

Castaic Lake Water Agency
Annual Financial Report
For the Six Month Period Ended December 31, 2017



Fedak & Brown LLP
Certified Public Accountants



Castaic Lake Water Agency
Santa Clarita, California

Annual Financial Report
For The Six Month Period Ended
December 31, 2017

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**Castaic Lake Water Agency
Annual Financial Report
For The Six Month Period Ended December 31, 2017**

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Castaic Lake Water Agency

Our Mission Statement

"Providing Reliable Quality Water at a Reasonable cost to the Santa Clarita Valley."

Castaic Lake Water Agency

Board of Directors as of December 31, 2017

<u>Name</u>	<u>Title</u>	<u>Division</u>	<u>Elected/ Appointed</u>	<u>Term Expires</u>
Robert J. DiPrimo	President	2	Elected	January 2019
Gary R. Martin	Vice-President	At-Large	Elected	January 2019
Thomas Campbell	Director	At-Large	Elected	January 2019
Ed Colley	Director	1	Elected	January 2019
William Cooper	Director	At-Large	Elected	January 2021
R. J. Kelly	Director	1	Elected	January 2021
E. G. "Jerry" Gladbach	Director	2	Elected	January 2021
Jacque McMillan	Director	3	Elected	January 2019
William Peci	Director	3	Elected	January 2021
Dean Efstathiou	Director	LA County WWD #36	Appointed	January 2019
B. J. Atkins	Director	NCWD	Appointed	January 2021

Matthew G. Stone, General Manager
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Santa Clarita, California 91350-2173
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Financial Section



Fedak & Brown LLP
Certified Public Accountants

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Independent Auditor's Report

Board of Directors
Castaic Lake Water Agency
Santa Clarita, California

Report on the Financial Statements

We have audited the accompanying combined financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Castaic Lake Water Agency (Agency) as of and for the six month period ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined financial statements based on our audit. We did not audit the financial statements of Valencia Water Company (Company), a component unit, which statements reflect total assets of 14 percent of combined total assets at December 31, 2017, and total revenues of 29 percent of combined total revenues for the six month period ended December 31, 2017. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Company, is based solely on the report of the other auditors. The financial statements of the Company were not audited in accordance with *Government Auditing Standards*. 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 risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Independent Auditor's Report, continued

Opinion

In our opinion, based on our audits and the report of the other auditors, the combined financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Castaic Lake Water Agency and its component units, as of December 31, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the six month period then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 9 to the financial statements, in the six month period ended December 31, 2017, the Agency adopted the provisions of GASB Statement No. 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Consequently, the beginning net OPEB liability was recorded and net position was restated. 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 the management's discussion and analysis on pages 4 through 9 and the required supplementary information on pages 70 through 77 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The supplemental information on pages 78 through 79 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental information, consisting of the budget and actual capital project fund schedule, and the budget and actual debt service fund schedule, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budget and actual capital project schedule and budget and actual debt service schedule are fairly stated in all material respects in relation to the basic financial statements as a whole.

Independent Auditor's Report, continued

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 18, 2019, on our consideration of the Agency'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 Agency's internal control over financial reporting and compliance. That report can be found on pages 80 and 81.

Fedak & Brown LLP

Fedak & Brown LLP

Cypress, California

March 18, 2019



**Castaic Lake Water Agency
Management's Discussion and Analysis
For the Six Month Period Ended December 31, 2017**

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Castaic Lake Water Agency (Agency) provides an introduction to the financial statements of the Agency for the six month period ended December 31, 2017. We encourage readers to consider the information presented here in conjunction with the transmittal letter in the Introductory Section and with the basic financial statements and related notes, which follow this section.

Financial Highlights

- For the six month period ended December 31, 2017, the Agency's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$492.36 million (net position). Of this amount, unrestricted net position of \$8.30 million may be used to meet the Agency's ongoing obligations to its customers and creditors.
- The Agency's total net position increased by \$21.88 million during the period from July 1, 2017 to December 31, 2017, which is comprised of a change in net position of \$26.03 million and a decrease from prior period adjustments in the amount of \$4.15 million. Please see Note 9 to the basic financial statements for further discussion.
- The Agency's total revenues from all sources were \$109.98 million during the period from July 1, 2017 to December 31, 2017.
- The Agency's total expenses were \$83.95 million during the period from July 1, 2017 to December 31, 2017.

Using This Financial Report

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provides information about the activities and performance of the Agency using accounting methods similar to those used by private sector companies. The Statement of Net Position includes all of the Agency's investments in resources (assets), deferred outflows of resources and the obligations to creditors (liabilities), and deferred inflows of resources. It also provides the basis for computing a rate of return, evaluating the capital structure of the Agency and assessing the liquidity and financial flexibility of the Agency. All of the current year's revenues and expenses are accounted for in the Statement of Activities. This statement measures the success of the Agency's operations over the past year and can be used to determine the Agency's profitability and credit worthiness.

Government-wide Financial Statements

Statement of Net Position and Statement of Activities

One of the most important questions asked about the Agency's finances is, "Is the Agency better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Activities report information about the Agency in a way that helps answer this question. These statements include all assets, deferred outflows, liabilities and deferred inflows using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the Agency's *net position* and changes in them. Think of the Agency's net position – the difference between assets, deferred outflows of resources, and liabilities and deferred inflows of resources – as one way to measure the Agency's financial health, or *financial position*. Over time, *increases or decreases* in the Agency's net position are one indicator of whether its *financial health* is improving or deteriorating. One will need to consider other non-financial factors; however, such as changes in the Agency's property tax base and the types of grants the Agency applies for to assess the *overall financial health* of the Agency.

**Castaic Lake Water Agency
Management's Discussion and Analysis
For the Six Month Period Ended December 31, 2017**

Fund Financial Statements

Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance

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

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

Propriety funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Agency maintains one type of propriety fund: the Water Enterprise Fund.

The Water Enterprise Fund accounts for all activities necessary to provide retail water distribution to the service area that includes a portion of the City of Santa Clarita and unincorporated portions of Los Angeles County in the communities of Castaic, Newhall, Saugus, Canyon County, Stevenson Ranch and Valencia. Some of these activities include, but are not limited to, operations and maintenance.

Government-wide Financial Analysis

Statement of Net Position

	December 31, 2017		
	Governmental Activities	Business-Type Activities	Total
Assets:			
Current and other assets	\$ 176.89	75.78	252.67
Non-current assets	506.31	230.67	736.98
Total assets	683.20	306.45	989.65
Deferred outflows of resources	3.40	3.51	6.91
Liabilities:			
Current liabilities	24.16	44.05	68.21
Non-current liabilities	276.72	158.92	435.64
Total liabilities	300.88	202.97	503.85
Deferred inflows of resources	0.23	0.12	0.35
Net position:			
Net investment in capital assets	241.90	155.26	397.16
Restricted	86.90	-	86.90
Unrestricted	56.69	(48.39)	8.30
Total net position	\$ 385.49	106.87	492.36

**Castaic Lake Water Agency
Management's Discussion and Analysis
For the Six Month Period Ended December 31, 2017**

Government-wide Financial Analysis

Statement of Net Position, continued

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. For the six month period ended December 31, 2017, the Agencies, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$492.36 million. The Agency's net position is made-up of three components: (1) net investment in capital assets, (2) restricted, and (3) unrestricted.

Statement of Activities

	For the six month period ended December 31, 2017		
	Governmental Activities	Business-Type Activities	Total
Revenues:			
Program revenues:			
Charges for services	\$ 13.23	52.47	65.70
Cap. grants and contribs.	4.47	2.06	6.53
General revenues:			
Property taxes	28.15	-	28.15
Investment earnings	5.83	0.28	6.11
Loss on disposal of capital assets	-	(0.01)	(0.01)
Other revenues	3.84	(0.34)	3.50
Total revenues	55.52	54.46	109.98
Expenses:			
Wholesale water operations	34.82	-	34.82
Interest on long-term debt	6.38	-	6.38
Water enterprise fund	-	42.75	42.75
Total expenses	41.20	42.75	83.95
Change in net position	14.32	11.71	26.03
Net position, beginning of period, as previously stated	377.47	93.01	470.48
Prior period adjustment (note 9)	(6.30)	2.15	(4.15)
Net position, beginning of period, as restated	371.17	95.16	466.33
Net position, end of period	\$ 385.49	106.87	492.36

The Agency's net position increased by \$21.88 million from \$470.48 million at June 30, 2017, to \$492.36 at December 31, 2017. The increase in net position is comprised of an increase from operations of \$26.03 million and a decrease from prior period adjustments in the amount of \$4.15 million. Please see Note 9 to the basic financial statements for further discussion.

**Castaic Lake Water Agency
Management's Discussion and Analysis
For the Six Month Period Ended December 31, 2017**

Government-wide Financial Analysis

Statement of Activities

Key elements for this increase are as follows:

Governmental activities increased the Agency's net position by \$8.02 million from \$377.47 million at June 30, 2017 to \$385.49 at December 31, 2017, which is comprised of an increase from operations of \$14.32 million and a decrease from prior period adjustments in the amount of \$6.30 million.

Business activities increased the Agency's net position by \$13.86 million from \$93.01 million at June 30, 2017 to \$106.87 million at December 31, 2017, which is comprised of an increase from operations of \$11.71 million and an increase from prior period adjustments in the amount of \$2.15 million.

Fund Financial Analysis

The General fund is the operating fund of the Agency. For the six month period ended December 31, 2017, the fund balance of the General fund was \$15.28 million. The General fund increased by \$3.03 million; primarily due to increased water demand from the four purveyors served.

For the six month period ended December 31, 2017, the fund balance of the Pledged Revenue fund was \$139.54 million. The Pledged Revenue fund decreased by \$0.22 million, which is comprised of a decrease in operations of \$0.55 million and an increase from prior period adjustments in the amount of \$0.33 million. Please see Note 9 to the basic financial statements for further discussion.

For the six month period ended December 31, 2017, the fund balance of the State Water Contract fund was \$54.10 million. The State Water Contract fund increased by \$7.40 million; primarily due to the State Water Contract payments coming in below the estimated budget.

For the six month period ended December 31, 2017, the fund balance of the Capital Project fund was \$27.26 million. The Capital Project fund decreased by \$6.43 million; primarily due to capital expenditures of \$7.54 million, which was offset by other revenues of \$0.89 million, and interest earnings of \$0.22 million.

Please see page 15 for the details of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.

General Fund Budgetary Highlights

The final actual expenditures for the General Fund as of December 31, 2017 were less than budgeted by \$1,340,849. Actual revenues as of December 31, 2017 were more than the anticipated budget by \$342,377. (See Budgetary Comparison Schedule for General Fund under the Required Supplementary Information section on page 70.)

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 22 through 69.

**Castaic Lake Water Agency
Management's Discussion and Analysis
For the Six Month Period Ended December 31, 2017**

Capital Asset Administration

	December 31, 2017		
	Governmental Activities	Business-Type Activities	Total
Capital assets:			
Non-depreciable	\$ 58.11	24.85	82.96
Depreciable	612.62	332.74	945.36
Total capital assets	670.73	357.59	1,028.32
Accumulated depreciation	(234.29)	(142.29)	(376.58)
Total capital assets, net	\$ 436.44	215.30	651.74

As of December 31, 2017, the Agency's investment in capital assets amounted to \$651.74 million (net of accumulated depreciation). This investment in capital assets includes land, transmission and distribution systems, pumping plants and rights, buildings and structures, equipment, vehicles, and construction-in-process.

Major capital asset additions in the business-type activities area included upgrades to water tanks and mains, and developer contributions to the water retail enterprise's transmission and distribution system. A significant portion of these additions were constructed by the Agency and/or sub-contractors and transferred out of construction-in-process upon completion of these various projects. The capital assets of the Agency are more fully analyzed in Note 6 to the basic financial statements.

Long-Term Debt Administration

	December 31, 2017		
	Governmental Activities	Business-Type Activities	Total
Long-term debt:			
Certificates of participation	\$ 137.28	-	137.28
Revenue Bonds	142.89	60.04	202.93
Note Payable	-	24.00	24.00
Total long-term debt	\$ 280.17	84.04	364.21

At December 31, 2017, the Agency had \$364.21 million in long-term debt of which \$18.22 million is considered a current liability. Changes in long-term debt are primarily due to (1) an increase of \$24 million from the secured note payable from Valencia Water Company, (2) issued the 2017A Series A Revenue Bonds of \$60.04 million to defeased the 2011 Series A Revenue Bonds of \$47.44 million and the 2010 Series B Revenue Refunding Certificate of Participation of \$13.52 million, (3) a decrease of \$15.62 million due to principal payments of long-term debt for the governmental activities, and (4) accretion of debt principal of \$3.72 million on the 1999 Certificates of Participation. The long-term debt position of the Agency is more fully analyzed in Note 10 to the basic financial statements.

**Castaic Lake Water Agency
Management's Discussion and Analysis
For the Six Month Period Ended December 31, 2017**

Conditions Affecting Current Financial Position

Expanding in Infrastructure – Management has identified a need to invest in the Agency's infrastructure and Capital Improvement Program (CIP). As the Agency's infrastructure continues to expand, the Agency understands the importance of monitoring the impacts of CIP projects on operating expenditures. Each major CIP project that becomes operational adds new complexity and costs to the Agency's overall system. As this additional infrastructure is implemented, the Agency will require additional staff resources and will incur additional costs to operate and maintain the infrastructure. The current CIP includes a number of water quality and pipeline projects that will not have significant operating costs. However, the future development of the recycled water program will have significant operating costs that should be identified as part of the planning process.

Requests for Information

This financial report is designed to provide the Agency's funding sources, customers, stakeholders, and other interested parties with an overview of the Agency's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the Agency's Director of Finance and Administration at 27234 Bouquet Canyon Road, Santa Clarita, California 91350-2173 or (661) 297-1600.

