows related to OPEB | 19,002 |
| Deferred outflows related to pension contributions | 148,353 |
| Deferred outflows related to pension | 750,160 |
| Total Deferred Outflows of Resources | 1,001,853 |

(Continued)

The accompanying notes are an integral part of the financial statements.

**NEWHALL COUNTY WATER DISTRICT
STATEMENT OF NET POSITION (CONTINUED)
DECEMBER 31, 2017**

LIABILITIES

Current Liabilities: (Notes 1, 5 and 6)

| | |
|---|------------|
| Accounts payable | \$ 585,527 |
| Accrued expenses and other liabilities | 18,483 |
| Accrued interest payable | 23,664 |
| Deposits | 208,220 |
| Unearned revenue | 1,253,840 |
| Current portion of installment notes payable | 1,139,818 |
| Current portion of compensated absences payable | 74,399 |
| Total Current Liabilities | 3,303,951 |

Noncurrent Liabilities: (Notes 1, 6 and 8)

Long-Term Debt:

| | |
|---|-----------|
| Installment notes payable, net of current portion | 2,833,582 |
|---|-----------|

Other Noncurrent Liabilities:

| | |
|--|-----------|
| Net pension liability | 3,316,991 |
| Net OPEB liability | 277,233 |
| Compensated absences payable, net of current portion | 118,712 |
| Total Other Noncurrent Liabilities | 3,712,936 |

| | |
|------------------------------|-----------|
| Total Noncurrent Liabilities | 6,546,518 |
|------------------------------|-----------|

| | |
|-------------------|-----------|
| Total Liabilities | 9,850,469 |
|-------------------|-----------|

Deferred Inflows of Resources: (Notes 1 and 8)

| | |
|--------------------------------------|---------|
| Deferred inflows related to pensions | 270,607 |
|--------------------------------------|---------|

Commitments and Contingencies (Notes 7, 8 and 9)

NET POSITION:

| | |
|----------------------------------|---------------|
| Net investment in capital assets | 76,724,489 |
| Unrestricted | 6,636,281 |
| Total Net Position | \$ 83,360,770 |

The accompanying notes are an integral part of the financial statements.

**NEWHALL COUNTY WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE PERIOD FROM JULY 1, 2017 TO DECEMBER 31, 2017**

Operating Revenues:

| | |
|--------------------------|--------------|
| Water sales | \$ 7,979,956 |
| Other operating revenues | 53,515 |
| Total Operating Revenues | 8,033,471 |

Operating Expenses:

| | |
|-------------------------------|-----------|
| General and administrative | 2,060,064 |
| Source of supply | 1,720,306 |
| Depreciation | 1,695,119 |
| Pumping plant | 720,580 |
| Other | 326,894 |
| Transmission and distribution | 267,821 |
| Customer accounts | 233,097 |
| Water treatment | 225,873 |
| Total Operating Expenses | 7,249,754 |

| | |
|------------------|---------|
| Operating Income | 783,717 |
|------------------|---------|

Nonoperating Revenues (Expenses):

| | |
|--|----------|
| Taxes and assessments | 314,379 |
| Other nonoperating revenue | 63,551 |
| Investment income | 50,174 |
| Interest expense | (68,693) |
| Total Nonoperating Revenues (Expenses) | 359,411 |

| | |
|-------------------------------------|-----------|
| Income Before Capital Contributions | 1,143,128 |
|-------------------------------------|-----------|

| | |
|-----------------------|--------|
| Capital Contributions | 73,322 |
|-----------------------|--------|

| | |
|------------------------|-----------|
| Change in Net Position | 1,216,450 |
|------------------------|-----------|

| | |
|---|------------|
| Net Position at Beginning of Period (Note 11) | 82,144,320 |
|---|------------|

| | |
|--------------------------------------|----------------------|
| NET POSITION AT END OF PERIOD | \$ 83,360,770 |
|--------------------------------------|----------------------|

The accompanying notes are an integral part of the financial statements.

**NEWHALL COUNTY WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM JULY 1, 2017 TO DECEMBER 31, 2017**

| | |
|---|----------------------------|
| <u>Cash Flow From Operating Activities:</u> | |
| Cash received from customers | \$ 8,607,729 |
| Cash payments to suppliers for goods and services | (4,409,473) |
| Cash payments to employees for services | (1,057,315) |
| Other operating cash receipts | 63,551 |
| Net Cash Provided by Operating Activities | <u>3,204,492</u> |
| <u>Cash Flow From Noncapital and Related Financing Activities:</u> | |
| Receipts from taxes and assessments | <u>267,991</u> |
| Net Cash Provided by Noncapital and Related Financing Activities | <u>267,991</u> |
| <u>Cash Flows From Capital and Related Financing Activities:</u> | |
| Acquisition and construction of capital assets | (1,405,477) |
| Principal paid on installment notes payable | (870,789) |
| Interest paid on installment notes payable | (70,973) |
| Capital contributions | 73,322 |
| Net Cash Used in Capital and Related Financing Activities | <u>(2,273,917)</u> |
| <u>Cash Flows From Investing Activities:</u> | |
| Investment income | <u>44,818</u> |
| Net Cash Provided by Investing Activities | <u>44,818</u> |
| Net Increase in Cash and Cash Equivalents | 1,243,384 |
| Cash and Cash Equivalents at Beginning of Period | <u>5,545,320</u> |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$ <u>6,788,704</u> |

(Continued)

The accompanying notes are an integral part of the financial statements.

**NEWHALL COUNTY WATER DISTRICT
STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE PERIOD FROM JULY 1, 2017 TO DECEMBER 31, 2017**

Reconciliation of Operating Income to Net Cash

Provided by Operating Activities

| | |
|--|---------------------|
| Operating income | \$ 783,717 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Depreciation | 1,695,119 |
| Other nonoperating cash receipts | 63,551 |
| (Increase) Decrease In: | |
| Accounts receivable, net | 176,381 |
| Accounts receivable - other | 76,758 |
| Inventory | (65,732) |
| Prepaid expenses | (152,965) |
| Deferred outflows related to OPEB contributions | 1,719 |
| Deferred outflows related to OPEB | (19,002) |
| Deferred outflows related to pension contributions | 120,061 |
| Deferred outflows related to pension | (310,840) |
| Increase (Decrease) In: | |
| Accounts payable | 29,359 |
| Accrued expenses and other liabilities | (36,923) |
| Deposits | 12,874 |
| Unearned revenue | 308,245 |
| Net OPEB liability | 37,382 |
| Net pension liability | 576,273 |
| Compensated absences payable | (34,591) |
| Deferred inflows related to pensions | (56,894) |
| Net Cash Provided by Operating Activities | <u>\$ 3,204,492</u> |

Cash and Cash Equivalents - Financial Statement Classification:

| | |
|--------------------------------------|-------------------------|
| Cash and cash equivalents | \$ 6,580,484 |
| Restricted cash and cash equivalents | 208,220 |
| Total Cash and Cash Equivalents | <u><u>6,788,704</u></u> |

Supplemental Disclosures of Cash Flow Information

| | |
|--|------------------------|
| Amortization of deferred amount on refunding | \$ <u><u>6,212</u></u> |
|--|------------------------|

The accompanying notes are an integral part of the financial statements.