Basic Financial Statements

Castaic Lake Water Agency
Statement of Net Position
December 31, 2017

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Current assets:			
Cash and cash equivalents (note 2)	\$ 9,084,691	15,848,685	24,933,376
Cash and cash equivalents with fiscal agent (note 2)	5,544,057	-	5,544,057
Investments (note 2)	77,433,242	30,544,177	107,977,419
Accrued interest receivable	202,893	109,206	312,099
Accounts receivable - water sales and services	1,934,993	9,312,971	11,247,964
Accounts receivable - other	2,473,607	491,434	2,965,041
Property taxes receivable	5,421,140	-	5,421,140
Internal balances (note 3)	70,200,603	-	70,200,603
Materials and supplies inventory	-	1,115,437	1,115,437
Prepaid expenses and other deposits	4,597,579	1,848,250	6,445,829
Other current assets (note 5)	-	16,510,155	16,510,155
Total current assets	<u>176,892,805</u>	<u>75,780,315</u>	<u>252,673,120</u>
Non-current assets:			
Investments (note 2)	69,871,259	15,364,565	85,235,824
Capital assets - not being depreciated (note 6)	58,112,089	24,851,997	82,964,086
Capital assets, net - being depreciated (note 6)	<u>378,327,005</u>	<u>190,450,775</u>	<u>568,777,780</u>
Total non-current assets	<u>506,310,353</u>	<u>230,667,337</u>	<u>736,977,690</u>
Total assets	<u>683,203,158</u>	<u>306,447,652</u>	<u>989,650,810</u>
Deferred outflows of resources:			
Deferred pension outflows (note 7)	2,257,115	1,296,196	3,553,311
Deferred OPEB outflows (note 8)	1,138,746	728,051	1,866,797
Loss on defeasance of debt (note 10)	-	1,486,224	1,486,224
Total deferred outflows of resources	<u>\$ 3,395,861</u>	<u>3,510,471</u>	<u>6,906,332</u>

Continued on next page

See accompanying notes to the basic financial statements

Castaic Lake Water Agency
Statement of Net Position, continued
December 31, 2017

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Current liabilities:			
Accounts payable and accrued expenses	\$ 4,818,506	8,604,419	13,422,925
Accrued salaries and wages	226,941	202,933	429,874
Customer deposits and unearned revenue	6,437	513,373	519,810
Advances for construction	-	11,309,638	11,309,638
Accrued interest - long-term debt	3,485,571	678,682	4,164,253
Other current liabilities (note 5)	-	19,826,155	19,826,155
Long-term liabilities - due within one year:			
Compensated absences (note 4)	183,158	132,814	315,972
Revenue bonds (note 10)	6,845,000	2,780,000	9,625,000
Certificates of participation (note 10)	8,595,000	-	8,595,000
Total current liabilities	<u>24,160,613</u>	<u>44,048,014</u>	<u>68,208,627</u>
Non-current liabilities:			
Long-term liabilities - due in more than one year:			
Compensated absences (note 4)	549,472	398,442	947,914
Net pension liability (note 7)	6,439,708	3,858,622	10,298,330
Net OPEB liability (note 8)	5,004,151	3,199,375	8,203,526
Internal balances (note 3)	-	70,200,603	70,200,603
Revenue bonds (note 10)	136,048,817	57,261,222	193,310,039
Certificates of participation (note 10)	128,677,194	-	128,677,194
Note payable (note 10)	-	24,000,000	24,000,000
Total non-current liabilities	<u>276,719,342</u>	<u>158,918,264</u>	<u>435,637,606</u>
Total liabilities	<u>300,879,955</u>	<u>202,966,278</u>	<u>503,846,233</u>
Deferred inflows of resources:			
Deferred pension inflows (note 7)	225,611	122,133	347,744
Total deferred inflows of resources	<u>225,611</u>	<u>122,133</u>	<u>347,744</u>
Net position:			
Net invested in capital assets (note 11)	241,897,529	155,261,550	397,159,079
Restricted for capital improvement	27,257,986	-	27,257,986
Restricted for state water contract	54,097,846	-	54,097,846
Restricted for debt service	5,544,195	-	5,544,195
Unrestricted	56,695,897	(48,391,838)	8,304,059
Total net position	<u>\$ 385,493,453</u>	<u>106,869,712</u>	<u>492,363,165</u>

See accompanying notes to the basic financial statements

Castaic Lake Water Agency
Statement of Activities
For the Six Month Period Ended December 31, 2017

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Positions</u>		
		<u>Charges for Services</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Governmental activities:						
Wholesale water agency	\$ 34,815,201	13,227,443	4,473,676	(17,114,082)	-	(17,114,082)
Interest on long-term debt	6,383,093	-	-	(6,383,093)	-	(6,383,093)
Total governmental activities	41,198,294	13,227,443	4,473,676	(23,497,175)	-	(23,497,175)
Business-type activities:						
Retail water enterprise	42,724,885	52,466,195	2,063,375	-	11,804,685	11,804,685
Total government	\$ 83,923,179	65,693,638	6,537,051	(23,497,175)	11,804,685	(11,692,490)
General revenues (expenses):						
Property taxes levied for general purposes				\$ 28,147,184	-	28,147,184
Interest and investment earnings				5,833,312	276,883	6,110,195
Loss on disposal of capital assets				-	(9,623)	(9,623)
Non-operating revenues (expenses), net				3,843,594	(363,071)	3,480,523
Total general revenues				37,824,090	(95,811)	37,728,279
Change in net position				14,326,915	11,708,874	26,035,789
Net position, beginning of period, as previously stated				377,472,538	93,011,052	470,483,590
Prior period adjustment (note 9)				(6,306,000)	2,149,786	(4,156,214)
Net position, beginning of period, as restated				371,166,538	95,160,838	466,327,376
Net position, end of period				\$ 385,493,453	106,869,712	492,363,165

See accompanying notes to the basic financial statements

Castaic Lake Water Agency
Balance Sheet – Governmental Funds
December 31, 2017

	<u>General</u>	<u>Pledged Revenue</u>	<u>State Water Contract</u>	<u>Capital Project</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
Assets:						
Cash and investments	\$ 12,076,445	43,641,268	47,986,132	28,985,347	23,700,000	156,389,192
Cash and cash equivalents with fiscal agent	-	-	-		5,544,057	5,544,057
Accrued interest receivable	73,943	40,465	18,904	69,443	138	202,893
Accounts receivable - water sales, net	1,934,993	-	-	-	-	1,934,993
Accounts receivable - other	1,952,716	18,168	-	502,723	-	2,473,607
Property taxes receivable	-	2,470,599	2,950,541	-	-	5,421,140
Prepaid items	1,164,766	-	3,432,813	-	-	4,597,579
Advances to other funds (note 3)	-	70,200,603	-	-	-	70,200,603
Due from other funds (note 3)	-	23,700,000	-	-	-	23,700,000
Total assets	<u>17,202,863</u>	<u>140,071,103</u>	<u>54,388,390</u>	<u>29,557,513</u>	<u>29,244,195</u>	<u>270,464,064</u>
Liabilities:						
Accounts payable	1,693,332	535,103	290,544	2,299,527	-	4,818,506
Accrued expenditures	233,378	-	-	-	-	233,378
Due to other funds (note 3)	-	-	-	-	23,700,000	23,700,000
Total liabilities	<u>1,926,710</u>	<u>535,103</u>	<u>290,544</u>	<u>2,299,527</u>	<u>23,700,000</u>	<u>28,751,884</u>
Fund balances (note 12):						
Nonspendable	1,164,766	-	3,432,813	-	-	4,597,579
Restricted	-	-	50,665,033	27,257,986	5,544,195	83,467,214
Committed	5,920,000	55,190,700	-	-	-	61,110,700
Assigned	8,191,387	84,345,300	-	-	-	92,536,687
Total fund balances	<u>15,276,153</u>	<u>139,536,000</u>	<u>54,097,846</u>	<u>27,257,986</u>	<u>5,544,195</u>	<u>241,712,180</u>
Total liabilities and fund balances	<u>\$ 17,202,863</u>	<u>140,071,103</u>	<u>54,388,390</u>	<u>29,557,513</u>	<u>29,244,195</u>	<u>270,464,064</u>

See accompanying notes to the basic financial statements

**Castaic Lake Water Agency
Reconciliation of the Balance Sheet of Governmental
Funds to the Statement of Net Position
December 31, 2017**

Total fund balances – Governmental funds		\$ 241,712,180
<p>Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet. However, the Statement of Net Position includes those capital assets among the assets of the Agency as a whole.</p>		
Beginning balance, net of depreciation	\$ 435,379,227	
Current year additions	10,243,094	
Current year depreciation	<u>(9,183,227)</u>	
Ending balance, net of depreciation		436,439,094
<p>Long-term liabilities applicable to the Agency are not due and payable in the current period and accordingly, are not reported as governmental fund liabilities. All liabilities both current and long-term, are reported in the Statement of Net Position.</p>		
Net OPEB liability	(5,004,151)	
Net pension liability	(6,439,708)	
Compensated absences	(732,630)	
Premium on debt	(21,530,265)	
Certificates of participation and revenue bonds	<u>(258,635,746)</u>	(292,342,500)
Deferred inflows of resources		(225,611)
Deferred outflows of resources		3,395,861
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.		<u>(3,485,571)</u>
Net position of governmental activities		\$ <u>385,493,453</u>

See accompanying notes to the basic financial statements

Castaic Lake Water Agency
Statement of Revenues, Expenditures and Changes in Fund Balances– Governmental Funds
For the Six Month Period Ended December 31, 2017

	<u>General</u>	<u>Pledged Revenue</u>	<u>State Water Contract</u>	<u>Capital Project</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
Revenues:						
Property taxes	\$ -	12,828,233	15,318,951	-	-	28,147,184
Water sales - Agency	13,160,699	-	-	-	-	13,160,699
Facility capacity fee	-	4,473,676	-	-	-	4,473,676
Laboratory fees	66,744	-	-	-	-	66,744
Interest and investment earnings	127,213	5,288,441	155,506	225,544	36,608	5,833,312
Other	605,427	1,736,132	612,356	889,679	-	3,843,594
Total revenues	<u>13,960,083</u>	<u>24,326,482</u>	<u>16,086,813</u>	<u>1,115,223</u>	<u>36,608</u>	<u>55,525,209</u>
Expenditures:						
Water treatment operations	3,141,757	-	-	-	-	3,141,757
Water resources	1,577,448	-	-	-	-	1,577,448
Maintenance	1,798,873	-	-	-	-	1,798,873
Water quality and regulatory affairs	524,710	-	-	-	-	524,710
Administration	2,360,618	-	-	-	-	2,360,618
Management	891,375	-	-	-	-	891,375
Engineering	637,720	-	-	-	-	637,720
State water contract payments	-	-	8,916,917	-	-	8,916,917
Capital outlay	-	2,032,449	3,200,608	7,544,349	-	12,777,406
Debt service:						
Interest	-	-	-	-	7,923,118	7,923,118
Principal	-	-	-	-	11,450,447	11,450,447
Total expenditures	<u>10,932,501</u>	<u>2,032,449</u>	<u>12,117,525</u>	<u>7,544,349</u>	<u>19,373,565</u>	<u>52,000,389</u>
Excess of revenues over(under) expenditures	<u>3,027,582</u>	<u>22,294,033</u>	<u>3,969,288</u>	<u>(6,429,126)</u>	<u>(19,336,957)</u>	<u>3,524,820</u>
Other financing sources(uses):						
Transfers in (note 3)	-	-	3,432,813	-	19,415,465	22,848,278
Transfers out (note 3)	-	(22,848,278)	-	-	-	(22,848,278)
Total other financing sources(uses)	<u>-</u>	<u>(22,848,278)</u>	<u>3,432,813</u>	<u>-</u>	<u>19,415,465</u>	<u>-</u>
Net change in fund balances	<u>3,027,582</u>	<u>(554,245)</u>	<u>7,402,101</u>	<u>(6,429,126)</u>	<u>78,508</u>	<u>3,524,820</u>
Fund balance, beginning of period, as previously stated	12,248,571	139,758,949	46,695,745	33,687,112	5,465,687	237,856,064
Prior period adjustment	-	331,296	-	-	-	331,296
Fund balance, beginning of period, as restated	<u>12,248,571</u>	<u>140,090,245</u>	<u>46,695,745</u>	<u>33,687,112</u>	<u>5,465,687</u>	<u>238,187,360</u>
Fund balance, end of period	<u>\$ 15,276,153</u>	<u>139,536,000</u>	<u>54,097,846</u>	<u>27,257,986</u>	<u>5,544,195</u>	<u>241,712,180</u>

See accompanying notes to the basic financial statements

Castaic Lake Water Agency
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of
Governmental Funds to the Statement of Activities
For the Six Month Period Ended December 31, 2017

Net change in fund balances – Total governmental funds	\$	3,524,820
<p>When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the Statement of Revenues, Expenses and Changes in Fund Balance, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount that capital expenditures (\$12,775,666) and depreciation (\$9,183,227) in the current period.</p>		
		3,594,179
<p>Repayment of long-term debt is reported as expenditures in governmental funds, and thus, has the effect of reducing fund balance because current financial resources have been used. For the Agency as a whole, however, the principal payments reduce the liabilities in the Statement of Net Position and do not result in an expense in the Statement of Revenues, Expenses and Change in Fund Balance.</p>		
		11,450,447
<p>The accretion of interest on long-term debt is not reported as an expenditure in governmental funds, but as an addition to principal outstanding in the statement of activities.</p>		
		(3,715,111)
<p>Amortization of original issued premiums and original issued discounts on debt issued by the Agency. These amounts are the net effect amortized over the life of the debt service.</p>		
		(170,101)
<p>Pension expense</p>		
		(968,799)
<p>OPEB expense</p>		
<p>Some expenses reported in the Statement of Revenues, Expenses and Changes in Net Assets do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:</p>		
Net change in accrued interest for the current period		653,636
Net change in compensated absences for the current period.		(42,156)
		14,326,915
Change in net position of governmental activities	\$	14,326,915

See accompanying notes to the basic financial statements

Castaic Lake Water Agency
Statement of Net Position – Water Enterprise Fund
December 31, 2017

	<u>Santa Clarita</u> <u>Water Division</u>	<u>Valencia</u> <u>Water Company</u>	<u>Total</u>
Current assets:			
Cash and cash equivalents	\$ 8,845,549	7,003,136	15,848,685
Investments	21,282,508	9,261,669	30,544,177
Accrued interest receivable	109,206	-	109,206
Accounts receivable - water sales and services	5,586,180	3,726,791	9,312,971
Accounts receivable - other	98,557	392,877	491,434
Materials and supplies inventory	692,419	423,018	1,115,437
Prepaid expenses and other deposits	178,650	1,669,600	1,848,250
Other current assets	-	16,510,155	16,510,155
Total current assets	<u>36,793,069</u>	<u>38,987,246</u>	<u>75,780,315</u>
Non-current assets:			
Investments	15,364,565	-	15,364,565
Capital assets - not being depreciated (note 6)	19,502,381	5,349,616	24,851,997
Capital assets, net - being depreciated (note 6)	<u>93,831,223</u>	<u>96,619,552</u>	<u>190,450,775</u>
Total non-current assets	<u>128,698,169</u>	<u>101,969,168</u>	<u>230,667,337</u>
Total assets	<u>165,491,238</u>	<u>140,956,414</u>	<u>306,447,652</u>
Deferred outflows of resources:			
Deferred pension outflows	1,296,196	-	1,296,196
Deferred OPEB outflows	728,051	-	728,051
Loss on defeasance of debt (note 10)	<u>1,486,224</u>	<u>-</u>	<u>1,486,224</u>
Total deferred outflows of resources	<u>\$ 3,510,471</u>	<u>-</u>	<u>3,510,471</u>

Continued on next page

See accompanying notes to the basic financial statements.

Castaic Lake Water Agency
Statement of Net Position – Water Enterprise Fund, continued
December 31, 2017

	<u>Santa Clarita</u>	<u>Valencia</u>	<u>Total</u>
	<u>Water Division</u>	<u>Water Company</u>	
Current liabilities:			
Accounts payable and accrued expenses	\$ 3,182,932	5,421,487	8,604,419
Accrued wages and related payables	109,128	93,805	202,933
Customer deposits and unearned revenue	482,223	31,150	513,373
Advances for construction	3,100,411	8,209,227	11,309,638
Accrued interest	446,142	232,540	678,682
Other current liabilities	-	19,826,155	19,826,155
Long-term liabilities - due within one year:			
Compensated absences (note 4)	84,636	48,178	132,814
Revenue bonds (note 10)	2,780,000	-	2,780,000
	<u>10,185,472</u>	<u>33,862,542</u>	<u>44,048,014</u>
Total current liabilities			
Non-current liabilities:			
Long-term liabilities - due in more than one year:			
Compensated absences (note 4)	253,908	144,534	398,442
Net pension liability	3,858,622	-	3,858,622
Net OPEB liability	3,199,375	-	3,199,375
Advances from other funds (note 3)	-	70,200,603	70,200,603
Revenue bonds (note 10)	57,261,222	-	57,261,222
Note payable (note 10)	-	24,000,000	24,000,000
	<u>64,573,127</u>	<u>94,345,137</u>	<u>158,918,264</u>
Total non-current liabilities			
	<u>74,758,599</u>	<u>128,207,679</u>	<u>202,966,278</u>
Total liabilities			
Deferred inflows of resources:			
Deferred pension inflows	122,133	-	122,133
	<u>122,133</u>	<u>-</u>	<u>122,133</u>
Total deferred inflows of resources			
Net position:			
Net investment in capital assets (note 11)	53,292,382	101,969,168	155,261,550
Unrestricted	40,828,595	(89,220,433)	(48,391,838)
	<u>94,120,977</u>	<u>12,748,735</u>	<u>106,869,712</u>
Total net position			

See accompanying notes to the basic financial statements.

Castaic Lake Water Agency
Statement of Revenues, Expenses, and Changes in Net Position – Water Enterprise Fund
For the Six Month Period Ended December 31, 2017

	<u>Santa Clarita</u> <u>Water Division</u>	<u>Valencia</u> <u>Water Company</u>	<u>Total</u>
Operating revenues:			
Water consumption sales and services	\$ 20,323,262	31,076,152	51,399,414
Other charges and services	<u>456,443</u>	<u>610,338</u>	<u>1,066,781</u>
Total operating revenues	<u>20,779,705</u>	<u>31,686,490</u>	<u>52,466,195</u>
Operating expenses:			
Source of supply	6,812,961	9,665,512	16,478,473
Pumping	1,634,891	2,286,624	3,921,515
Water treatment	519,402	371,989	891,391
Transmission and distribution	2,176,418	1,222,186	3,398,604
Customer accounts	506,139	540,845	1,046,984
Engineering	718,004	-	718,004
General and administrative	<u>1,553,693</u>	<u>7,547,779</u>	<u>9,101,472</u>
Total operating expenses	<u>13,921,508</u>	<u>21,634,935</u>	<u>35,556,443</u>
Operating income before depreciation and amortization	6,858,197	10,051,555	16,909,752
Depreciation and amortization	<u>(2,577,984)</u>	<u>(2,741,729)</u>	<u>(5,319,713)</u>
Operating income	<u>4,280,213</u>	<u>7,309,826</u>	<u>11,590,039</u>
Non-operating revenue (expense):			
Interest earnings	170,092	106,791	276,883
Interest expense	(687,641)	(1,161,088)	(1,848,729)
Loss on disposal of capital assets	(9,623)	-	(9,623)
Other non-operating revenues (expenses), net	<u>173,615</u>	<u>(536,686)</u>	<u>(363,071)</u>
Total non-operating expense, net	<u>(353,557)</u>	<u>(1,590,983)</u>	<u>(1,944,540)</u>
Net income before capital contributions	3,926,656	5,718,843	9,645,499
Capital contributions – developer and customer	<u>2,063,375</u>	<u>-</u>	<u>2,063,375</u>
Change in net position	<u>5,990,031</u>	<u>5,718,843</u>	<u>11,708,874</u>
Net position, beginning of period, as previously stated	93,011,052	-	93,011,052
Prior period adjustment	<u>(4,880,106)</u>	<u>7,029,892</u>	<u>2,149,786</u>
Net position, beginning of period, as restated	<u>88,130,946</u>	<u>7,029,892</u>	<u>95,160,838</u>
Net position, end of period	<u>\$ 94,120,977</u>	<u>12,748,735</u>	<u>106,869,712</u>

See accompanying notes to the basic financial statements

**Castaic Lake Water Agency
Statement of Cash Flows – Water Enterprise Fund
For the Six Month Period Ended December 31, 2017**

	<u>Business-type Activities</u>
Cash flows from operating activities:	
Receipts from customers for water sales and services	\$ 52,271,177
Payments to employees for salaries and wages	(5,156,861)
Payments to vendors and suppliers for materials and services	<u>(29,669,773)</u>
Net cash provided by operating activities	<u>17,444,543</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(5,225,350)
Capital contributions	2,063,375
Principal paid	(2,407,533)
Interest paid	<u>(2,573,045)</u>
Net cash used in capital and related financing activities	<u>(8,142,553)</u>
Cash flows from investing activities:	
Purchase of investments, net	(650,901)
Interest earnings	<u>276,584</u>
Net cash used in investing activities	<u>(374,317)</u>
Net increase in cash and cash equivalents	8,927,673
Cash and cash equivalents, beginning of period	<u>6,921,012</u>
Cash and cash equivalents, end of period	\$ <u><u>15,848,685</u></u>

Continued on next page

See accompanying notes to the basic financial statements.

Castaic Lake Water Agency
Statement of Cash Flows – Water Enterprise Fund, continued
For the Six Month Period Ended December 31, 2017

	<u>Business-type Activities</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ <u>11,590,039</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	5,319,713
Proceeds from non-operating revenues, net	(363,071)
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources:	
(Increase) decrease in assets and deferred outflows of resources:	
Accounts receivable - water sales and services, net	236,600
Accounts receivable - other	(371,458)
Materials and supplies inventory	56,424
Prepaid expenses and other deposits	243,741
Other current assets	7,331,333
Deferred outflows of resources	(1,651,643)
Increase (decrease) in liabilities and deferred inflows of resources:	
Accounts payable and accrued expenses	1,646,815
Accrued salaries and wages	67,219
Customer deposits and unearned revenue	(60,160)
Advances for construction	372,254
Compensated absences	(70,416)
Other liabilities	(8,442,178)
Net pension liability	607,071
Net OPEB liability	739,467
Deferred inflows of resources	<u>192,793</u>
Total adjustments	<u>5,854,504</u>
Net cash provided by operating activities	<u>\$ <u>17,444,543</u></u>

See accompanying notes to the basic financial statements

Castaic Lake Water Agency
Notes to the Basic Financial Statements
December 31, 2017

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The Castaic Lake Water Agency (Agency) was organized on April 20, 1962, by virtue of Assembly Bill No. 26, Chapter 28, California Statutes of 1962, to contract with the State of California for the delivery of a portion of the water to be brought over the Tehachapi Mountains from the Sacramento-San Joaquin Delta through the state water resources development system.

The Agency provides supplemental wholesale water to four local retail water purveyors as follows: the Newhall County Water District, the Valencia Water Company, the Los Angeles County Waterworks District No. 36, and the Santa Clarita Water Division (blended component unit – retail water enterprise fund). The Agency covers an area of approximately 195 square miles situated in northwest Los Angeles County. It is divided into three elective divisions; its governing board is made up of two directors from each division, three directors at-large, and one director appointed by each of two of the retail water purveyors (Newhall County Water District and Los Angeles County Waterworks District No. 36).

The Agency's operations to date have consisted of participation in the development of the State Water Project, construction of its water treatment and delivery facilities and the sale of water to local water distribution agencies. All costs incurred by the Agency for construction, engineering, contract payments to the State Water Project and administrative costs through June 30, 1980, were capitalized. Water sales commenced during the fiscal year ended June 30, 1981.

Blended Component Units

The criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Statements No. 14 and 34 (an amendment of No. 14) and GASB No. 61 – *The Financial Reporting Entity*, Omnibus (an amendment of GASB Statements No. 14 and No. 34). The Agency is the primary governmental unit based on the foundation of a separately elected governing board that is elected by the citizens in a general popular election. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The Agency is financially accountable if it appoints a voting majority of the organization's governing body and: 1) It is able to impose its will on that organization, or 2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. The Agency has accounted for the Santa Clarita Water Division, Valencia Water Company and the Castaic Lake Water Agency Financing Corporation (Corporation) as blended component units. Accordingly, these basic financial statements present the Agency, and its component units, and the Corporation.

The Agency acquired 100% of the outstanding shares of the Santa Clarita Water Company (Company) through a Stock Purchase Agreement (Agreement). The Agreement was entered into in the settlement of the Agency's condemnation action files against the Company in which the Agency planned to exercise the power of eminent domain to acquire the Company. The Agency sells and distributes water to residential and commercial customers located in the Santa Clarita Valley of Southern California. The stock sale resulting in the acquisition of assets and assuming the liabilities of the Company became effective September 3, 1999. The acquisition of the Company was intended to maximize local revenues within the Santa Clarita Water Company's service area and integrate them with the Agency's resources. This will reduce long-term capital costs and increase water reliability while enhancing the Agency's financial strength. Although the Division is legally separate, it is included as a blended component unit – water enterprise fund of the Agency, as it is in substance part of the Agency's operations. There are no separate basic financial statements prepared for the Division or the Company.

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
December 31, 2017

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

A. Organization and Operations of the Reporting Entity, continued

The Castaic Lake Water Agency Financing Corporation (Corporation) was formed in 1990. The Corporation is a California nonprofit public benefit corporation formed to assist the Castaic Lake Water Agency (Agency) by acquiring, constructing, operating and maintaining facilities, equipment, or other property needed by the Agency and leasing or selling such property to the Agency and as such has no employees or other operations. Although the Corporation is legally separate, it is included as a blended component unit of the Agency, as it is in substance part of the Agency's operations. There are no separate basic financial statements prepared for the Corporation.

On October 25, 1988, the Agency purchased land and equipment owned by Producers Cotton Oil Company. Of the 8,459 acres of land purchased in Kern and Kings Counties, approximately, 7,759 acres are within the Devil's Den Water District (District). The District encompasses 8,676 acres. The cost of acquiring the land and equipment was approximately \$5.0 million. The land is being leased to an outside party to the Agency under terms of an operating lease agreement. The annual lease payments received by the Agency range from \$105 to \$150 per acre foot of all water supplied to the leased property. The accompanying basic financial statements contain all above-mentioned land and water allocation transactions.

On December 21, 2012, the Agency acquired all of Valencia Water Company (VWC) common stock from the Newhall Land and Farming Company, a California limited partnership (Newhall Land), by an action of eminent domain pursuant to the Settlement Agreement (Settlement). On February 8, 2013, a petition was filed in the Los Angeles Superior Court (Court) seeking to invalidate the Settlement, including complaints of violations related to CEQA, Ralph M. Brown Act and a conflict of interest. The Agency and Newhall Land filed a demurrer to the CEQA cause of action and a motion to strike certain allegations in the complaint. On October 31, 2013, the Court granted the demurrer, and motions to strike without leave to amend and Newhall Land's motion. On March 20, 2014, the Court also granted the motion for judgment on the pleadings on the conflict of interest allegations. The trial took place on February 24, 2015. On March 10 2015, the Court issued a written decision in favor of the Agency. Petitions were filed subsequent to March 10, 2015 to challenge the Court's decision. On November 16, 2016, the Supreme Court issued its decision to deny the petition. The decision is final.

Although VWC is legally separate and Court's decision is final, it will be included as a blended component unit – water enterprise fund of the Agency, as it is in substance part of the Agency's operations. The financial statements of VWC as of December 31, 2017 were audited by other auditors.

B. Basis of Accounting and Measurement Focus

The *basic financial statements* of the Agency are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

Government-wide Financial Statements

These statements are presented on an *economic resources* measurement focus and the accrual basis of accounting for both governmental and business-like activities. Accordingly, all of the Agency's assets and liabilities, including capital assets, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place. The Statement of Activities demonstrates the degree to which the operating expenses of a given function are offset by operating revenues.

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
December 31, 2017

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

B. Basis of Accounting and Measurement Focus, continued

Government-wide Financial Statements, continued

Operating expenses are those that are clearly identifiable with a specific function. The types of transactions reported as operating revenues for the Agency are charges for services directly related to the operations of the Agency. Charges for services include revenues from customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by the Agency. Taxes, operating grants, and other items not properly included among operating revenues are reported instead as non-operating revenues. Contributed capital and capital grants are included as capital contributions.

Fund Financial Statements

These statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds. Accompanying these statements is a schedule to reconcile and explain the differences in fund balances as presented in these statements to the net position presented in the Government-wide Financial Statements.

Governmental funds are accounted for on a spending or *current financial resources* measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

Under modified accrual basis of accounting, revenues are recognized in the accounting period in which they become measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60-days after year-end) are recognized when due. The primary sources susceptible to accrual for the Agency are property tax, interest earnings, investment revenue, and operating and capital grant revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. However, exceptions to this rule include principal and interest on debt, which are recognized when due.

Inter-fund activity in the amount of \$20,729,161 (see note 3) has been eliminated from the general governmental function for the government-wide financial statements except for charges between the Agency's Water Enterprise Fund and various other functions of the government. Elimination of these charges prevents any potential distortion of the direct costs and program revenues for the various functions considered.

The accrual basis of accounting is followed by the proprietary fund. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Unbilled water and utility services receivables are recorded at year end.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place. Operating revenues, such as water sales, result from exchange transactions associated with the principal activity of the Company. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as grant funding and investment income, result from non-exchange transactions, in which, the Agency gives (receives) value without directly receiving (giving) value in exchange.

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

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
December 31, 2017

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

B. Basis of Accounting and Measurement Focus, continued

Fund Financial Statements, continued

The accounts of the Agency are organized on the basis of funds, each of which is considered a separate accounting entity with a self-balancing set of accounts established for the purpose of carrying out specific activities or attaining certain objectives in accordance with specific regulations, restrictions or limitations.

Funds are organized into two major categories: governmental and proprietary categories. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operation fund of the Agency, or meets the following criteria:

- a) Total assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, or expenditures/expenses of that individual governmental or proprietary fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b) Total assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, or expenditures/expenses of the individual governmental fund or proprietary fund are at least 5 percent of the corresponding total for all governmental and proprietary funds combined.
- c) The entity has determined that a fund is important to the financial statement user.

C. Financial Reporting

The Agency's basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applied to governmental and enterprise funds. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles applicable to governmental entities.

The funds of the financial reporting entity are described below:

Governmental Fund Types

General Fund – This fund is used to account for and report all financial resources not accounted for and reported in another fund.

Special Revenue Funds – These funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Capital Project Funds – These funds are used to account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays including the acquisition or construction of capital facilities and other capital assets.

Debt Service Funds – These funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

Proprietary Fund Types

Enterprise Funds – These funds account for operations that are financed and operated in a manner similar to a private enterprise – where the intent of the entity is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
December 31, 2017

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

The major funds of the Agency are:

C. Financial Reporting

Governmental Funds

General Fund – is the general operating fund of the Agency. It is used to account for and report all financial resources not accounted for and reported in another fund.

Pledged Revenue Fund – is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Major revenue sources are property tax and facility capacity fees. Pledged revenue funds are used to finance certain capital improvements to the Agency’s wholesale water system.

State Water Contract Fund – is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Revenue is derived from a tax collected to pay for participation in the State Water Project. Its use is restricted for costs of the State Water Project.

The funds of the financial reporting entity are described below:

Capital Project Fund – is used to account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays including the acquisition or construction of capital facilities and other capital assets.

Debt Service Fund – is used to account for resources and payments of various debt obligation instruments issued by the Agency.

Proprietary Fund

Water Enterprise Fund – is used to account for the operations of the Agency’s retail water enterprise division including the amount of funds advanced to the fund to purchase the Company.

The Agency has adopted the following GASB pronouncements in the current year:

Government Accounting Standards Board Statement No. 75

In June 2015, the GASB issued Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.

This Statement replaces the requirements of Statement No. 45 – *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57 – *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB.

Government Accounting Standards Board Statement No. 81

In March 2016, the GASB issued Statement No. 81 – *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
December 31, 2017

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

C. Financial Reporting, continued

Government Accounting Standards Board Statement No. 81, continued

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

Government Accounting Standards Board Statement No. 85

In March 2017, the GASB issued Statement No. 85 – *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]).

Government Accounting Standards Board Statement No. 86

In May 2017, the GASB issued Statement No. 86 – *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

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

1. Cash and Cash Equivalents

Substantially all of the Agency’s cash is invested in interest bearing accounts. The Agency considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

2. Use of Estimates

The preparation of the basic financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in net assets during the reporting period. Actual results could differ from those estimates.