**NEWHALL COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

Note 1 - Organization and Significant Accounting Policies:

The Newhall County Water District (the “District”) was organized in January 1953 under provisions of the California Water District Law. Improvement District No. 1 and Improvement Districts 2-S and 2-W were annexed by the District. The District is governed by a Board of Directors made up of five members elected by the qualified voters of the District. The purpose of the District is to finance, construct, operate and maintain a water system to serve properties within the District’s boundaries.

The criteria used in determining the scope of the reporting entity are based on the provisions of GASB Cod. Sec. 2100 “Defining the Financial Reporting Entity”. The District is the primary government unit. Component units are those entities which are financially accountable to the primary government, either because the District appoints a voting majority of the component unit’s board, or because the component unit will provide a financial benefit or impose a financial burden on the District. The District has no component units.

On October 15, 2017, the Governor of the State of California signed into law SB-634, which reorganized Castaic Lake Water Agency and Newhall County Water District to create Santa Clarita Valley Water Agency effective January 1, 2018.

Significant Accounting Policies

A summary of the District’s significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

Method of Accounting

The District utilizes accounting principles appropriate for an enterprise fund to record its activities. Accordingly, the statements of net position and the statements of revenues, expenses and changes in net position have been prepared using the economic resources measurement focus and the accrual basis of accounting.

The District has not elected to apply the option allowed in GASB Cod. Sec. P80.103 “Proprietary Fund Accounting and Financial Reporting” and as a consequence will continue to apply GASB Statements and Interpretations.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NEWHALL COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Revenue Recognition

The District recognizes revenues from water sales and other operating revenues when they are earned. Operating activities generally result from providing services and producing and delivering goods. As such, the District considers fees received from water sales and other operating revenues to be operating revenues. Taxes and assessments are recognized as revenue based upon amounts reported to the District by the County of Los Angeles, net of an allowance for estimated uncollectible taxes.

Investments

Investments are stated at their fair value, which represents the quoted or stated market value. Investments that are not traded on a market, such as investments in external pools, are valued based on the stated fair value as represented by the external pool.

Allowance for Doubtful Accounts

Bad debts are recognized on the allowance method based on historical experience and management's evaluation of outstanding receivables. The allowance for doubtful accounts receivables totaled \$3,598 at December 31, 2017.

Taxes and Assessments

Property taxes and assessments are billed by the County of Los Angeles to property owners. The District's property tax calendar for the fiscal year ended June 30, 2017 was as follows:

| | |
|------------------|---|
| Lien Date: | January 1 |
| Levy Date: | July 1 |
| Due Date: | First Installment - November 1 Second Installment - February 1 |
| Delinquent Date: | First Installment - December 10 Second Installment - April 10 |

Management believes that taxes receivable of \$59,751 were fully collectible; therefore no allowance for doubtful taxes receivable was recorded at December 31, 2017.

Inventory

Inventory consists primarily of materials used in the construction and maintenance of capital assets and is valued at a moving weighted average cost.

**NEWHALL COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Capital Assets

Capital assets purchased or acquired with a cost exceeding \$5,000 and an estimated useful life of more than one year are reported at historical cost. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Donated capital assets, donated works of art and similar items, and capital assets received in service concession agreements are reported at acquisition value. Depreciation is calculated on the straight-line method over the following estimated useful lives:

| | |
|-------------------------------|---------------|
| Transmission and distribution | 14 - 61 years |
| General plant | 4 - 88 years |
| Organization costs | 30 - 33 years |

Depreciation totaled \$1,695,119 for the period ended December 31, 2017.

Interest

The District incurred interest charges on long-term debt. No interest was capitalized as a cost of construction for the period ended December 31, 2017.

Compensated Absences

Accumulated and unpaid vacation and sick leave totaling \$193,111 is accrued when incurred and included in noncurrent liabilities, net of current portion, at December 31, 2017.

Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows of resources and deferred inflows of resources are defined as a consumption of net assets by the District that is applicable to a future period and an acquisition of net assets by the District that is applicable to a future reporting period respectively. Deferred outflows of resources include a deferred amount on refunding. Deferred outflows of resources and deferred inflows of resources related to OPEB and pensions are more fully described in Notes 7 and 8, respectively.

**NEWHALL COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

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 pays an annual premium for commercial insurance covering general liability, automobile, real and personal property, cyber liability, employee dishonesty, excess liability and notification and credit monitoring. The general liability coverage limits are \$1,000,000 per occurrence and \$3,000,000 in aggregate with a \$5,000 deductible. Automobile coverage is \$1,000,000 with a \$5,000 deductible. Real and personal property is covered up to \$32,147,642 with a \$1,000 deductible per occurrence. Employee dishonesty coverage limits are \$250,000 per occurrence with a \$1,000 deductible. Excess liability coverage is \$5,000,000 in excess of underlying coverage limits. In addition, the District carries commercial insurance for all other risks of loss including workers compensation and employee health and life insurance. The District also carries pollution and remediation legal liability coverage with a \$1,000,000 limit each loss and in aggregate with a \$25,000 retention for each loss.

The District purchased earthquake and flood insurance with coverage limits of \$10,000,000 per occurrence and in the annual aggregate, with an earthquake deductible of 15% per unit of insurance including time element business income, extra expense and rental value. The minimum deductible for earthquake and flood insurance is \$50,000 and a \$25,000 deductible for all other perils. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Postemployment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Other Postemployment Benefit Programs of the Newhall County Water District (OPEB Plan), the assets of which are held by the California Employers' Retiree Benefit Trust (CERBT), and additions to/deductions from the OPEB Plan's fiduciary net position have been determined by an independent actuary. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

Generally accepted accounting principles require that the reported results must pertain to liability and fiduciary net position information within certain defined timeframes. For this report, the following timeframes are used:

| | |
|--------------------|------------------------------------|
| Valuation Date | July 1, 2015 |
| Measurement Date | December 31, 2016 |
| Measurement Period | June 30, 2016 to December 31, 2016 |

**NEWHALL COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the CalPERS financial office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value. CalPERS audited financial statements are publicly available reports that can be obtained at CalPERS website under Forms and Publications.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

| | |
|--------------------|--------------------------------|
| Valuation Date | June 30, 2016 |
| Measurement Date | June 30, 2017 |
| Measurement Period | June 30, 2016 to June 30, 2017 |

Fair Value Measurements

Fair value accounting standards define fair value, establish a framework for measuring fair value, outline a fair value hierarchy based on inputs used to measure fair value and enhance disclosure requirements for fair value measurements. The fair value hierarchy distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Level 1 or 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

- Level 1 inputs are quoted prices in active markets for identical investments that the investment manager has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the investment, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the investment.