3. Investments and Investment Policy

The Agency has adopted an investment policy directing the Treasurer to deposit funds in financial institutions.

Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments. The Agency’s policy is to hold its investments until maturity, or until market values equal or exceed cost.

The Agency categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles.

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
December 31, 2017

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position, continued

3. Investments and Investment Policy, continued

The hierarchy is based on valuation inputs used to measure the fair value of the assets, as follows:

- Level 1 – Valuation is based on quoted prices in active markets for identical assets.
- Level 2 – Valuation is based on directly observable and indirectly observable inputs. These inputs are derived principally from or corroborated by observable market data through correlation or market-corroborated inputs. The concept of market-corroborated inputs incorporates observable market data such as interest rates and yield curves that are observable at commonly quoted intervals.
- Level 3 – Valuation is based on unobservable inputs where assumptions are made based on factors such as prepayment rates, probability of defaults, loss severity and other assumptions that are internally generated and cannot be observed in the market.

4. Property Taxes and Assessments

The Counties of Los Angeles and Ventura Assessor's Offices assesses all real and personal property within each respective County each year. The Counties of Los Angeles and Ventura Tax Collector's Offices bills and collects the Agency's share of property taxes and/or tax assessments. The Counties of Los Angeles and Ventura Treasurer's Office remits current and delinquent property tax collections to the Agency throughout the year. Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent (1%) of countywide assessed valuations.

Property taxes receivable at year-end are related to property taxes and tax assessments collected by the Counties of Los Angeles and Ventura, which have not been credited to the Agency's cash balance as of June 30. The property tax calendar is as follows:

Lien date	March 1
Levy date	July 1
Due dates	November 1 and March 1
Collection dates	December 10 and April 10

5. Accounts Receivable

The Agency extends credit to customers in the normal course of operations. Management deems not all accounts receivable as collectible at year-end. Accordingly, an allowance for doubtful accounts has been recorded.

6. Materials and Supplies Inventory

Materials and supplies inventory consists primarily of water meters, pipe and pipe fittings for construction and repair to the Agency's retail water transmission and distribution system. Inventory is valued at cost using a weighted average method. Inventory items are charged to expense at the time that individual items are withdrawn from inventory or consumed.

7. Prepaid Expenses

Certain payments to vendors reflect costs or deposits applicable to future accounting periods and are recorded as prepaid items in the basic financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

8. Premium on Debt Issued

The premium received on debt issued will be amortized over the remaining life of the respective debt service.

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
December 31, 2017

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position, continued

9. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. Agency policy has set the capitalization threshold for reporting capital assets at \$5,000. Donated assets are recorded at estimated fair market value at the date of donation and/or historical cost. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Governmental Activities

- Castaic turnout, reservoirs, tanks and water mains – 50 years
- Treatment plant and facilities – 2 to 50 years
- Maintenance facility – 30 years
- Lighting and roads – 25 years
- Fencing – 5 to 25 years
- Meters and services – 2 to 40 years
- Office furniture and equipment – 2 to 20 years
- Vehicles, tools and equipment – 1 to 20 years

Business-Type Activities

- Wells – 30 years
- Pumping – equipment, structures and improvements – 10 to 30 years
- Water treatment equipment and storage tanks – 10 to 30 years
- Transmission and distribution mains – 60 years
- Services, meters and hydrants – 30 years
- Structures and improvements – 25 to 30 years
- Furniture, equipment, tools and other – 6 to 20 years

10. Compensated Absences

The Agency's policy is to permit employees to accumulate earned vacation with maximum hours ranging between 200 and 400 hours, based on years of service, and 480 hours of sick leave. Accumulated vacation and sick time is accrued at year-end to account for the Agency's obligation to the employees for the amount owed.

Governmental fund types and enterprise fund recognize the vested vacation and sick leave as expenditure in the current year to the extent it is paid during the year. The General and Water Enterprise funds have been used in prior years to liquidate compensated absences for vested vacation as a result of resignations or retirements. Accrued vacation and sick leave relating to governmental and water enterprise funds are included as a long-term liability in the Statement of Net Position as those are payable from future resources.

11. Pensions

For the purposes of measuring the net pension liability and deferred outflows and 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.

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
December 31, 2017

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position, continued

11. Pensions, continued

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: July 1, 2016 to June 30, 2017

12. Postemployment Benefits Other than Pensions (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 Agency's Retiree Health Plan and additions to/deductions from the Agency's fiduciary net position have been determined on the same basis as they are reported by the Agency. For this purpose, the Agency recognizes benefit payments when due and payable in accordance with benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

13. Water Sales

Water sales, retail and wholesale, are billed on a monthly cyclical basis. Estimated unbilled water revenue through December 31, has been accrued at year-end for the water enterprise fund.

14. Net Positions/Fund Balances

The government-wide financial statements follow the financial reporting requirements of the GASB and reports net position under the following classifications:

- **Net Investment in Capital Assets** – Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and amortization, and reduced by outstanding balances of any debt, or other long-term borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted** – Restricted consists of assets that have restrictions placed upon their use by external constraints imposed either by creditors (debt covenants), grantors, contributors, or laws and regulations of other governments or constraints imposed by law through enabling legislation.
- **Unrestricted** – Unrestricted consists of any remaining balance of the Agency's net position that do not meet the definition of "restricted" or "net investment in capital assets".

In the case where both restricted and unrestricted resources are available for use for the same purpose (restricted bond proceeds and unrestricted resources for the same capital project, for example), the Agency will first apply the restricted resources.

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
December 31, 2017

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position, continued

14. Net Positions/Fund Balances, continued

In the fund financial statements, fund balances are reported based on the GASB Statement No. 54, which divide fund balance into the five classifications below:

- **Non-spendable** – includes amounts that cannot be spent because they are (1) not in spendable form, or (b) legally or contractually required to be maintained intact. This classification accounts for the Agency inventories and prepaid amounts.
- **Restricted** – includes amounts that have constraints that are either (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or (2) imposed by law through constitutional provisions or enabling legislations.
- **Committed** – includes amounts than can only be used for specific purposes pursuant to constraints imposed by resolution of the government’s highest level of decision making authority, the Board of Directors of the Agency.
- **Assigned** – includes amounts that are constrained by the government’s “intent” to be used for specific purposes, but are neither restricted nor committed, except for stabilization arrangements. Intent should be expressed by the Board of Directors of the Agency itself or a subordinate high level body (the Agency’s Finance and Administration committee, for example) or official to which the board has delegated the authority to assign amounts to be used for specific purposes. The Agency has delegated the authority to assign amounts for specific purposes to Assistant General Manager.
- **Unassigned** – includes amounts that have not been assigned to other funds and that has not been restricted, committed, or assigned for specific purposes.

The Agency’s reserve amounts are reviewed annually to ensure compliance with the Agency’s reserve policy. During the budget process, the designation of reserves are established first (committed), then the remaining resources will be available for other purposes. The order of spending is first committed fund balance, then assigned fund balance, and last is unassigned fund balance.

15. Facility Capacity Fee

Assembly Bill 4175 was signed into California law on September 16, 1986, and became effective January 1, 1987. This bill authorizes the Agency to impose standby charges and a facility capacity fee to generate revenues to pay for future Agency expansion. The Agency’s Board of Directors elected to begin imposing facility capacity fees on October 1, 1987, but has not elected to impose any standby charges.

16. Capital Contributions

Capital contributions represent cash and capital asset additions contributed to the Agency by property owners, granting agencies, or real estate developers desiring services that require capital expenditures or capacity commitment.

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
December 31, 2017

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position, continued

17. Budgetary Policies

The Agency follows specific procedures in establishing the budgetary data reflected in the financial statements. Each April, the Agency's General Manager and Assistant General Manager prepare and submit a capital and operating budget to the Board of Directors and adopted no later than June of each year. Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all government and proprietary funds. Annual budgets are adopted on the modified accrual basis of accounting for government fund types and accrual basis for the proprietary fund. The adopted budget becomes operative on July 1.

The Board of Directors must approve all supplemental appropriations to the budget and transfers between major funds. The legal level of budgetary control is at the fund level. Budget information is presented as required supplementary information for the general fund, pledged revenue fund and state water contract fund. Budget information is presented as other supplementary information for the debt service fund.

(2) Cash and Investments

Cash and investments as of December 31, are classified in the Statement of Net Position as follows:

	2017
Cash and cash equivalents	\$ 24,933,376
Cash and cash equivalents with fiscal agent	5,544,057
Investments - current	107,977,419
Investments - non-current	85,235,824
Total cash and investments	\$ 223,690,676

Cash and investments as of December 31, consist of the following:

	2017
Cash on hand	\$ 2,600
Deposits with financial institutions	29,937,532
Investments - current	193,750,544
Total cash and investments	\$ 223,690,676

As of December 31, the Agency's authorized deposits had the following maturities:

	2017
Deposits held with California Local Agency Investment Fund	186 Days
Deposits held with Los Angeles County Pooled Investment Fund	579 Days

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

The table below identifies the investment types that are authorized by the Agency in accordance with the California Government Code (or the Agency's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the Agency's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
December 31, 2017

(2) Cash and Investments, continued

Investments Authorized by the California Government Code and the Agency's Investment Policy, continued

This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the Agency, rather than the general provisions of the California Government Code or the Agency's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	5 years	None	None
U.S. Government Agency and Sponsored Enterprise Securities	5 years	None	None
Banker's Acceptances	180 days	30%	5%
Medium-Term Notes	5 years	30%	5%
Commercial Paper	270 days	10%	5%
Certificates of Deposit and Time Deposits	5 years	30%	10%
Municipal Obligations	5 years	30%	5%
Repurchase agreements	30 days	10%	None
California Local Agency Investment Fund (LAIF)	N/A	None	None
Los Angeles County Pooled Investment Fund (LACPIF)	N/A	30%	None
Investment Trust of California (CaITRUST)	N/A	20%	None
Money Market Mutual Funds	N/A	20%	10%
Investment Contracts	30 years	None	None

* Excluding amounts held by bond trustee that are not subject to California Government Code restrictions.

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Agency's investment policy.

Investment in State Investment Pool

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

The Agency's deposit and withdrawal restrictions and limitations are as follows:

- Same day transaction processing occurs for orders received before 10:00 a.m.
- Next day transactions processing occurs for orders received after 10:00 a.m.
- Maximum limit of 15 transactions (combination of deposits and withdrawals) per month.
- Minimum transaction amount requirement of \$5,000, in increments of a \$1,000 dollars.
- Withdrawals of \$10,000,000 or more require 24 hours advance notice.
- Prior to funds transfer, an authorized person must call LAIF to do a verbal transaction.

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
December 31, 2017

(2) Cash and Investments, continued

Los Angeles County Pooled Investment Fund

The Los Angeles County Pooled Investment Fund (LACPIF) is a pooled investment fund program governed by the County of Los Angeles Board of Supervisors, and administered by the County of Los Angeles Treasurer and Tax Collector. Investments in LACPIF are highly liquid as deposits, and withdrawals can be made at any time without penalty. LACPIF does not impose a maximum investment limit. The fair value of the Agency's investment in this pool is reported in the accompanying financial statements at amounts based upon the fair value provided by LACPIF for the Agency's LACPIF portfolio.

The Agency's deposit and withdrawal restrictions and limitations are as follows:

- Same day transaction processing occurs for orders received before 10:00 a.m.
- Next day transactions processing occurs for orders received after 10:00 a.m.
- No limit of transactions (combination of deposits and withdrawals) per month.
- Minimum transaction amount requirement rounded to the next highest dollar.
- Prior to funds transfer, an authorized person must complete a deposit or withdrawal form and fax to LACPIF.

The County of Los Angeles' bank deposits are either Federally insured or collateralized in accordance with the California Government Code. Pool detail is included in the County of Los Angeles's Comprehensive Annual Financial Report (CAFR). Copies of the CAFR may be obtained from the County of Los Angeles Auditor-Controller's Office – 500 West Temple Street – Los Angeles, CA 90012.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits, or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

The California Government Code and the Agency'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 Agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. Of the bank balances, up to \$250,000 is federally insured, and the remaining balance is collateralized in accordance with the California Government Code; however, the collateralized securities are not held in the Agency's name.

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. Information about the sensitivity of the fair values of the Agency's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Agency's investments by maturity date:

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
December 31, 2017

(2) Cash and Investments, continued

Interest Rate Risk, continued

Maturities of investments and cash equivalents at December 31, 2017 were as follows:

<u>Investment Type</u>	<u>Total</u>	<u>Remaining Maturity (in Months)</u>		
		<u>12 Months Or Less</u>	<u>13 to 24 Months</u>	<u>25-60 Months</u>
Federal Farm Credit Bank	\$ 34,888,725	9,873,400	995,794	24,019,531
Federal National Mortgage Association	23,707,460	4,991,850	-	18,715,610
Federal Home Loan Bank	14,808,541	-	4,928,750	9,879,791
Federal Home Loan Mortgage Corp.	21,782,660	1,991,760	-	19,790,900
Local Agency Investment Fund (LAIF)	37,651,212	37,651,212	-	-
Los Angeles County Pooled Investment Fund (LACPIF)	36,298,280	36,298,280	-	-
Certificates of Deposit	17,492,844	10,050,095	4,224,403	3,218,346
Commercial Paper	5,461,669	5,461,669	-	-
Money Market Funds	1,659,153	1,659,153	-	-
Total	<u>\$ 193,750,544</u>	<u>107,977,419</u>	<u>10,148,947</u>	<u>75,624,178</u>

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 minimum rating required by (where applicable) the California Government Code, the Agency's investment policy, or debt agreements, and the actual rating as of year-end for each investment type.

Credit ratings of investments and cash equivalents as of December 31, 2017, were as follows:

<u>Investment Types</u>	<u>Total</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year End</u>	
				<u>AAA</u>	<u>Not Rated</u>
Federal Farm Credit Bank	\$ 34,888,725	N/A	\$ -	34,888,725	-
Federal National Mortgage Association	23,707,460	N/A	-	23,707,460	-
Federal Home Loan Bank	14,808,541	N/A	-	14,808,541	-
Federal Home Loan Mortgage Corp.	21,782,660	N/A	-	21,782,660	-
Local Agency Investment Fund (LAIF)	37,651,212	N/A	-	-	37,651,212
Los Angeles County Pooled Investment Fund (LACPIF)	36,298,280	N/A	-	-	36,298,280
Certificates of Deposit	17,492,844	N/A	17,492,844	-	-
Commercial Paper	5,461,669	N/A	5,461,669	-	-
Money Market Funds	1,659,153	AAA	1,659,153	-	-
Total	<u>\$ 193,750,544</u>		<u>\$ 24,613,666</u>	<u>95,187,386</u>	<u>73,949,492</u>

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
December 31, 2017

(2) Cash and Investments, continued

Concentration of Credit Risk

The investment policy of the Agency contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than for U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total Agency investments are as follows:

<u>Issuer</u>	<u>Investment type</u>	<u>Amount</u>
Federal Farm Credit Bank	Federal agency securities	\$ 34,888,725
Federal National Mortgage Association	Federal agency securities	23,707,460
Federal Home Loan Bank	Federal agency securities	14,808,541
Federal Home Loan Mortgage Corp.	Federal agency securities	21,782,660
		<u>\$ 95,187,386</u>

Fair Value Measurements

Investments measured at fair value on a recurring and non-recurring basis, are as follows:

Investments at December 31, 2017:

<u>Investment type</u>	<u>Total</u>	<u>Fair Value Measurement Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Federal agencies	\$ 95,187,386	-	95,187,386	-
Certificates of Deposit	17,492,844	-	17,492,844	-
Commercial Paper	5,461,669	5,461,669	-	-
Money Market Funds	1,659,153	1,659,153	-	-
Total investments measured at fair value	119,801,052	<u>7,120,822</u>	<u>112,680,230</u>	<u>-</u>
Investments measured at amortized cost:				
Local Agency Investment Fund (LAIF)	37,651,212			
Los Angeles County Pooled Investment Fund (LACPIF)	36,298,280			
Total	<u>\$ 193,750,544</u>			

(3) Interfund Receivables and Payables

Due from/to Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Pledged Revenue	Debt Service	\$ 23,700,000
	Total	<u>\$ 23,700,000</u>

Due from the Pledged Revenue Fund to the Debt Service Fund is to provide funds for next fiscal year's debt service payments.

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
December 31, 2017

(3) Interfund Receivables and Payables, continued

Interfund Transfers

<u>Transfers From</u>	<u>Transfers to</u>	<u>Amount</u>
Pledged Revenue	Debt Service	\$ 19,415,465
Pledged Revenue	State Water Contract	<u>3,432,813</u>
	Total	<u>\$ 22,848,278</u>

Transfers are used to move revenues received and recorded in the Pledged Revenue Fund to Debt Service Fund to provide funds to pay debt service payments as they become due.

Advances to/from Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Pledged Revenue	Water Enterprise	\$ <u>70,200,603</u>
	Total	<u>\$ 70,200,603</u>

Advances from the Pledged Revenue Fund to the Water Enterprise Fund are to provide funds for the acquisition of Valencia Water Company and amount to \$70,200,603 at December 31, 2017. The advance bears annual interest at 4.46%. The advance plus any accrued interest is due June 30th annually starting in fiscal year 2019.

Principal and estimated interest payments on the advances are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 1,585,067	3,132,528	4,717,595
2020	1,657,607	3,059,988	4,717,595
2021	1,733,468	2,984,127	4,717,595
2022	1,812,800	2,904,795	4,717,595
2023	1,895,763	2,821,832	4,717,595
2024-2028	10,862,400	12,725,575	23,587,975
2029-2033	13,586,151	10,001,824	23,587,975
2034-2038	16,992,886	6,595,089	23,587,975
2039-2043	<u>20,074,461</u>	<u>3,513,513</u>	<u>23,587,974</u>
Total	70,200,603	<u>47,739,271</u>	<u>117,939,874</u>
Less current portion	<u>-</u>		
Total non-current	<u>\$ 70,200,603</u>		

(4) Compensated Absences

Compensated absences comprise unpaid vacation leave, sick leave, personal, and other leave which is accrued as earned. The Agency's liability for compensated absences is determined annually.

The changes to governmental compensated absences balance at December 31, were as follows:

<u>Balance</u> <u>6/30/2017</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance</u> <u>12/31/2017</u>	<u>Current</u> <u>Portion</u>	<u>Long-Term</u> <u>Portion</u>
\$ <u>690,474</u>	<u>426,298</u>	<u>(384,142)</u>	<u>732,630</u>	<u>183,158</u>	<u>549,472</u>

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
December 31, 2017

(4) Compensated Absences, continued

The changes to business-type compensated absences balance at December 31, were as follows:

<u>Balance</u> <u>6/30/2017</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance</u> <u>12/31/2017</u>	<u>Current</u> <u>Portion</u>	<u>Long-Term</u> <u>Portion</u>
\$ 413,468	430,347	(312,559)	531,256	132,814	398,442

(5) Other Current Assets and Other Current Liabilities

The tax effects of temporary differences for Valencia Water Company's taxable transactions that give rise to significant portions of the deferred tax assets and liabilities as of December 31, 2017, are as follows:

	<u>2017</u>
Deferred tax assets:	
Advances for construction	\$ 630,000
Contributions in aid of construction liability	15,161,000
Settlement proceeds	372,000
Other	347,155
Total deferred tax assets	\$ <u>16,510,155</u>
Deferred tax liabilities:	
Excess tax depreciation	\$ 8,038,000
Contributions in aid of construction fixed assets	11,512,000
Investment tax credit	276,155
Total deferred tax liabilities	\$ <u>19,826,155</u>

The balance of deferred tax assets and liabilities as of December 31, 2017 amounting to \$16,510,155 and \$19,826,155, is shown as part of other current assets and other current liabilities in the statement of net position, respectively.

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
December 31, 2017

(6) Capital Assets

Governmental Activities

Changes in capital assets for the six month period December 31, 2017 were as follows:

	<u>Balance 6/30/2017</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 12/31/2017</u>
Non-depreciable assets:				
Land	\$ 28,372,111	-	-	28,372,111
Construction-in-process	<u>22,333,112</u>	<u>7,638,739</u>	<u>(231,873)</u>	<u>29,739,978</u>
Total non-depreciable assets	<u>50,705,223</u>	<u>7,638,739</u>	<u>(231,873)</u>	<u>58,112,089</u>
Depreciable assets:				
Contractual state water project rights	143,912,078	1,994,771	-	145,906,849
Contractual water rights - other agencies	93,912,091	20,415	-	93,932,506
Treatment plant	167,930,734	31,850	-	167,962,584
Water mains	26,747,245	-	-	26,747,245
Reservoirs and tanks	1,649,965	-	-	1,649,965
Reclaimed water	4,638,901	-	-	4,638,901
Control system	168,364,368	280,604	-	168,644,972
Castaic turnout	398,243	-	-	398,243
Services and meters	153,965	-	-	153,965
Maintenance facility	-	188,310	-	188,310
Large tools and equipment	256,023	273,733	-	529,756
Furniture and fixtures	120,036	24,100	-	144,136
Vehicles	380,354	22,445	-	402,799
Office equipment	<u>1,319,902</u>	<u>-</u>	<u>-</u>	<u>1,319,902</u>
Total depreciable assets	<u>609,783,905</u>	<u>2,836,228</u>	<u>-</u>	<u>612,620,133</u>
Accumulated depreciation and amortization:				
Contractual state water project rights	(74,363,371)	(1,426,334)	-	(75,789,705)
Contractual water rights - other agencies	(23,836,354)	(1,960,167)	-	(25,796,521)
Treatment plant	(62,544,273)	(2,761,561)	-	(65,305,834)
Water mains	(11,148,590)	(267,473)	-	(11,416,063)
Reservoirs and tanks	(1,220,958)	(16,500)	-	(1,237,458)
Reclaimed water	(2,049,609)	(66,270)	-	(2,115,879)
Control system	(47,888,105)	(2,380,247)	-	(50,268,352)
Castaic turnout	(294,704)	(3,982)	-	(298,686)
Services and meters	(143,205)	(1,974)	-	(145,179)
Maintenance facility	-	(188,310)	-	(188,310)
Large tools and equipment	(146,154)	(17,022)	-	(163,176)
Furniture and fixtures	(93,554)	(7,094)	-	(100,648)
Vehicles	(216,797)	(30,616)	-	(247,413)
Office equipment	<u>(1,164,227)</u>	<u>(55,677)</u>	<u>-</u>	<u>(1,219,904)</u>
Total accumulated depreciation and amortization	<u>(225,109,901)</u>	<u>(9,183,227)</u>	<u>-</u>	<u>(234,293,128)</u>
Total depreciable assets, net	<u>384,674,004</u>	<u>(6,346,999)</u>	<u>-</u>	<u>378,327,005</u>
Total capital assets, net	<u>\$ 435,379,227</u>	<u>1,291,740</u>	<u>(231,873)</u>	<u>436,439,094</u>

A significant portion of these additions were constructed by the Agency and/or sub-contractors and transferred out of construction-in-process upon completion of these various projects. Depreciation expenses under governmental activities, wholesale water agency, totaled \$9,183,227.

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
December 31, 2017

(6) Capital Assets, continued

Business-Type Activities – Santa Clarita Water Division

Changes in capital assets for the six month period December 31, 2017 were as follows:

	<u>Balance June 30, 2017</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance December 31, 2017</u>
Non-depreciable assets:				
Land and land rights	\$ 891,550	-	-	891,550
Construction-in-process	15,592,738	3,367,202	(349,109)	18,610,831
Total non-depreciable assets	<u>16,484,288</u>	<u>3,367,202</u>	<u>(349,109)</u>	<u>19,502,381</u>
Depreciable assets:				
Transmission and distribution mains	69,402,072	-	-	69,402,072
Reservoirs and tanks	27,908,300	87,386	(13,556)	27,982,130
Services	17,310,965	-	-	17,310,965
Hydrants	8,828,643	-	-	8,828,643
Boosters	10,636,132	143,764	(87,263)	10,692,633
Meters	5,390,853	-	-	5,390,853
Wells	2,544,262	-	-	2,544,262
Structures and improvements	7,609,079	10,880	-	7,619,959
Machinery and equipment	8,419,824	94,119	(14,597)	8,499,346
Transportation equipment	1,726,954	-	-	1,726,954
General plant	77,265	17,757	-	95,022
Total depreciable assets	<u>159,854,349</u>	<u>353,906</u>	<u>(115,416)</u>	<u>160,092,839</u>
Accumulated depreciation and amortization:				
Transmission and distribution mains	(20,004,015)	(583,362)	-	(20,587,377)
Reservoirs and tanks	(13,865,498)	(495,059)	7,495	(14,353,062)
Services	(8,041,795)	(248,854)	-	(8,290,649)
Hydrants	(4,924,652)	(117,503)	-	(5,042,155)
Boosters	(4,965,521)	(269,728)	83,701	(5,151,548)
Meters	(2,529,281)	(201,873)	-	(2,731,154)
Wells	(1,409,299)	(40,923)	-	(1,450,222)
Structures and improvements	(2,170,192)	(132,251)	-	(2,302,443)
Machinery and equipment	(4,722,575)	(424,723)	14,597	(5,132,701)
Transportation equipment	(1,087,565)	(59,720)	-	(1,147,285)
General plant	(69,032)	(3,988)	-	(73,020)
Total accumulated depreciation and amortization	<u>(63,789,425)</u>	<u>(2,577,984)</u>	<u>105,793</u>	<u>(66,261,616)</u>
Total depreciable assets, net	<u>96,064,924</u>	<u>(2,224,078)</u>	<u>(9,623)</u>	<u>93,831,223</u>
Total capital assets, net	<u>\$ 112,549,212</u>	<u>1,143,124</u>	<u>(358,732)</u>	<u>113,333,604</u>

Major capital asset additions in the business-type activities area included developer contributions to the water retail enterprise's transmission and distribution system and various other projects. A significant portion of these additions were constructed by the Agency and/or sub-contractors and transferred out of construction-in-process upon completion of these various projects. Depreciation expenses under business-type activities, retail water enterprise of Santa Clarita Water Division, totaled \$2,577,984.

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
December 31, 2017

(6) Capital Assets, continued

Business-Type Activities – Valencia Water Company

Changes in capital assets for the six month period December 31, 2017 were as follows:

	<u>Balance June 30, 2017</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance December 31, 2017</u>
Non-depreciable assets:				
Land and land rights	\$ -	1,481,637	-	1,481,637
Construction-in-process	-	3,867,979	-	3,867,979
Total non-depreciable assets	<u>-</u>	<u>5,349,616</u>	<u>-</u>	<u>5,349,616</u>
Depreciable assets:				
Transmission and distribution mains	-	81,877,853	-	81,877,853
Reservoirs and tanks	-	36,692,943	-	36,692,943
Services	-	14,203,824	-	14,203,824
Hydrants	-	10,984,788	-	10,984,788
Boosters	-	-	-	-
Meters	-	8,871,790	-	8,871,790
Wells	-	11,091,277	-	11,091,277
Structures and improvements	-	2,442,894	-	2,442,894
Machinery and equipment	-	6,437,044	-	6,437,044
Transportation equipment	-	44,550	-	44,550
General plant	-	-	-	-
Total depreciable assets	<u>-</u>	<u>172,646,963</u>	<u>-</u>	<u>172,646,963</u>
Accumulated depreciation and amortization:	<u>-</u>	<u>(76,027,411)</u>	<u>-</u>	<u>(76,027,411)</u>
Total depreciable assets, net	<u>-</u>	<u>96,619,552</u>	<u>-</u>	<u>96,619,552</u>
Total capital assets, net	<u>\$ -</u>	<u>101,969,168</u>	<u>-</u>	<u>101,969,168</u>

As of December 31, 2017, the transfer of accumulated depreciation balance from Valencia Water Company amounted to \$76,027,411, which includes depreciation expense of \$2,741,729.

Construction-In-Process

The Agency has been involved in various construction projects throughout the year. The balances of the various construction projects that comprise the construction-in-process balances at year-end are as follows:

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
December 31, 2017

(6) Capital Assets, continued

Governmental Activities

The balance at December 31, consists of the following projects:

	2017
ESFP Improvement project	\$ 8,216,854
RRB Extraction project	6,948,978
Recycled water project	3,454,871
Rio Vista water treatment plant and expansion	2,666,702
Foothill Feeder connection project	2,415,746
Honby Parallel project	2,102,157
Pipeline Inspection Facility Modifications	1,487,071
Various minor projects	2,447,599
Construction-in-process	\$ 29,739,978

Business-Type Activities

	2017
Internal construction projects	\$ 5,048,428
Developer on-site construction projects	13,562,403
Construction-in-process	\$ 18,610,831

(7) Defined Benefit Pension Plan

Plan Description

All qualified permanent and probationary employees are eligible to participate in the Agency's Miscellaneous Employee Pension Plan, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plan are established by State statute and the Agency's 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. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

On September 12, 2012, the California Governor signed the California Public Employees' Pension Reform Act of 2013 (PEPRA) into law. PEPRA took effect January 1, 2013. The new legislation closed the Agency's CalPERS 2.5% at 55 Risk Pool Retirement Plan to new employee entrants effective December 31, 2013. All employees hired after January 1, 2013, that were not already CalPERS members, are eligible for the Agency's CalPERS 2.0% at 62 Retirement Plan under PEPRA.

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
December 31, 2017

(7) Defined Benefit Pension Plan, continued

Benefits Provided, continued

The following plan groups are as follows:

Classic Members - employees hired before January 1, 2013, are enrolled in the CalPERS Local Miscellaneous 2% at 55 Plan.

New Members - in accordance with the PEPRAs, employees hired on or after January 1, 2013, that were not previously members of CalPERS, are enrolled in the CalPERS Local Miscellaneous 2% at 62 Plan.

The Plan's provisions and benefits in effect at December 31, 2017, are summarized as follows:

	<u>Miscellaneous Pool</u>	
	<u>Classic</u>	<u>PEPRA</u>
Hire date	Prior to January 1, 2011	On or after January 1, 2013
Benefit formula	2% @ 55	2.0% @ 62
Benefit vesting schedule	5 years of service	
Benefit payments	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%	6.50%
Required employer contribution rates	9.599%	6.908%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law 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 change in the rate. Funding contributions for both Plans are determined annually on actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Agency is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the six month period ended December 31, 2017, the contributions recognized as part of pension expense for the Plan were as follows:

	<u>2017</u>
Contributions – employer	\$ <u>1,140,043</u>

Net Pension Liability

As of December 31, 2017, the Agency reported net pension liabilities for its proportionate share of the net pension liability of the Plan as follows:

	<u>2017</u>
Proportionate share of net pension liability	\$ <u>10,298,330</u>

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
December 31, 2017

(7) Defined Benefit Pension Plan, continued

Net Pension Liability, continued

The Agency's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the plan is measured as of June 30, 2017 (the measurement date), and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 (the valuation date), rolled forward to June 30, 2017, using standard update procedures. The Agency's proportion of the net pension liability was based on a projection of the Agency's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

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

	Miscellaneous
Proportion – June 30, 2015	0.09014%
Increase in proportion	0.00877%
Proportion – June 30, 2016	0.09891%
Increase in proportion	0.00493%
Proportion – June 30, 2017	0.10384%

Deferred Pension Outflows (Inflows) of Resources

For the six month period ended December 31, 2017, the Agency recognized pension expense of \$1,544,532.