**NEWHALL COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Fair Value Measurements (Continued)

The District's statement of financial position includes the following financial instruments that are required to be measured at fair value on a recurring basis:

- Negotiable certificates of deposit are considered Level 2 assets and are reported at the fair value reported by the counter-party.
- Investments in the California Local Agency Investment Fund (LAIF) are considered Level 2 assets and are reported at the fair value of the underlying assets as provided LAIF.

Economic Dependency

The District purchases more than 50% of its water from the Castaic Lake Water Agency. Interruption of this source would impact the District negatively.

Cash and Cash Equivalents

For purposes of the statement of cash flows the District considers all investment instruments purchased with a maturity of three months or less to be cash.

Subsequent Events

The District has evaluated events and transactions for potential recognition and disclosure through November 19, 2018, which is the date the financial statements were available for issuance, and concluded that there were no events or transactions that needed to be disclosed except as disclosed in Note 12.

Reclassifications

The District has reclassified certain prior year information to conform with the current year presentation.

**NEWHALL COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

Note 2 - Cash and Investments:

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

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

| <u>Authorized Investment Type</u> | <u>Maximum Maturity</u> | <u>Maximum Percentage of Portfolio</u> | <u>Quality Requirements</u> |
|--|-----------------------------|--|---------------------------------|
| Local Agency Bonds | 5 years | None | None |
| U.S. Treasury Obligations | 5 years | None | None |
| State Obligations | 5 years | None | None |
| CA. Local Agency Obligations | 5 years | None | None |
| U.S. Agency Securities | 5 years | None | None |
| Bankers Acceptances | 180 days | 40% | None |
| Commercial Paper | 270 days | 25% | A1 |
| Negotiable Certificates of Deposit | 5 years | 30% | None |
| Repurchase Agreements | 1 year | None | None |
| Reverse Repurchase Agreements | 92 days | 20% | None |
| Medium-Term Notes | 5 years | 30% | A Rating |
| Mutual Funds | N/A | 20% | Multiple |
| Money Market Mutual Funds | N/A | 20% | Multiple |
| Collateralized Bank Deposits | 5 years | None | None |
| Mortgage Pass-Through Securities | 5 years | 20% | AA Rating |
| Time Deposits | 5 years | None | None |
| California Local Agency Investment Fund (LAIF) | N/A | None | None |
| County Pooled Investments | N/A | None | None |

The District's Investment Policy is more restrictive than the California Government Code in the following ways:

- The District shall not invest any funds covered by this investment policy in inverse floaters, range notes, interest only strips derived from mortgage pools or any investment that may result in a zero interest accrued if held to maturity.

**NEWHALL COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

Note 2 - Cash and Investments: (Continued)

**Investments Authorized by the California Government Code and the District's Investment Policy
(Continued)**

Cash and investments held by the District were comprised of the following at December 31, 2017:

| | Maturity in Years | | <u>Total</u> |
|---|-------------------|--------------|--------------|
| | One Year or Less | 1 - 5 years | |
| Cash on hand | \$ 1,175 | \$ - | \$ 1,175 |
| Deposits with financial institutions | 1,589,785 | - | 1,589,785 |
| California Local Agency Investment Fund | 5,197,744 | - | 5,197,744 |
| Investments: | | | |
| Negotiable Certificates of Deposit | 200,000 | 2,040,000 | 2,240,000 |
| Total Cash and Investments | \$ 6,988,704 | \$ 2,040,000 | \$ 9,028,704 |
| Financial Statement Classification: | | | |
| Current: | | | |
| Cash and cash equivalents | | | \$ 6,580,484 |
| Investments | | | 2,240,000 |
| Restricted: | | | |
| Cash and cash equivalents | | | 208,220 |
| Total Cash and Investments | | | \$ 9,028,704 |

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. The District manages its exposure to interest rate risk by purchasing a combination of shorter term and longer-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing over time as necessary to provide the cash flows and liquidity needed for operations.

Information about the sensitivity of the fair values of the District's investments (including investments held by the bond trustee) to market interest rate fluctuations is provided in the previous table that shows the distribution of the District's investments by maturity at June 30, 2017.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of the year end for each investment type.

| | <u>Rating as of Year End Standard & Poors</u> |
|---|---|
| California Local Agency Investment Fund | Not Rated |
| Negotiable Certificates of Deposit | Not Rated |

The District's investment policy does not address credit risk for the above investments.

**NEWHALL COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

Note 2 - Cash and Investments: (Continued)

Concentration of Credit Risk

Concentration of credit is the risk of loss attributed to the magnitude of the District's investment in a single issue.

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. As of December 31, 2017 the District had no investments (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments.

Custodial Credit Risk

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

At December 31, 2017, none of the District's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts. At December 31, 2017, no District investments were held by the same broker-dealer (counterparty) that was used by the District to buy the securities. In addition, certain financial institutions used by the District participate in the certificates of deposit account registry service in an effort to further reduce custodial credit risk.

Investment in State Investment Pool

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

**NEWHALL COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

Note 2 - Cash and Investments: (Continued)

Investment in State Investment Pool (Continued)

The statements of cash flows have been prepared by considering all investment instruments purchased with a maturity of three months or less to be cash equivalents. Following is a detail at December 31, 2017:

| | |
|---|--------------|
| California Local Agency Investment Fund | \$ 5,197,744 |
| Deposits with financial institutions | 1,589,785 |
| Cash on hand | 1,175 |
| | \$ 6,788,704 |

Note 3 - Restricted Assets:

Restricted assets were provided by, and are to be used for, the following at December 31, 2017:

| <u>Funding Source</u> | <u>Use</u> | |
|-------------------------|------------|------------|
| Receipts from customers | Deposits | \$ 208,220 |

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

Note 4 - Capital Assets:

Capital assets consist of the following at December 31, 2017:

| | Balance at June 30, 2017 | Additions | Deletions | Balance at December 31, 2017 |
|--|-----------------------------|--------------|-----------|---------------------------------|
| Capital Assets Not Being Depreciated: | | | | |
| Land, franchises, and water rights | \$ 9,808,489 | \$ - | \$ - | \$ 9,808,489 |
| Construction in progress | 480,465 | 1,405,477 | - | 1,885,942 |
| Total Capital Assets Not Being Depreciated | 10,288,954 | 1,405,477 | - | 11,694,431 |
| Capital Assets Being Depreciated: | | | | |
| Transmission and distribution | 99,686,865 | - | - | 99,686,865 |
| General plant | 13,658,140 | - | (213,341) | 13,444,799 |
| Organization costs | 40,486 | - | - | 40,486 |
| Total Capital Assets Being Depreciated | 113,385,491 | - | (213,341) | 113,172,150 |
| Less Accumulated Depreciation For: | | | | |
| Transmission and distribution | (37,462,793) | (1,309,045) | - | (38,771,838) |
| General plant | (5,204,318) | (385,443) | 213,341 | (5,376,420) |
| Organization costs | (26,016) | (631) | - | (26,647) |
| Total Accumulated Depreciation | (42,693,127) | (1,695,119) | 213,341 | (44,174,905) |
| Net Capital Assets Being Depreciated | 70,692,364 | (1,695,119) | - | 68,997,245 |
| Net Capital Assets | \$ 80,981,318 | \$ (289,642) | \$ - | \$ 80,691,676 |

**NEWHALL COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

Note 5 - Unearned Revenue:

Unearned revenue consists of unearned connection fees and other contract related costs for the installation of services and other infrastructure. Unearned revenue totaled \$1,253,840 at December 31, 2017.