As of December 31, 2017, the Agency reported deferred outflows of resources and deferred inflow of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 673,464	-
Differences between actual and expected experience	-	(211,852)
Differences in actual contribution and proportionate share of contribution	-	(135,892)
Changes in assumptions	1,821,996	-
Net differences between projected and actual earnings on plan investments	446,074	-
Adjustment due to differences in proportions of net pension liability	611,777	-
Total	\$ 3,553,311	(347,744)

As of December 31, 2017, employer pension contributions reported as deferred outflows of resources related to contributions subsequent to the measurement date of \$673,464, and will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2018.

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
December 31, 2017

(7) Defined Benefit Pension Plan, continued

Deferred Pension Outflows (Inflows) of Resources, continued

At December 31, 2017, other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows.

Fiscal Year Ending June 30:	Deferred Outflows/ (Inflows) of Resources
2018	\$ 699,596
2019	1,301,525
2020	834,082
2021	(303,100)

Actuarial Assumptions

The total pension liabilities were determined by actuarial valuation reports as of June 30, 2016, which were rolled forward to June 30, 2017, using the following actuarial assumptions:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
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
Investment Rate of Return	7.50 % Net of Pension Plan Investment and Administrative Expenses; includes inflation
Mortality Rate Table*	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

* The mortality rate used was developed based on CalPERS' specific data. The mortality rate includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on mortality rate, please refer to the 2014 Experience Study report. Further details of the Experience Study can be found on the CalPERS website.

Discount rate

The discount rates used in the actuarial valuations to measure the total pension liability as of June 30, 2017, reflect the long-term expected rates of return. The discount rates used to measure the total pension liability as of June 30, 2017, was 7.15%. These differ from the discount rates used as of June 30, 2016, which was 7.65%, due to a decrease in the long-term expected rate of return. The financial reporting discount rates are not adjusted for administrative expenses and are consistent with the funding discount rates at the end of the three-year funding discount rate phase-in period.

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
December 31, 2017

(7) Defined Benefit Pension Plan, continued

Discount rate, continued

To determine whether the municipal bond rate should be used in the calculation of the discount rate, the amortization and smoothing periods adopted by CalPERS in 2013 were used. The crossover test was performed for a miscellaneous agent plan and a safety agent plan selected as being more at risk of failing the crossover test and resulting in a discount rate that would be different from the long-term expected rate of return on pension investments.

Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the PERF C. The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all of the funds' asset classes, expected compound (geometric) returns were calculated over the short term (first 10 years) and the long term (11+ years) using a building-block approach. Using the expected nominal returns for both short term and long term, the present value of benefits was calculated for each fund.

The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

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

As of December 31, 2017, the target allocation and the long-term expected real rate of return by asset class were as follows:

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1-10*</u>	<u>Real Return Year 11+**</u>
Global Equity	47.0%	4.90%	5.38%
Global Fixed Income	19.0%	0.80%	2.27%
Inflation Sensitive	6.0%	0.60%	1.39%
Private Equity	12.0%	6.60%	6.63%
Real Estate	11.0%	2.80%	5.21%
Infrastructure and Forestland	3.0%	3.90%	5.36%
Liquidity	2.0%	-0.40%	-0.90%
Total	<u>100.0%</u>		

* An expected inflation of 2.5% used for this period

** An expected inflation of 3.0% used for this period

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
December 31, 2017

(7) Defined Benefit Pension Plan, continued

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

The following presents the Agency’s proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what the Agency’s proportionate share of net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage higher than the current rate:

As of December 31, 2017, the Agency’s net pension liability at the current discount rate, using a discount rate that is one-percentage point lower, and using a discount rate that is one-percentage point higher, is as follows:

	Discount Rate - 1%	Current Discount Rate	Discount Rate + 1%
	6.15%	7.15%	8.15%
Agency's Net Pension Liability	\$ 16,799,903	10,298,330	4,913,613

Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s fiduciary net position is available in separately issued CalPERS financial reports. See pages 74 through 75 for the Required Supplementary Schedules.

Payable to the Pension Plan

At December 31, 2017, the Agency reported no payables for the outstanding amount of contribution to the pension plan.

(8) Other Post-Employment Benefits

Plan Description

The Agency provides other post-employment benefits (OPEB) to qualified employees who retire from the Agency and meet the Agency’s vesting requirements. The Agency participates in CalPERS California Employer’s Retiree Benefit Trust Program (CERBT), a Prefunding Plan trust fund intended to perform an essential government function within the meaning of Section 115 of the Internal Revenue Code as an agent multiple-employer plan. Copies of CalPERS CERBT audited financial report may be obtained from their executive Office: 400 P Street, Sacramento, CA 95814. The Agency has set aside funds to cover retiree health liabilities in a trust that meets the criteria in paragraph 4 of Statement 75.

The new reporting requirements for these benefit programs as they pertain to the Agency are set forth below.

Benefits Provided

The Agency provides other post-employment medical and dental benefits to retired employees who satisfy the eligibility rules. Spouses and surviving spouses are also eligible to receive benefits. Retirees may enroll in any plan available through the Agency’s medical and dental programs. The contribution requirements of Plan members and the Agency are established and may be amended by the Board of Directors.

All employees are eligible for retiree healthcare benefits, provided they have reached the age of 55 with a minimum of 5 years of Agency service are employed by the Agency at the time of retirement. Employees hired on/after January 1, 2009 must have 10 or more years of CalPERS service to qualify for retiree healthcare benefits.

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
December 31, 2017

(8) Other Post-Employment Benefits, continued

Benefits Provided, continued

Medical Benefits

The Agency currently maintains two different Public Employees' Medical and Hospital Care Act (PEMCHA) resolutions which apply to those eligible for coverage, based on the employee's hire date:

For retirees hired before January 1, 2009, the Agency pays 100% of the premiums for the retiree and any eligible enrolled dependents.

For retirees hired on or after January 1, 2009, the Agency contributes 50% of the cost for the first 10 years of CalPERS service, with this percent increasing by 5% for each of the next 10 additional years of service.

Dental Benefits

The Agency pays 100% of the premiums for dental coverage.

Employee Covered By Benefit Terms

At December 31, 2017, the following employees were covered by the benefit terms:

	2017
Participating active employees	108
Inactive employees	37
Beneficiaries currently receiving benefit payments	124
Total plan membership	269

Discount Rate

The discount rate to measure the total OPEB liability was 7.28%, which is based on assumed long-term return on plan assets assuming 100% funding through CERBT. The projection of cash flows used to determine the discount rate assumed that liabilities and cash flow will vary based on the number and demographic characteristics of employees and retirees.

Deferred OPEB Outflows of Resources

For the six month period ended December 31, 2017, the Agency recognized OPEB expense of \$574,073.

At December 31, 2017, the Agency reported deferred inflows of resources related to OPEB from the following sources:

Description	Deferred Outflows of Resources
OPEB contributions subsequent to measurement date	\$ 1,787,444
Net differences between projected and actual earnings on plan investments	79,353
Total	\$ 1,866,797

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
December 31, 2017

(8) Other Post-Employment Benefits, continued

Deferred OPEB Outflows of Resources, continued

As of December 31, 2017, the Agency reported deferred outflows of resources related to employer OPEB contributions subsequent to measurement date in the amount of \$1,787,444. The employer OPEB contributions in the amount of \$1,787,444, will be recognized as a reduction of the net OPEB liability in the fiscal year ended June 30, 2018.

Actuarial Assumptions

The Agency's total OPEB liability in the July 1, 2015 actuarial valuation, which was measured at December 31, 2016, was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Valuation Date	July 1, 2015
Measurement Date	December 31, 2016
Measurement Period	June 30, 2016 to December 31, 2016
Actuarial cost method	Entry Age Normal cost method in accordance with the requirements of GASB Statement No. 75
Salary increases	3% per year; this is used to calculate the ARC/ADC as a level percent of payroll.
General inflation rate	2.5% per year.
Long Term Return on Assets	7.28%, net of plan investment expenses and including inflation
Mortality	Pre-retirement mortality rates were based on the MP-2014 and is applied generationally.
Service requirement	Per the service schedule contained in California Government Code Section 22893.
Discount rate	7.28% as of June 30, 2016 and June 30, 2017.

Demographic actuarial assumptions used in this valuation are based on the 2014 experience study of the CalPERS using data from 1997 to 2011.

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

As of December 31, 2017, the following presents the net OPEB liability of the Agency, as well as what the Agency's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

	Discount Rate - 1% 6.28%	Current Discount Rate 7.28%	Discount Rate + 1% 8.28%
Net OPEB Liability	\$ 10,970,658	8,203,526	5,965,652

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
December 31, 2017

(8) Other Post-Employment Benefits, continued

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

As of December 31, 2017, the following presents the net OPEB liability of the Agency, as well as what the Agency's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

		Current	
	Healthcare	Healthcare	Healthcare
	Cost Trend	Cost Trend	Cost Trend
	Rates -1%	Rate	Rates +1%
	<u> </u>	<u> </u>	<u> </u>
Net OPEB Liability	\$ 5,629,007	8,203,526	11,673,032

Changes in the Net OPEB Liability

Changes in the net OPEB liability for the year were as follows:

	<u>Increase (Decrease)</u>		
		Plan	
	Total OPEB	Fiduciary	Net OPEB
	Liability (a)	Net Position	Liability/(Asset)
	<u> </u>	<u> </u>	<u>(c) = (a) - (b)</u>
Balance at July 1, 2017	\$ 16,995,216	8,969,996	8,025,220
Changes during the year:			
Service cost	274,360	-	274,360
Interest	838,660	-	838,660
Contributions - employer	-	475,120	(475,120)
Net investment income	-	236,590	(236,590)
Benefit payments	(475,120)	(249,606)	(225,514)
Administrative fee	-	(2,510)	2,510
	<u>637,900</u>	<u>459,594</u>	<u>178,306</u>
Net changes			
Balance at December 31, 2017	\$ 17,633,116	9,429,590	8,203,526

Payable to the OPEB Plan

The Agency had no outstanding amount of contributions to the CERBT required for the year ended December 31, 2017.

(9) Prior Period Adjustment

Net OPEB Liability

In fiscal year 2018, the Agency implemented Governmental Accounting Standards Board (GASB) Statement No. 75. As a result, the Agency recognized the net OPEB liability in the amount of \$12,258,478 and \$7,506,484, and removed the net OPEB obligation associated with GASB 45 in the amount of \$4,573,349 and \$2,188,325 for the governmental and business-type activities, respectively, as of June 30, 2017. The Agency recorded a prior period adjustment to reclassify prior year's employer OPEB contribution from expense to deferred outflows of resources of \$1,047,833 and \$669,926 for the governmental and business-type activities, respectively.

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
December 31, 2017

(9) Prior Period Adjustment, continued

Component Unit – Valencia Water Company

As discussed in Note 1, the Agency acquired all of the stock of the Valencia Water Company (VWC) on December 21, 2012. Previously, the Agency has accounted for the investment in VWC by the Agency under the equity method of accounting as adjusted for changes in net income and dividends paid each fiscal year. As of December 31, 2017, VWC will be included as a blended component unit – water enterprise fund of the Agency. Thus, the balance of the investment in VWC account in the Agency’s books and the equity account in VWC books is eliminated. Consequently, net position as of June 30, 2017 was restated by \$7,361,188. Of the total amount, the Agency has recorded prior period adjustment to restate fund balance related to governmental activities in the amount of \$331,296 as of June 30, 2017.

Capital assets

During the six month period ended December 31, 2017, the Agency and the Division recorded as an addition to its construction-in-process, the expenditures for the Mesa Bridge project, effectively recording the expenditure twice. Consequently, net position as of June 30, 2017 was restated by \$231,873.

Effect of adjustment to net position

Overall, previously recorded net position of \$377,472,538, and \$93,011,052 for the governmental and business-type activities, respectively, has been restated to \$371,166,538, and \$95,160,838, respectively, as of June 30, 2017. In addition, the effect of the implementation of GASB 75 is recorded as an adjustment to the beginning net position at July 1, 2017.

The adjustment to fund balance is as follows:

Fund balance at June 30, 2017, as previously stated		\$ 237,856,064
Component Unit - Valencia Water Company		
Adjustments resulting from blending Valencia Water Company as a component unit as of December 31, 2017		331,296
		<u>331,296</u>
Fund balance, beginning, as restated at December 31, 2017		\$ <u>238,187,360</u>

The adjustment to net position is as follows:

Governmental Activities:

Net position at June 30, 2017, as previously stated		\$ <u>377,472,538</u>
Net OPEB Liability - GASB 75 Implementation:		
Effect of adjustment to record net OPEB liability	\$ (12,258,478)	
Effect of adjustment to remove net OPEB liability associated with GASB 45	4,573,349	
Effect of adjustment to record deferred OPEB outflows	<u>1,047,833</u>	(6,637,296)
Component Unit - Valencia Water Company		
Effect of adjustment to record interfund loan receivable from Valencia Water Company	70,200,603	
Effect of adjustment to remove investment in stock of the Valencia Water Company	<u>(69,869,307)</u>	<u>331,296</u>
Total adjustment to net position		(6,306,000)
Net position at June 30, 2017, as restated		\$ <u>371,166,538</u>

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
December 31, 2017

(9) Prior Period Adjustment, continued

Business-Type Activities

Net position at June 30, 2017, as previously stated		\$ <u>93,011,052</u>
Net OPEB Liability - GASB 75 Implementation:		
Effect of adjustment to record net OPEB liability	\$ (7,506,484)	
Effect of adjustment to remove net OPEB liability associated with GASB 45	2,188,325	
Effect of adjustment to record deferred OPEB outflows	<u>669,926</u>	(4,648,233)
Component Unit - Valencia Water Company		
Effect of adjustment to remove Valencia Water Company's stockholder's equity account	77,230,495	
Effect of adjustment to record interfund loan payable to Castaic Lake Water Agency	<u>(70,200,603)</u>	7,029,892
Capital assets		
Adjustments to construction-in-process for the Division		<u>(231,873)</u>
Total adjustment to net position		<u>2,149,786</u>
Net position at June 30, 2017, as restated		<u>\$ 95,160,838</u>

(10) Long-Term Debt

The following is a summary of the Agency's Long-Term Debt as of December 31, 2017:

Governmental Activities

	Balance 6/30/2017	Additions	Payments/ Retirements	Balance 12/31/2017	Current Portion	Long-Term Portion
Certificates of Participation (COPs):						
1999 Series A Revenue COPs - Capital Appr.	\$ 63,355,635	3,715,111	-	67,070,746	-	67,070,746
2008 Series A Revenue Refunding COPs	22,825,000	-	(5,375,000)	17,450,000	5,600,000	11,850,000
2010 Series A Revenue Refunding COPs	54,315,000	-	(2,865,000)	51,450,000	2,995,000	48,455,000
Premium on issuance - 2010 Series A	<u>1,353,506</u>	-	<u>(52,058)</u>	<u>1,301,448</u>	-	<u>1,301,448</u>
Total Certificates of Participation (COPs)	<u>141,849,141</u>	<u>3,715,111</u>	<u>(8,292,058)</u>	<u>137,272,194</u>	<u>8,595,000</u>	<u>128,677,194</u>
Revenue Bonds:						
2014 Series A Revenue Refunding Bonds	11,455,000	-	(2,685,000)	8,770,000	2,780,000	5,990,000
Premium on issuance - 2014 Series A	954,794	-	(119,349)	835,445	-	835,445
2015 Series A Revenue Refunding Bonds	61,460,000	-	(2,105,000)	59,355,000	2,165,000	57,190,000
Premium on issuance - 2015 Series A	9,290,386	-	(273,246)	9,017,140	-	9,017,140
2016 Series A Refunding Revenue Bonds	25,730,000	-	(1,380,000)	24,350,000	1,410,000	22,940,000
Premium on issuance - 2016 Series A Ref	4,662,229	-	(179,317)	4,482,912	-	4,482,912
2016 Series A New Revenue Bonds	30,665,000	-	(475,000)	30,190,000	490,000	29,700,000
Premium on issuance - 2016 Series A New	<u>6,000,471</u>	-	<u>(107,151)</u>	<u>5,893,320</u>	-	<u>5,893,320</u>
Total Revenue Bonds	<u>150,217,880</u>	-	<u>(7,324,063)</u>	<u>142,893,817</u>	<u>6,845,000</u>	<u>136,048,817</u>
Total Governmental Activities	<u>\$ 292,067,021</u>	<u>3,715,111</u>	<u>(15,616,121)</u>	<u>280,166,011</u>	<u>15,440,000</u>	<u>264,726,011</u>

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
December 31, 2017

(10) Long-Term Debt, continued

Business-Type Activities – Santa Clarita Water Division

	<u>Balance 6/30/2017</u>	<u>Additions</u>	<u>Payments/ Retirements</u>	<u>Balance 12/31/2017</u>	<u>Current Portion</u>	<u>Long-Term Portion</u>
Certificates of Participation (COPs):						
2010 Series B Revenue Refunding COPs	\$ 12,900,000	-	(12,900,000)	-	-	-
Premium on issuance - 2010 Series B	624,358	-	(624,358)	-	-	-
Total Certificates of Participation (COPs)	<u>13,524,358</u>	<u>-</u>	<u>(13,524,358)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenue Bonds:						
2011 Series A Revenue Bonds	43,295,000	-	(43,295,000)	-	-	-
Premium on issuance - 2011 Series A	4,143,173	-	(4,143,173)	-	-	-
2017 Series A Revenue Bonds	-	50,745,000	-	50,745,000	2,780,000	47,965,000
Premium on issuance - 2017 Series A	-	9,296,222	-	9,296,222	-	9,296,222
Total Revenue Bonds	<u>47,438,173</u>	<u>60,041,222</u>	<u>(47,438,173)</u>	<u>60,041,222</u>	<u>2,780,000</u>	<u>57,261,222</u>
Total Business-Type Activities	<u>\$ 60,962,531</u>	<u>60,041,222</u>	<u>(60,962,531)</u>	<u>60,041,222</u>	<u>2,780,000</u>	<u>57,261,222</u>

Business-Type Activities – Valencia Water Company

	<u>Balance 6/30/2017</u>	<u>Additions</u>	<u>Payments/ Retirements</u>	<u>Balance 12/31/2017</u>	<u>Current Portion</u>	<u>Long-Term Portion</u>
Note Payable						
Senior Secured Note Payable	\$ -	24,000,000	-	24,000,000	-	24,000,000
Total Business-Type Activities	<u>\$ -</u>	<u>24,000,000</u>	<u>-</u>	<u>24,000,000</u>	<u>-</u>	<u>24,000,000</u>

1994 Refunding Revenue Certificates of Participation

On June 1, 1990, the Corporation issued \$132,000,000 of certificates of participation to provide financing for the acquisition and construction of a second water treatment plant and related facilities (Project). On August 31, 1994, the Corporation issued \$124,600,000 of certificates of participation to provide funds to refund in advance the June 1, 1990 certificates of participation issued by the Agency. A portion of the issuance of debt from the certificates of participation issued in 1994 were placed in an escrow fund to provide the debt service on the 1990, certificates of participation through August 1, 2000, and the prepayment price for all certificates outstanding on August 1, 2000. The advance refunding met the requirements of an in-substance defeasance and the certificates of participation were removed from the Agency's long-term liabilities. The refunded 1990 certificates of participation were paid in full on August 1, 2000.

The 1994 certificates of participation are payable solely from installment payments to be made by the Agency. The Agency has pledged for payment of the installment payments from all revenue derived from the ownership of its water system, including existing portions, on or after June 1, 1990. These revenues are deposited into the Pledged Revenue Fund and after payment of operation and maintenance costs, including contingency reserves, the remaining reserves are to be used to pay the installment payments on the certificates. Management believes that the physical condition of the water system meets the stated requirements of the installment purchase agreements with the Corporation.

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
December 31, 2017

(10) Long-Term Debt, continued

1994 Refunding Revenue Certificates of Participation, continued

On May 5, 2004, the Agency refunded \$28,475,000 of the 1994 certificates (2004 Series A). On June 10, 2004, the Agency refunded \$37,350,000 of the 1994 certificates and concurrently entered into a variable-to-fixed swap agreement for \$40,000,000 (2004 Series B). On May 9, 2008, the Agency refunded all of the 2004B certificates (2008 Series A). In June 2014, the Agency refunded \$20,495,000 of the 2004A certificates (2014 A Revenue Bonds). The Certificates are payable by installment payments according to their respective Installment Agreements. Interest is payable semi-annually August 1 and February 1, and principal is due annually on August 1st. The outstanding balance at June 30, 2016, is \$42,025,000 as follows: No balance for the 1994 COP's or 2004A COP's as these were retired during FY 2013/14; \$27,975,000 for 2008 Series A; and \$14,050,000 for 2014 Series A. (See 2004 Series A, 2004 Series B, 2008 Series A Certificates of Participation and 2014 Series A for their respective debt service requirements.)

The last settlement for 1994 COP's was paid during FY 2013/14.

1999 Series A Revenue Certificates of Participation

In August 1999, the Corporation issued \$75,813,498 of certificates of participation to finance certain capital improvements to the Agency's wholesale water system and reimbursement of the Agency's cost of acquisition of certain state water project entitlements. The certificates are payable solely from installment payments to be made by the Agency. The Agency has pledged for payment of the installment payments all revenues derived from the ownership of its water system (which expressly excluded revenues derived from the retail sales of water). These revenues are deposited into the Pledged Revenue Fund and after payment of operation and maintenance costs, including contingency reserves, the remaining reserves are to be used to pay the installment payments on the certificates.

On December 7, 2006, the Agency refunded \$45,520,000 of the 1999 certificates (2006 Series A). A total of \$45,520,000 from the 2006 Series A COPs was used to pay off the outstanding principal of the 1999 Series A Revenue Certificates of Participation. As a result, the 1999 Series A Revenue Certificates of Participation are considered retired and the liability for those obligations has been removed from the financial statements. The Agency completed the advance refunding to reduce the Agency's total debt service payments over the next 24 years by achieving a 5.6% net present value savings. In May 2016, the Agency refunded all of the 2006A certificates of participation (2016 Series A Refunding). (See 2016 Series A Refunding for their respective debt service requirements.)

The Certificates are payable by installment payments according to their respective Installment Agreements. Interest is payable semi-annually August 1 and February 1 of each year, and principal is due annually on August 1. The outstanding balance at June 30, 2016, is \$59,846,309 as follows: \$59,846,309 Series 1999 remaining; and no balance for the Series 2006 A (refunded portion of 1999 Series A) as these were refunded during FY 2015/16 (2016A Refunded Revenue Bonds). (See 2006 Series A Certificates of Participation and 2016A Refunding Revenue Bonds for their respective debt service requirements). The par amount of the certificates is comprised of \$23,408,498 (original amount) capital appreciation certificates. No regular payments of interest are made on the capital appreciation certificates prior to maturity. Interest on the capital appreciation certificates is compounded semi-annually on February 1 and August 1 and is payable at maturity. The interest compounded annually is added to the principal amount outstanding. The yield to maturity for the capital appreciation certificates ranges from 5.76% to 5.8%. Principal on the capital appreciation certificates matures annually on August 1 from 2021 through 2030. All the certificates are subject to extraordinary prepayment as a whole or in part on any date in order of maturity if the Agency makes prepaid installment payments from insurance proceeds or condemnation awards.

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
December 31, 2017

(10) Long-Term Debt, continued

1999 Series A Revenue Certificates of Participation, continued

Below is a schedule of future annual principal to be issued that will be added to the capital appreciation certificate's current outstanding principal balance of \$67,070,746.

	Year	Principal Issued
Balance as of December 31, 2017		\$ 67,070,746
Annual principal issued:	2018	3,932,963
	2019	4,163,590
	2020	4,407,741
	2021	4,365,394
	2022	4,011,146
	2023-2027	13,954,415
	2028-2030	2,544,005
	Total	\$ 104,450,000

2001 Series A Revenue Certificates of Participation

In February 2001, the Corporation issued \$80,000,000 of certificates of participation to finance certain capital improvements to the Agency's wholesale water system and reimbursement of the Agency's cost of acquisition of the outstanding stock of the Santa Clarita Water Company (the retail company). The certificates are payable solely from installment payments to be made by the Agency. By the first supplement dated June 13, 2001, to the installment agreement dated February 2001, between the Agency and the Corporation, the Agency agreed to apply solely to the acquisition of certain capital improvements the amount which could have been reimbursed to the Agency for the acquisition of the stock of the Company.

The certificates are payable solely from installment payments to be made by the Agency. The Agency has pledged for payment of the installment payments all revenues derived from the ownership or operation of its water system. These revenues are deposited into the Pledged Revenue Fund and after payment of operation and maintenance costs, including contingency reserves, the remaining reserves are to be used to pay the installment payments on the certificates.

On June 8, 2010, the Agency refunded all of the 2001A certificates (2010 Series A). (See 2010 Series A Certificates of Participation for their respective debt service requirements.)

2004 Series A Revenue Refunding Certificates of Participation (Fixed Rate)

In May 2004, the Corporation issued \$29,085,000 of certificates of participation to provide funds to prepay \$28,475,000 of the Agency's outstanding 1994 Refunding Revenue Certificates of Participation, to acquire a reserve policy and pay certain costs of delivery. The certificates are payable solely from installment payments to be made by the Agency. Interest on the certificates is payable semi-annually on February 1 and August 1 of each year. Principal matures August 1 of each year through August 1, 2020. Certificates are in denominations of \$5,000 and bear interest from the date of issue to their maturity dates at rates ranging from 2.0% to 4.0% per annum.

In June 2014, the Agency refunded all of the 2004A certificates (2014 Series A). (See 2014 Series A for their respective debt service requirements.)

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
December 31, 2017

(10) Long-Term Debt, continued

2006 Series A Revenue Refunding Certificates of Participation

In December 2006, the Corporation issued \$45,520,000 of certificates of participation to provide funds to prepay \$45,385,000 of the Agency's outstanding 1999 A Revenue Certificates of Participation. The certificates are payable solely from installment payments to be made by the Agency. Pursuant to the reserve requirement, \$3,317,609 was placed in a debt service reserve fund on the issuance date of the certificates. Interest on the certificates is payable semi-annually on February 1 and August 1. Principal matures August 1 of each year through August 1, 2030. Certificates are in denominations of \$5,000 and bear interest from the date of issue to their maturity dates at rates ranging from 3.35% to 5.00% per annum.

Premium on Issuance – 2006 A

The Series 2006 A Certificates of Participation are structured as serial bonds with maturities ranging from 2007 through 2023 and two term bonds maturing on 2026 and 2030 respectively. Yields for the serial bonds range from 3.35% to 4.08% (yields to call for maturities 2017 through 2023), with the term bonds yielding 4.41% and 4.46% (yields to call). Market conditions required that the maturities after 2016 be structured in a manner that resulted in the debt being priced to the August 1, 2016, par call date. The ultimate structure produced an original issue premium of \$1,145,317 that will be amortized over the life of the debt service.

In May 2016, the Agency refunded all of the 2006A certificates (2016 Series A Refunding). (See 2016 Series A Refunding for their respective debt service requirements.)

2006 Series C Revenue Certificates of Participation

In December 2006, the Corporation issued \$89,830,000 of certificates of participation to finance certain capital improvements to the Agency's wholesale water system. The certificates are payable solely from installment payments to be made by the Agency. The Agency has pledged for payment of the installment payments all revenues derived from the ownership or operation of its water system. These revenues are deposited into the Pledged Revenue Fund and after payment of operation and maintenance costs, including contingency reserves, the remaining reserves are to be used to pay the installment payments on the certificates.

Premium on Issuance – 2006 C

The Series 2006 C Certificates of Participation are structured as serial bonds with maturities ranging from 2008 through 2026 and two term bonds maturing on 2030 and 2036, respectively. Yields for the serial bonds range from 3.40% to 4.14% (yields to call for maturities 2017 through 2026), with the term bonds yielding 4.16% and 4.20% (yields to call). Market conditions required that the maturities after 2016 be structured in a manner that resulted in the debt being price to the August 1, 2016, par call date. The ultimate structure produced an original issue premium of \$4,978,449 that will be amortized over the life of the debt service.

In April 2015, the Agency refunded all of the 2006C certificates (2015 Series A). (See 2015 Series A for their respective debt service requirements.)

2008 Series A Revenue Refunding Certificates of Participation

In May 2008, the Agency refunded all of the 2004B certificates; the swap agreement remained in effect until August 2014 for the 2008A certificates (2008 Series A). The certificates are payable solely from installment payments to be made by the Agency. Interest on the certificates is calculated weekly at rates for Weekly Interest Rate Periods and payable monthly. Principal matures August 1 of each year through August 1, 2020. Certificates are in denominations of \$100,000 and bear interest from the date of issue to their maturity. The interest rate on the refunding certificates is determined by the remarketing agent on Tuesday of each week during the Weekly Interest Rate Period.

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
December 31, 2017

(10) Long-Term Debt, continued

2008 Series A Revenue Refunding Certificates of Participation, continued

Annual debt service requirements on the 2008 Series A Revenue Refunding Certificates of Participation are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 5,600,000	683,961	6,283,961
2019	5,800,000	379,588	6,179,588
2020	<u>6,050,000</u>	<u>63,467</u>	<u>6,113,467</u>
Total	17,450,000	<u>1,127,016</u>	<u>18,577,016</u>
Less current portion	<u>(5,600,000)</u>		
Total non-current	<u>\$ 11,850,000</u>		

In June 2010, the Agency implemented GASB Statement No. 53, which established accounting and financial reporting standards for all state and local governments that enter into derivative instrument agreements. The analysis of the swap valuation is conducted annually to comply with the reporting requirement of the GASB Statement No. 53.

2010 Series A Revenue Refunding Certificates of Participation

In June 2010, the Corporation issued \$70,595,000 of certificates of participation to provide funds to prepay \$68,520,000 of the Agency's outstanding 2001 A Revenue Certificates of Participation. The certificates are payable solely from installment payments to be made by the Agency. Pursuant to the reserve requirement, \$5,349,556 was placed in a debt service reserve fund on the issuance date of the certificates. Interest on the certificates is payable semi-annually on February 1 and August 1. Principal matures August 1 of each year through August 1, 2030. Certificates are in denominations of \$5,000 and bear interest from the date of issue to their maturity dates at rates ranging from 2.00% to 5.00% per annum.