Note 6 - Noncurrent Liabilities:

Noncurrent liabilities consist of the following at December 31, 2017:

| | Balance at June 30, 2017 | Additions | Deletions | Balance at December 31, 2017 | Current Portion |
|---|-----------------------------|---------------------|-----------------------|------------------------------------|---------------------|
| <u>Long-Term Debt:</u> | | | | | |
| Installment Notes Payable: | | | | | |
| Municipal Leasing Associates: | | | | | |
| 2007 | \$ 3,027,640 | \$ - | \$ (181,490) | \$ 2,846,150 | \$ 371,188 |
| 2009 | 563,748 | - | (67,562) | 496,186 | 137,566 |
| Municipal Finance Corporation: | | | | | |
| 2012 | 1,252,801 | - | (621,737) | 631,064 | 631,064 |
| Total Long-Term Debt | <u>4,844,189</u> | <u>-</u> | <u>(870,789)</u> | <u>3,973,400</u> | <u>1,139,818</u> |
| <u>Other Noncurrent Liabilities:</u> | | | | | |
| Net pension liability | 2,740,718 | 1,003,753 | (427,480) | 3,316,991 | - |
| Net OPEB liability | 239,851 | 141,963 | (104,581) | 277,233 | - |
| Compensated absences | <u>227,702</u> | <u>129,370</u> | <u>(163,961)</u> | <u>193,111</u> | <u>74,399</u> |
| Total Other Noncurrent Liabilities | <u>3,208,271</u> | <u>1,275,086</u> | <u>(696,022)</u> | <u>3,787,335</u> | <u>74,399</u> |
| Total Noncurrent Liabilities | <u>\$ 8,052,460</u> | <u>\$ 1,275,086</u> | <u>\$ (1,566,811)</u> | <u>\$ 7,760,735</u> | <u>\$ 1,214,217</u> |

Debt service requirements on the installment notes payable are as follows:

| Years Ended December 31, | Principal | | | | Interest | | | |
|-----------------------------|---------------------|-------------------|-------------------|---------------------|-------------------|------------------|-----------------|-------------------|
| | MLA 2007 | MLA 2009 | MFC 2012 | Total | MLA 2007 | MLA 2009 | MFC 2012 | Total |
| 2018 | \$ 371,188 | \$ 137,566 | \$ 631,064 | \$ 1,139,818 | \$ 82,621 | \$ 11,088 | \$ 9,466 | \$ 103,175 |
| 2019 | 382,407 | 140,887 | - | 523,294 | 71,402 | 7,767 | - | 79,169 |
| 2020 | 393,965 | 144,288 | - | 538,253 | 59,844 | 4,365 | - | 64,209 |
| 2021 | 405,873 | 73,445 | - | 479,318 | 47,936 | 881 | - | 48,817 |
| 2022 | 418,140 | - | - | 418,140 | 35,669 | - | - | 35,669 |
| 2023 | 430,779 | - | - | 430,779 | 23,031 | - | - | 23,031 |
| 2024 | 443,798 | - | - | 443,798 | 10,010 | - | - | 10,010 |
| Total | <u>\$ 2,846,150</u> | <u>\$ 496,186</u> | <u>\$ 631,064</u> | <u>\$ 3,973,400</u> | <u>\$ 330,513</u> | <u>\$ 24,101</u> | <u>\$ 9,466</u> | <u>\$ 364,080</u> |

**NEWHALL COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

Note 6 - Noncurrent Liabilities: (Continued)

Municipal Leasing Associates, Inc. (2007)

On October 18, 2007, the District entered into an Installment Sale Agreement with Municipal Leasing Associates, Inc. (MLA). MLA provided \$5,500,000 for the purpose of financing the cost of the District's project. The Installment Sale Agreement was amended on October 26, 2012. The original 4.5% installment note was payable over twenty years in semi-annual installments of principal and interest of \$209,976. The amended Installment Sale Agreement is payable in semi-annual installments of \$226,905 of principal and interest at 3% payable in April and October each year and matures October 2024. The Installment Sale Agreement had an outstanding balance of \$2,846,150 at December 31, 2017.

The District covenants that it shall fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Water System during each fiscal year (which, together with existing unencumbered cash which is lawfully available to the District) are at least equal to 115% of the aggregate amount of the installment payments and all principal of the interest on the prior parity obligations and any additional parity obligations as they become due and payable during such fiscal year.

Municipal Leasing Associates, Inc. (2009)

On April 1, 2009, the District entered into an Installment Sale Agreement with MLA. MLA provided \$2,000,000 for the purpose of financing costs related to the construction of a new administrative facility. The Installment Sale Agreement was amended June 8, 2016. The original 4.65% installment note was payable over 20 years in semi-annual installments of principal and interest of \$77,342. The Amended Installment Sale Agreement is payable in semi-annual installments of \$74,320 of principal and interest at 2.4% payable in June and December each year and matures June 2021. The Installment Sale Agreement had an outstanding balance of \$496,186 at December 31, 2017.

The District covenants that it shall fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Water System which, together with existing unencumbered cash which are lawfully available to the District are at least equal to 115% of the aggregate amount of parity obligations coming due and payable during the fiscal year.

Municipal Finance Corporation (2012)

On December 15, 2011, the District entered into an installment sale agreement with Municipal Finance Corporation (MFC). MFC provided \$6,986,579 for the purpose of a current refunding of the G.E. Government Finance 2003 note payable and the City National Bank note payable, resulting in defeasance of debt. The liability for the two notes has been removed from long-term debt. The MFC 2012 note is payable over six years in semi-annual installments of principal and interest of \$640,530 payable in August and February each year. The note bears interest at 3.0%. The installment sale agreement had an outstanding balance of \$631,064 at December 31, 2017.

The District covenants that it shall fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Water System which, together with existing unencumbered cash (which are lawfully available to the District) are at least equal to 115% of the aggregate amount of parity obligations coming due and payable during the fiscal period.

**NEWHALL COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

Note 6 - Noncurrent Liabilities: (Continued)

Municipal Finance Corporation (2012) (Continued)

Although the refunding resulted in a deferred amount on refunding of \$20,991, the deferred amount on refunding from the previous current refunding of the City National Bank note at the time of the refunding was \$250,712. This resulted in a total deferred amount on refunding of \$271,703. The District in effect reduced its aggregate debt service payments by approximately \$263,718 over the next six years and obtained an economic gain (difference between the present values of the old and the new debt service payments) of approximately \$213,161. The deferred amount on refunding is being amortized over the remaining life of the refunded debt. The amortization expense totaled \$6,212 for the period ended December 31, 2017 and is included in interest expense. The deferred amount on refunding was \$6,213 at December 31, 2017 and is recognized as a deferred outflow of resources in the statements of net position.

Note 7 - Other Postemployment Benefits:

General Information About the OPEB Plan

Plan Description - The Newhall County Water District has established the Other Postemployment Benefits Programs of the Newhall County Water District (OPEB Plan), an agent multiple-employer defined benefit retiree healthcare plan. The OPEB Plan provides employees hired before November 1, 2009 that retire with the District at age 55 or older and have 10 or more years of service with the District with 100% of the medical and dental plan premiums for their lifetime. Dependent coverage may be purchased at the retiree’s expense. Coverage and benefits end at the retiree’s death.

Employees Covered - As of the December 31, 2016 measurement date, the following current and former employees were covered by the benefit terms under the OPEB Plan.:

| | | |
|--|----|----|
| Active employees | \$ | 28 |
| Inactive employees or beneficiaries currently receiving benefit payments | | 6 |
| Inactive employees entitled to but not yet receiving benefit payments | | - |
| | \$ | 34 |

Contributions - The District has been and continues to prefund its OPEB liability, contributing 100% or more of the actuarial determined contributions each year. For the period from July 1, 2017 to December 31, 2017, the District’s cash contributions were \$20,266 in payments to the trust and the estimated implied subsidy was \$3,310 resulting in total payments of \$23,576. The District has joined the California Employers’ Retiree Benefit Trust (CERBT), an OPEB trust administrator and affiliate program of CalPERS, for the purpose of prefunding obligations for past services.

**NEWHALL COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

Note 7 - Other Postemployment Benefits: (Continued)

Net OPEB Liability

The District’s net OPEB liability was measured as of December 31, 2016 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated July 1, 2015 that was rolled forward to determine the December 31, 2017 total OPEB liability, based on the following actuarial methods and assumptions:

| | | | | |
|---------------------------|---|---------------------|------------------------|---------------------|
| Actuarial Cost Method | Entry Age Normal Cost, Level Percent of Pay | | | |
| Actuarial Assumptions: | | | | |
| Discount Rate | 7.28% | | | |
| Inflation | 2.75% | | | |
| Salary Increases | 3.25% | | | |
| Investment Rate of Return | 7.28% | | | |
| Mortality Rate | Derived using CalPERS’ Membership Data for all funds | | | |
| Pre-Retirement Turnover | Derived using CalPERS’ Membership Data for all funds | | | |
| Healthcare Trend Rate | Medical plan premiums and claims costs by age are assumed to increase once each year. Increases over the prior year’s levels are assumed to be effective on the date shown below: | | | |
| | Effective January 1 | Premium Increase | Effective January 1 | Premium Increase |
| | 2016 | Actual | 2020 | 6.00% |
| | 2017 | 7.50% | 2021 | 5.50% |
| | 2018 | 7.00% | 2022 | 5.00% |
| | 2019 | 6.50% | 2023 & Later | 4.50% |

Dental premiums are assumed to increase by 3.50% annually.

Demographic actuarial assumptions used in this valuation are based on the 2014 experience study of the California Public Employees Retirement System using data from 1997 to 2011, except for (a) point retirement dates used for 3 employees and (b) a different basis used to project future mortality improvements. Mortality rates used were those published by CalPERS, adjusted to back out 20 years of Scale BB to central year 2008, then projected as described below:

| | |
|-----------------------|---|
| Mortality Improvement | MacLeod Watts Scale 2014 applied generationally |
|-----------------------|---|

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

**NEWHALL COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

Note 7 - Other Postemployment Benefits: (Continued)

Net OPEB Liability (Continued)

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|------------------------|--------------------------|---|
| Global Equities | 57.00% | 5.25% |
| Global Debt Securities | 27.00% | 2.25% |
| REITs | 8.00% | 4.50% |
| Inflation Assets | 5.00% | 1.25% |
| Commodities | 3.00% | 1.25% |
| Total | <u>100.00%</u> | |

Discount Rate

The discount rate used to measure the total OPEB liability was 7.28 percent. The projection of cash flows used to determine the discount rate assumed that the District will continue to prefund its OPEB liability, contributing 100% or more of the actuarial determined contribution each year. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return of OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Changes in the OPEB Liability

The changes in the net OPEB liability for the OPEB Plan are as follows:

| | <u>Total OPEB Liability (a)</u> | <u>Increase (Decrease) Plan Fiduciary Net Position (b)</u> | <u>Net OPEB Liability (c) = (a) - (b)</u> |
|--|---|--|---|
| Balance at June 30, 2017 | \$ 2,505,359 | \$ 2,265,508 | \$ 239,851 |
| Changes recognized for the measurement period: | | | |
| Service cost | 29,994 | - | 29,994 |
| Interest | 90,248 | - | 90,248 |
| Investment experience | - | (21,114) | 21,114 |
| Contributions - employer | - | 23,576 | (23,576) |
| Net investment income | - | 81,005 | (81,005) |
| Benefit payments | (23,576) | (23,576) | - |
| Administrative expense | - | (607) | 607 |
| Net Changes | <u>96,666</u> | <u>59,284</u> | <u>37,382</u> |
| Balance at December 31, 2017 | <u>\$ 2,602,025</u> | <u>\$ 2,324,792</u> | <u>\$ 277,233</u> |

**NEWHALL COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

Note 7 - Other Postemployment Benefits: (Continued)

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

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

| | 1% Decrease (6.28%) | Current Discount Rate (7.28%) | 1% Increase (8.28%) |
|----------------------------|------------------------|-------------------------------------|------------------------|
| Net OPEB liability (asset) | \$ 738,770 | \$ 277,233 | \$ (95,650) |

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

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

| | 1% Decrease (6.5% Decreasing to 3.5%) for the Years 2023 and Thereafter | Current Healthcare Cost Trend Rates (7.5% Decreasing to 4.5%) for Years 2023 and Thereafter | 1% Increase (8.5% Decreasing to 5.5%) for the Years 2023 and Thereafter |
|----------------------------|---|---|---|
| Net OPEB liability (asset) | \$ (205,862) | \$ 277,233 | \$ 989,137 |

OPEB Plan Fiduciary Net Position

The California Public Employees' Retirement System's California Employers' Retirement Benefit Trust (CERBT) issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained from the California Public Employees' Retirement System, CERBT, Post Office Box 942703, Sacramento, California 94429-2703.

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time.

Amounts are first recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense.

**NEWHALL COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

Note 7 - Other Postemployment Benefits: (Continued)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

The recognition period differs depending on the source of the gain or loss:

| | |
|---|--|
| Net difference between projected and actual earnings on OPEB plan investments | 5 Years |
| All other amounts | Expected Average Remaining Service Lifetime (EARSL) (3.2 Years at June 30, 2017) |

For the period from July 1, 2017 to December 31, 2017, the District recognized OPEB expense of \$42,363. As of December 31, 2017, the District reported deferred outflows of resources related to OPEB from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| OPEB contributions subsequent to measurement date | \$ 78,125 | \$ - |
| Changes of assumptions | - | - |
| Net difference between projected and actual earnings on OPEB plan investments | <u>19,002</u> | <u>-</u> |
| Total | <u>\$ 97,127</u> | <u>\$ -</u> |

The \$78,125 reported as deferred outflows of resources related to contributions subsequent to the December 31, 2016 measurement date will be recognized as a reduction of the net OPEB liability during year ended December 31, 2018. Other amounts reported as deferred outflows of resources related to OPEB will be recognized as expense as follows:

| <u>Fiscal Year Ended June 30</u> | <u>Deferred Outflows/(Inflows) Of Resources</u> |
|--------------------------------------|---|
| January 2018 through June 30, 2018 | \$ 2,112 |
| 2019 | 4,223 |
| 2020 | 4,223 |
| 2021 | 4,223 |
| 2022 | <u>4,221</u> |
| Total | <u>\$ 19,002</u> |

**NEWHALL COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

Note 8 - Defined Benefit Pension Plan:

General Information About the Pension Plan

Plan Description - All qualified permanent and probationary employees are eligible to participate in the Miscellaneous Plan of the Newhall County Water District, (All Plans) a cost-sharing multiple employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and Local Government resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided - CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. The Plan's provisions and benefits in effect at December 31, 2017, are summarized as follows:

| | Miscellaneous | |
|---|-----------------------------|--------------------------------|
| | Prior to January 1, 2013 | On or After January 1, 2013 |
| Benefit formula | 2.0% @ 55 | 2.0% @ 62 |
| Benefit vesting schedule | 5 years service | 5 years service |
| Benefit payments | Monthly for life | Monthly for life |
| Retirement age | 50 - 55 | 52 - 62 |
| Monthly benefits, as a % of eligible compensation | 1.426% to 2.418% | 1.0% to 2.5% |
| Required employee contribution rates | 7.00% | 6.25% |
| Required employer contribution rates | 8.921% | 6.533% |

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 process. The Plans 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. For the measurement period ended June 30, 2017 (measurement date), the active employee contribution rate is for employees hired prior to January 1, 2013 is 7.0% of annual payroll with the District paying 1.336% of that amount, and the employer's contribution rate is 8.921% of annual payroll, or 12.634% including the unfunded liability. The active employee contribution rate for those employees hired on or after January 1, 2013 is 6.25% of annual pay, and the average employer contribution rate is 6.533% of annual payroll, or 6.862% including the unfunded liability. Employer contribution 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.

**NEWHALL COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

Note 8 - Defined Benefit Pension Plan: (Continued)

General Information About the Pension Plan (Continued)

The District's contribution to the Plan for the period ended Decemebr 31, 2017 were as follows:

| | |
|---|------------------|
| Contributions - Employer | \$ 110,264 |
| Contributions - Employee (Paid by Employer) | \$ <u>17,615</u> |

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, 2016 total pension liability determined in the June 30, 2016 actuarial valuation. The December 31, 2017 total pension liability was based on the following actuarial methods and assumptions:

| | |
|----------------------------------|---|
| Actuarial Cost Method | Entry Age Normal in accordance with the requirements of GASB Statement No. 68 |
| 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 for all funds |
| 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 a January 2014 actuarial experience study for the fiscal years 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

Change of Assumptions

GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate was changed from 7.65% as of the June 30, 2016 measurement date to 7.15% as of the June 30, 2017 measurement date.

**NEWHALL COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

Note 8 - Defined Benefit Pension Plan: (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.15%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the plans, the test revealed that the assets would not run out. Therefore, the current 7.15% discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.15% is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained on CalPERS' website under the GASB 68 section.

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.

In determining the long-term expected rate of return, staff took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns on all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was the set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects long-term expected real rate of return by asset class.

| <u>Asset Class</u> | <u>Asset Allocation</u> | <u>Real Return Years 1 - 10</u> | <u>Real Return Years 11+</u> |
|-------------------------------|-------------------------|---------------------------------|------------------------------|
| Global Equity | 47.00% | 4.90% | 5.38% |
| Fixed Income | 19.00% | 0.80% | 2.27% |
| Private Equity | 12.00% | 6.60% | 6.63% |
| Real Estate | 11.00% | 2.80% | 5.21% |
| Inflation Assets | 6.00% | 0.60% | 1.39% |
| Infrastructure and Forestland | 3.00% | 3.90% | 5.36% |
| Liquidity | 2.00% | (0.40%) | (0.90%) |
| | <u>100.00%</u> | | |

**NEWHALL COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

Note 8 - Defined Benefit Pension Plan: (Continued)

Allocation of Net Pension Liability and Pension Expense to Individual Employers

The following table shows the District's proportionate share of the net pension liability over the measurement period.

| | Increase (Decrease) | | |
|--------------------------------|-----------------------------------|--------------------------------------|---|
| | Total Pension Liability (a) | Plan Fiduciary Net Pension (b) | Net Pension Liability (c) = (a) - (b) |
| Balance at June 30, 2016 | \$ 12,753,176 | \$ 10,012,458 | \$ 2,740,718 |
| Balance at June 30, 2017 | 14,615,100 | 11,298,109 | 3,316,991 |
| Net Changes During 2016 - 2017 | \$ 1,861,924 | \$ 1,285,651 | \$ 576,273 |

The net pension liability of the plan is measured as of December 31, 2017, and the total pension liability for the plan used to calculate the net pension liabilities was determined by an actuarial valuation of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. The proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for the plan as of June 30, 2017 and Decemebr 31, 2017 was as follows:

| | Miscellaneous |
|------------------------------|---------------|
| Proportion - June 30, 2016 | 0.088580% |
| Proportion - June 30, 2017 | 0.091250% |
| Change - Increase (Decrease) | 0.002670% |

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Plan as of the Measurement Date, calculated using the discount rate of 7.15%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.15%) or 1 percentage-point higher (8.15%) than the current rate:

| | Discount Rate -1% (6.15%) | Current Discount Rate (7.15%) | Discount Rate +1% (8.15%) |
|------------------------------|------------------------------|----------------------------------|------------------------------|
| Plan's Net Pension Liability | \$ 5,327,252 | \$ 3,316,991 | \$ 1,652,056 |

**NEWHALL COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

Note 8 - Defined Benefit Pension Plan: (Continued)

Amortization of Deferred Outflows and Deferred Inflows of Resources

Under GASB 68, actuarial gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time.

The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred inflows and deferred outflows to be recognized in future pension expense.

The amortization period differs depending on the source of the gain or loss:

| | |
|---|--|
| Net difference between projected and actual earnings on pension plan investment | 5 year straight-line amortization |
| All other amounts | Straight-line amortization over the expected remaining service lifetime (EARSL) of all members that are provided with pensions (active, inactive, and retired) as of the beginning of the measurement period |

The Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments is amortized over a five-year period on a straight-line basis. One-fifth is recognized in pension expense during the measurement period, and the remaining Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments at the measurement date is to be amortized over the remaining four-year period. The Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments in the schedule of Collective Pension Amounts represents the unamortized balance relating to the current measurement period and the prior measurement period on a net basis.

Deferred outflows of resources and deferred inflows of resources relating to Differences Between Expected and Actual Experience, Changes of Assumptions and employer-specific amounts should be amortized over the EARSL of members provided with pensions through the Plan. The EARSL for the Plan for the June 30, 2017 measurement date is 3.8 years, which was obtained by dividing the total service years by the total number of participants (active, inactive, and retired) in the Plan. Inactive employees and retirees have remaining service lifetimes equal to 0. Total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

**NEWHALL COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

Note 8 - Defined Benefit Pension Plan: (Continued)

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

For the period ended December 31, 2017, the District recognized a pension expense of \$476,953 for the Plan. As of December 31, 2017, the District reports deferred outflows of resources and deferred inflows of resources related to pensions as follows:

| | Deferred Outflow of Resources | Deferred Inflows of Resources |
|--|----------------------------------|----------------------------------|
| Pension contributions subsequent to the measurement date | \$ 148,353 | \$ - |
| Differences between actual contributions made and proportionate share of contributions | - | 205,103 |
| Differences between expected and actual experience | - | 65,504 |
| Changes of assumptions | 563,354 | - |
| Net difference between projected and actual earnings on pension plan investments | 137,924 | - |
| Adjustment due to difference in proportions | 48,882 | - |
| Total | \$ 898,513 | \$ 270,607 |

The \$148,353 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 period ended December 31, 2017. Other amounts reported as deferred outflows and deferred inflows of resources in the previous chart will be recognized in future pension expense as follows:

| Measurement Year Ended June 30 | Deferred Outflows/(Inflows) of Resources |
|-----------------------------------|--|
| January 2018 through June30, 2018 | \$ - |
| 2019 | 31,084 |
| 2020 | 332,521 |
| 2021 | 197,838 |
| 2022 | (81,889) |
| Total | \$ 479,554 |

Note 9 - Contingencies:

In the opinion of District counsel and management, the District had no material claims which would require loss provision in the financial statements at December 31, 2017.

**NEWHALL COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

Note 10 - New Governmental Accounting Standards:

GASB No. 75

In June 2015, the Government Accounting Standards Board issued Statement No. 75, “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions”. This Statement is effective for financial statements for fiscal years beginning after June 15, 2017. Earlier application is encouraged. The effects of this pronouncement on the financial statements of the District are more fully described in Note 11.

GASB No. 81

In March 2016, the Governmental Accounting Standards Board issued Statement No. 81, “Irrevocable Split-Interest Agreements”. The requirements of this Pronouncement are effective for financial statements for period beginning after December 15, 2016, and should be applied retroactively. Earlier application is encouraged. This pronouncement did not have a material effect on the financial statements of the District in the period of implementation.

GASB No. 82

In March 2016, the Governmental Accounting Standards Board issued Statement No. 82, “Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73”. The requirements of this Pronouncement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer’s pension liability is measured as of a date other than the employer’s most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged. This pronouncement did not have a material effect on the financial statements of the District in the period of implementation.

GASB No. 83

In November 2016, the Governmental Accounting Standards Board issued Statement No. 83 “ Certain Asset Retirement Obligations”. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier Application is encouraged. The District has not determined the effects of this pronouncement on the financial statements of the District in the year of implementation.

GASB No. 84

In January 2017, the Governmental Accounting Standards Board issued Statement No. 84 “Fiduciary Activities”. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier Application is encouraged. The District has not determined the effects of this pronouncement on the financial statements of the District in the year of implementation.

**NEWHALL COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

Note 10 - New Governmental Accounting Standards: (Continued)

GASB No. 85

In March 2017, the Governmental Accounting Standards Board issued Statement No. 85 “Omnibus 2017”. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. This pronouncement did not have a material effect on the financial statements of the District in the period of implementation.

GASB No. 86

In May 2017, the Governmental Accounting Standards Board issued Statement No. 86 “Certain Debt Extinguishment Issues”. The requirements of this Statement are effective for reporting periods beginning after December 15, 2017. Earlier Application is encouraged. The District has not determined the effects of this pronouncement on the financial statements of the District in the year of implementation.

GASB No. 87

In June 2017, the Governmental Accounting Standards Board issued Statement No. 87 “Leases”. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The District has not determined the effects of this pronouncement on the financial statements of the District in the year of implementation.

GASB No. 88

In April 2018, the Governmental Accounting Standards Board issued Statement No. 88 “Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements”. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged. The District has not yet determined the effects of this pronouncement on the financial statements of the District in the year of implementation.

Note 11- Change in Accounting Principle:

Effective July 1, 2017, the District changed its method of accounting for other postemployment benefits other than pensions and the related OPEB expense as well any deferred inflows and deferred outflows of resources in order to conform with Governmental Accounting Standards Board Statement No. 75, “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions”.

**NEWHALL COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

Note 11- Change in Accounting Principle: (Continued)

This statement requires the liability of employers and nonemployer contributing entities to employees for defined benefit OPEB (net OPEB liability) to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position. As a result, the District recorded the following net OPEB obligation and deferred outflow of resources resulting in a reduction in net position reported at June 30, 2017:

| | |
|---|--------------------------|
| Net OPEB obligation | \$ (239,851) |
| Deferred outflows related to OPEB contributions | <u>79,844</u> |
| Net Effect of a Change in Accounting Principle | (160,007) |
| Net Position as Originally Stated | <u>82,304,327</u> |
| Net Position as Restated | <u>\$ 82,144,320</u> |

Note 12 - Subsequent Event:

On October 15, 2017, the Governor of the State of California signed into law SB-634, which reorganized Castaic Lake Water Agency and Newhall County Water District to create Santa Clarita Valley Water Agency (New Agency). The agreement creating this New Agency will be effective January 1, 2018.

**NEWHALL COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE PERIOD FROM JULY 1, 2017 TO DECEMBER 31, 2017**

**SCHEDULE OF CHANGES IN THE DISTRICT'S NET OPEB LIABILITY AND RELATED RATIOS
LAST TEN YEARS ***

| | <u>2018</u> |
|--|----------------------------|
| Total OPEB Liability | |
| Service cost | \$ 29,994 |
| Interest | 90,248 |
| Change of benefit terms | - |
| Differences between expected and actual experience | - |
| Changes of assumptions | - |
| Benefit payments | <u>(23,576)</u> |
| Net Change in Total OPEB Liability | 96,666 |
| Total OPEB Liability - Beginning | <u>2,505,359</u> |
| Total OPEB Liability - Ending (a) | <u><u>\$ 2,602,025</u></u> |
| | |
| Plan Fiduciary Net Position | |
| Contributions - Employer | \$ 23,576 |
| Net investment income | 59,891 |
| Benefit payments | (23,576) |
| Administrative expense | <u>(607)</u> |
| Net Change in Plan Fiduciary Net Position | 59,284 |
| Plan Fiduciary Net Position - Beginning | <u>2,265,508</u> |
| Plan Fiduciary Net Position - Ending (b) | <u><u>\$ 2,324,792</u></u> |
| | |
| District's Net OPEB Liability - Ending (a) - (b) | <u><u>\$ 277,233</u></u> |
| | |
| Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability | 89.35% |
| | |
| Covered-Employee Payroll | \$ 1,130,833 |
| | |
| District's Net OPEB Liability as a Percentage of Covered-Employee Payroll | 24.52% |

Notes to Schedules:

Changes in assumptions - None

* Fiscal year 2018 was the first year of implementation. The District must eventually disclose a 10-year history of the schedule of changes in net OPEB liability and related ratios.

**NEWHALL COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE PERIOD FROM JULY 1, 2017 TO DECEMBER 31, 2017**

**SCHEDULE OF OPEB CONTRIBUTIONS
LAST TEN YEARS***

| | <u>2018</u> |
|---|-------------------------|
| Actuarial Determined Contribution (ADC) | \$ 35,264 |
| Contributions in Relation to the Actuarially Determined Contribution | <u>21,857</u> |
| Contribution Deficiency (Excess) | <u>\$ 13,407</u> |
| Covered-Employee Payroll | <u>\$ 1,060,763</u> |
| Contributions as a Percentage of Covered- Employee Payroll | 2.06% |

Notes to Schedules:

The ADC developed for the District's short fiscal year ending December 31, 2017 was determined and presented in the July 2015 Actuarial Valuation report. Expected contributions, relative to the ADC, for the fiscal year ending December 31, 2017 are shown above.

Methods and assumptions used to determine contribution rates:

| | |
|-----------------------------|--|
| Actuarial Cost Method | Entry age |
| Amortization Method | Level percentage of payroll |
| Amortization Period | Closed |
| Asset Valuation Method | Market Value |
| Inflation | 2.75 percent |
| Investment Rate of Return | 7.28% per annum. Assumes investing in California Employers' Retiree Benefit Trust asset allocation strategy 1. |
| Healthcare Cost Trend Rates | 7.5 percent initial, decreasing an ultimate rate of 4.5 percent for the years 2023 and thereafter |
| Salary Increase | 3.25% per year |

**NEWHALL COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE PERIOD FROM JULY 1, 2017 TO DECEMBER 31, 2017**

**SCHEDULE OF PLAN'S PROPORTIONATE SHARE OF NET PENSION LIANILITY
LAST TEN YEARS***

| | Measurement Date <u>June 30, 2017</u> | Measurement Date <u>June 30, 2016</u> | Measurement Date <u>June 30, 2015</u> | Measurement Date <u>June 30, 2014</u> |
|--|---|---|---|---|
| Proportion of the Collective Net Pension Liability | 0.091250% | 0.088580% | 0.072096% | 0.075913% |
| Proportionate Share of the Collective Net Pension Liability | 3,316,991 | 2,740,718 | 1,977,917 | 1,876,184 |
| Covered-Employee Payroll | 2,276,893 | 2,581,137 | 2,376,060 | 2,372,536 |
| Proportionate Share of the Collective Net Pension Liability as Percentage of Covered-Employee Payroll | 145.68% | 106.18% | 83.24% | 79.08% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 77.30% | 78.51% | 84.27% | 84.71% |

Notes to Schedules:

Benefit Changes - The figures above do not include any liability impact that may have resulted from plan changes which occurred after the June 30, 2014 valuation date. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (aka Golden Handshakes).

Changes in Assumptions - The discount rate was changed from 7.65 percent as of the June 30, 2016 measurement date to 7.15 percent as of the June 30, 2017 measurement date.

*Fiscal year 2015 was the first year of implementation, therefore only four years are shown.

**NEWHALL COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE PERIOD FROM JULY 1, 2017 TO DECEMBER 31, 2017**

**SCHEDULE OF PLAN'S CONTRIBUTIONS
LAST TEN YEARS***

| | Period From July 1, 2017 To December 31, 2017 | Fiscal Year 2016 - 2017 | Fiscal Year 2015 - 2016 | Fiscal Year 2014 - 2015 |
|---|---|----------------------------|----------------------------|----------------------------|
| Actuarial Determined Contribution | \$ 148,353 | \$ 268,414 | \$ 246,839 | \$ 224,036 |
| Contributions in Relation to the Actuarially Determined Contributions | 148,353 | 268,414 | 246,839 | 224,036 |
| Contribution Deficiency (Excess) | \$ - | \$ - | \$ - | \$ - |
| Covered Payroll | \$ N/A | \$ 2,276,893 | \$ 2,581,137 | \$ 2,376,060 |
| Contributions as a Percentage of Covered-Employee Payroll | N/A | 11.79% | 9.56% | 9.43% |

Notes to Schedules:

| Fiscal Year End Valuation Date | Period from July 1, 2017 to December 31, 2017 June 30, 2016 | June 30, 2017 June 30, 2014 | June 30, 2016 June 30, 2013 | June 30, 2015 June 30, 2012 |
|-----------------------------------|---|--------------------------------|--------------------------------|--------------------------------|
|-----------------------------------|---|--------------------------------|--------------------------------|--------------------------------|

Methods and assumptions used to determine contribution rates:

| | Entry Age Level Percent of Payroll Market Value | Entry Age Level Percent of Payroll Market Value | Entry Age Level Percent of Payroll Market Value | Entry Age Level Percent of Payroll Market Value |
|---------------------------|---|---|---|---|
| Actuarial Cost Method | 7.15% | 7.50% | 7.50% | 7.50% |
| Amortization Method | 3.30% to 14.20% depending on Age, Service, and type of employment | 3.30% to 14.20% depending on Age, Service, and type of employment | 3.30% to 14.20% depending on Age, Service, and type of employment | 3.30% to 14.20% depending on Age, Service, and type of employment |
| Asset Valuation Method | 2.75% | 2.75% | 2.75% | 2.75% |
| Discount Rate | 3.00% | 3.00% | 3.00% | 3.00% |
| Projected Salary Increase | A merit scale varying by duration of employment coupled with an assumed annual production inflation growth of 0.25% | A merit scale varying by duration of employment coupled with an assumed annual production inflation growth of 0.25% | A merit scale varying by duration of employment coupled with an assumed annual production inflation growth of 0.25% | A merit scale varying by duration of employment coupled with an assumed annual production inflation growth of 0.25% |

*Fiscal year 2015 was the first year of implementation; therefore, only four years are shown.



Leaf & Cole, LLP
Certified Public Accountants
A Partnership of Professional Corporations

**Independent Auditor's Report on Internal Control
Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

To the Board of Directors
Newhall County Water District

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 Newhall County Water District, as of and for the six month period ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Newhall County Water District's basic financial statements, and have issued our report thereon dated November 19, 2018.

Internal Control Over Financial Reporting

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

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

Compliance and Other Matters

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

Purpose of This Report

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

Leaf & Cole LLP

San Diego, California
November 19, 2018