Annual debt service requirements on the 2010 Series A Revenue Certificates of Participation are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 2,995,000	2,289,056	5,284,056
2019	3,115,000	2,158,681	5,273,681
2020	3,260,000	2,014,506	5,274,506
2021	3,405,000	1,860,681	5,265,681
2022	3,560,000	1,691,556	5,251,556
2023-2027	20,495,000	5,765,315	26,260,315
2028-2030	<u>14,620,000</u>	<u>1,069,829</u>	<u>15,689,829</u>
Total	51,450,000	<u>16,849,624</u>	<u>68,299,624</u>
Add: bond premium	1,301,448		
Less current portion	<u>(2,995,000)</u>		
Total non-current	<u>\$ 49,756,448</u>		

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
December 31, 2017

(10) Long-Term Debt, continued

Premium on Issuance – 2010 A

The Series 2010 A Certificates of Participation are structured as serial bonds with maturities ranging from 2011 through 2031. Yields for the serial bonds range from 2.00% to 5.00% and market conditions required that the Certificates be structured in a manner that resulted in an original issue premium of \$2,082,316 that will be amortized over the life of the debt service.

2010 Series B Revenue Certificates of Participation

In May 2010, the Santa Clarita Water Division (Retail) of the Agency issued \$14,475,000 of certificates of participation to provide funds to acquire the new Administration Office Building, several reservoir tanks and well. The certificates are payable by installment payments according to the Installment Purchase Agreement. Interest is payable semi-annually August 1 and February 1, and the principal is due annually on August 1. In June 2016, the fiscal year 2017 principal was defeased. The balance at the end of the FY 2016/17 is \$12,900,000.

In September 11, 2017, the Agency refunded all of the 2010 Series B Revenue Certificates of Participation with the 2017 Series A Revenue Bonds. See the 2017 Series A Revenue Bonds for their respective debt service requirements.

2011 Series A Revenue Bonds

In September 2011, the Retail division issued \$52,290,000 of Revenue Bonds through Upper Santa Clara Valley Joint Powers Authority, a Joint Powers Authority created on June 8, 2011 between the Castaic Lake Water Agency (the “Agency”) and Devil’s Den Water District (the “District”), to provide funds to prepay the outstanding interfund loan balance payable by Retail to the Agency. The Interfund Loan was established in September 1999 as a repayment of acquisition when the Agency acquired Santa Clarita Water Company’s (SCWC) stock for \$63 million. The bonds are payable by installment payments according to the Installment Purchase Agreement. Interest is payable semi-annually August 1 and February 1, and the principal is due annually on August 1. In June 2016, the fiscal year 2017 principal was defeased. The balance at the end of the FY 2016/17 was \$43,295,000.

In September 11, 2017, the Agency refunded all of the 2011 Series A Revenue Bonds with the 2017 Series A Revenue Bonds. See the 2017 Series A Revenue Bonds for their respective debt service requirements.

2014 Series A Revenue Refunding Bonds

In June 2014, the Agency issued \$16,750,000 of revenue bonds to provide funds to prepay \$20,495,000 of the Agency’s outstanding 2004 A Revenue Certificates of Participation. The aggregate difference between the refunding debt and the refunded debt is \$2,055,250. This amount is being netted against the new debt and amortized over the life of the refunding debt. The Agency completed the refunding to reduce the Agency’s total debt service payments over the next 6 years by achieving a \$2,147,813 savings, 10.48% net present value savings. The bonds are payable solely from installment payments to be made by the Agency. Interest on the certificates is payable semi-annually on February 1 and August 1. Principal matures August 1 of each year through August 1, 2020. Bonds are in denominations of \$5,000 and bear interest from the date of issue to their maturity dates at rates ranging from 2.00% to 5.00% per annum.

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
December 31, 2017

(10) Long-Term Debt, continued

2014 Series A Revenue Refunding Bonds

Annual debt service requirements on the 2014 Series A Revenue Refunding Bonds are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 2,780,000	355,100	3,135,100
2019	2,920,000	226,500	3,146,500
2020	<u>3,070,000</u>	<u>76,750</u>	<u>3,146,750</u>
Total	8,770,000	<u>658,350</u>	<u>9,428,350</u>
Add: bond premium	835,445		
Less current portion	<u>(2,780,000)</u>		
Total non-current	<u>\$ 6,825,445</u>		

2015 Series A Revenue Refunding Bonds

In April 2015, the Agency issued \$64,000,000 of Revenue Bonds through Upper Santa Clara Valley Joint Powers Authority, a Joint Powers Authority created on June 8, 2011 between the Castaic Lake Water Agency (the "Agency") and Devil's Den Water District (the "District"), to provide funds to prepay \$77,685,000 of the Agency's outstanding 2006 C Revenue Certificates of Participation. The difference between the net carrying amount and the reacquisition price is considered immaterial and recognized upon refunding. The Agency completed the refunding to reduce the Agency's total debt service payments over the next 20 years by achieving a \$10,311,149 savings, 13.27% net present value savings. The bonds are payable by installment payments according to the Installment Purchase Agreement. Interest is payable semi-annually August 1 and February 1, and the principal is due annually on August 1.

Annual debt service requirements on the 2015 Series A Revenue Refunding Bonds are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 2,165,000	2,856,850	5,021,850
2019	2,250,000	2,768,550	5,018,550
2020	2,345,000	2,676,650	5,021,650
2021	2,440,000	2,568,750	5,008,750
2022	2,560,000	2,443,750	5,003,750
2023-2027	14,840,000	10,116,250	24,956,250
2028-2032	18,955,000	5,912,125	24,867,125
2033-2035	<u>13,800,000</u>	<u>1,057,500</u>	<u>14,857,500</u>
Total	59,355,000	<u>30,400,425</u>	<u>89,755,425</u>
Add: bond premium	9,017,140		
Less current portion	<u>(2,165,000)</u>		
Total non-current	<u>\$ 66,207,140</u>		

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
December 31, 2017

(10) Long-Term Debt, continued

2016 Series A Revenue Refunding Bonds

In May 2016, the Agency issued \$56,395,000 of Revenue Bonds through Upper Santa Clara Valley Joint Powers Authority, a Joint Powers Authority created on June 8, 2011 between the Castaic Lake Water Agency (the “Agency”) and Devil’s Den Water District (the “District”), to provide funds to prepay \$35,555,000 of the Agency’s outstanding 2006 A Revenue Certificates of Participation (2016 Series A Refunding) and to provide \$30,665,000 new funds (2016 Series A New) to acquire certain capital improvements to the Agency’s Wholesale System. The difference between the net carrying amount and the reacquisition price is considered immaterial and recognized upon refunding. The Agency completed the refunding portion to reduce the Agency’s total debt service payments over the next 15 years by achieving a \$5,909,717 savings, 16.62% net present value savings. The bonds are payable by installment payments according to the Installment Purchase Agreement. Interest is payable semi-annually August 1 and February 1, and the principal is due annually on August 1.

Annual debt service requirements on the 2016 Series A Revenue Refunding Bonds are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 1,410,000	1,113,950	2,523,950
2019	1,460,000	1,063,600	2,523,600
2020	1,520,000	996,400	2,516,400
2021	1,600,000	918,400	2,518,400
2022	1,685,000	836,275	2,521,275
2023-2027	9,700,000	2,880,050	12,580,050
2028-2030	<u>6,975,000</u>	<u>534,625</u>	<u>7,509,625</u>
Total	24,350,000	<u>8,343,300</u>	<u>32,693,300</u>
Add: bond premium	4,482,912		
Less current portion	<u>(1,410,000)</u>		
Total non-current	\$ <u>27,422,912</u>		

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
December 31, 2017

(10) Long-Term Debt, continued

2016 Series A New Refunding Bonds, continued

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 490,000	1,473,350	1,963,350
2019	510,000	1,455,800	1,965,800
2020	535,000	1,432,225	1,967,225
2021	560,000	1,404,850	1,964,850
2022	590,000	1,376,100	1,966,100
2023-2027	3,400,000	6,424,400	9,824,400
2028-2032	4,315,000	5,508,125	9,823,125
2033-2037	5,545,000	4,282,625	9,827,625
2038-2042	7,120,000	2,707,000	9,827,000
2043-2047	7,125,000	734,625	7,859,625
Total	30,190,000	<u>26,799,100</u>	<u>56,989,100</u>
Add: bond premium	5,893,320		
Less current portion	<u>(490,000)</u>		
Total non-current	<u>\$ 35,593,320</u>		

2017 Series A Revenue Refunding Bonds

In September 11, 2017, the Agency issued \$50,745,000 of Revenue Bonds through Upper Santa Clara Valley Joint Powers Authority, to provide funds to prepay \$12,900,000 of the Division's outstanding 2010 Series B Revenue Refunding Certificates of Participation (2010 Series B Refunding) and to provide a portion of the funds to refund the \$43,295,000 of the Division's outstanding 2011 Series A Refunding Bonds) to acquire certain capital improvements to the Division's Retail Water System. The difference between the refunding debt and the refunded debt is being netted against the new debt and amortized over the life of the refunding debt. The bonds are payable by installment payments according to the Installment Purchase Agreement. Interest is payable semi-annually August 1 and February 1, and the principal is due annually on August 1. The defeased bond refunding amount recorded in deferred outflows of resources of \$1,486,224 will be amortized over the remaining life of the 2017 Series A Revenue Refunding Bonds.

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
December 31, 2017

(10) Long-Term Debt, continued

2017 Series A Revenue Refunding Bonds, continued

Annual debt service requirements on the 2017 Series A Revenue Refunding Bonds are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 2,780,000	2,364,000	5,144,000
2019	3,035,000	2,218,625	5,253,625
2020	3,315,000	2,059,875	5,374,875
2021	3,615,000	1,886,625	5,501,625
2022	3,925,000	1,698,125	5,623,125
2023-2027	25,460,000	5,054,000	30,514,000
2028-2032	2,825,000	1,318,300	4,143,300
2033-2037	3,460,000	672,200	4,132,200
2038-2041	<u>2,330,000</u>	<u>123,625</u>	<u>2,453,625</u>
Total	50,745,000	<u>17,395,375</u>	<u>68,140,375</u>
Add: bond premium	9,296,222		
Less current portion	<u>(2,780,000)</u>		
Total non-current	<u>\$ 57,261,222</u>		

Secured Note Payable

On June 1, 2010, Valencia Water Company (VWC) entered into a \$12,000,000 senior secured note with Modern Woodmen of America (Modern Woodmen). On September 15, 2010, VWC entered into an additional \$12,000,000 senior secured note with Modern Woodmen (collectively, the “Senior Secured Notes”). The Senior Secured Notes are secured by all of the VWC’s assets. Interest is payable semiannually on April 15 and October 15 at a fixed rate of 4.62% per annum. The Senior Secured Notes contain various financial covenants with which VWC was in compliance as of December 31, 2017. There are no principal payments due until the Senior Secured Notes mature on September 15, 2022. Debt issuance costs of \$555,000 have been capitalized and are amortized over the life of the loan. As of December 31, 2017, the balance of the note amounted to \$24,000,000.

(11) Net Investment in Capital Assets

This component of net position consists of capital assets, net of accumulated depreciation and reduced by any outstanding debt outstanding against the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds. At December 31, 2017, the net investment in capital assets for governmental activities was \$241,897,530 and the net investment in capital assets for business-type activities was \$155,261,550.

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
December 31, 2017

(11) Net Investment in Capital Assets, continued

The balance consists of the following:

	Governmental Activities	Business-type Activities	Total
Capital assets, net	\$ 436,439,094	215,302,772	651,741,866
Long-term debt payable	(280,166,011)	(60,041,222)	(340,207,233)
Adjustments on long-term debt payable:			
1999 Series A cap appreciation bonds accretion since issuance	43,662,247	-	43,662,247
2010 Series A reserve fund	5,349,556	-	5,349,556
Unspent proceeds for capital improvement	36,612,643	-	36,612,643
Total	<u>\$ 241,897,529</u>	<u>155,261,550</u>	<u>397,159,079</u>

(12) Fund Balances

In May 2011, the Agency adopted a fund balance policy based on the published Governmental Accounting Standards Board (GASB) Statement No. 54, which established accounting and financial reporting standards for all governments that report governmental funds. This statement divides the fund balance into five classifications: (1) non-spendable – accounts for fund balances that are not in “spendable” form, such as inventories and prepaid amounts; (2) restricted – accounts for fund balances that are restricted by debt covenants and laws; (3) committed – accounts for fund balances that are committed for specific purposes by formal action of the Board of Directors of the Agency; (4) assigned – accounts for fund balances that are constrained by the Agency’s “intent” to be used for specific purposes, but are neither restricted nor committed except for stabilization arrangements; and (5) unassigned – accounts for fund balances that have not been assigned to other funds and that has not been restricted, committed or assigned to specific purposes.

At December 31, 2017, fund balances are as follows:

	General Fund	Pledged Revenue	State Water Contract	Capital Project	Debt Service	Total Governmental Funds
Fund Balances:						
Non-spendable (prepaid items) \$	1,164,766	-	3,432,813	-	-	4,597,579
Restricted	-	-	50,665,033	27,257,986	5,544,195	83,467,214
Committed:						
Reserve policy	5,920,000	-	-	-	-	5,920,000
Investment in the stock of the Valencia Water Co.	-	55,190,700	-	-	-	55,190,700
Assigned:						
Capital projects	-	84,345,300	-	-	-	84,345,300
Operations	8,191,387	-	-	-	-	8,191,387
Total	<u>\$ 15,276,153</u>	<u>139,536,000</u>	<u>54,097,846</u>	<u>27,257,986</u>	<u>5,544,195</u>	<u>241,712,180</u>

Restricted:

State Water Contract – The Burns-Porter Act (Act) was approved by voters in 1960 to assist in the construction of a State Water Resources Development System for the State of California. The right to levy taxes for this purpose is included in the provisions of Section 11652 of the Water Code governing Central Valley Project, which are incorporated by reference into the Act. This law authorized the Agency to levy property taxes, but only for payment of the Agency’s State Water Project obligation or debt services on general obligations bonds.

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
December 31, 2017

(12) Fund Balances, continued

Capital Project – fund to account for major capital projects, acquisition and improvements to the Agency’s wholesale water system.

Debt Service – funds held by US Bank, the trustee, for various debt reserve requirements.

Committed:

Reserve Policy – Agency Board approved reserve amount.

Investment in the stock of the Valencia Water Company – Agency Board approved the acquisition of the stock of the Valencia Water Company.

Assigned:

General Fund – intended for the Agency’s operations and maintenance expenditures.

Pledged Revenue – intended for the Agency’s minor capital projects, planning studies and administration, new equipment, repair and replacement program and compensated absences.

(13) Deferred Compensation Savings Plan

457 Deferred Compensation Savings Plan

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

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. Accordingly, the Agency is in compliance with this legislation. Therefore, these assets are not the legal property of the Agency, and are not subject to claims of the Agency’s general creditors. Market value of all plan assets held in trust by Lincoln Financial Services at December 31, 2017, was \$14,409,168.

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

(14) Defined Benefit Plan

401(a) Defined Benefit Plan

Also, for the benefit of its employees, the Agency participates in a 401(a) Defined Benefit Program (401(a) Program). The purpose of this 401(a) Program is to provide a defined benefit for public employees who fully contribute to their 457 Program. Generally, the Agency will match up to a certain amount for employees who fully contribute to their 457 Plan for the year. Until the funds are paid or otherwise made available to the employee, the employee is not obligated to report the defined benefit for income tax purposes.

Federal law requires defined benefit assets to be held in trust for the exclusive benefit of the participants. Accordingly, the Agency is in compliance with this legislation. Therefore, these assets are not the legal property of the Agency, and are not subject to claims of the Agency’s general creditors. Market value of all plan assets held in trust by Lincoln Financial Services at December 31, 2017, was \$564,351.

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
December 31, 2017

(15) Risk Management

The Agency 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 Agency is a member of the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California water agencies. The purpose of the ACWA/JPIA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. As of December 31, 2017, the Agency limits and deductibles for liability, property, and workers compensation programs of the ACWA/JPIA are as follows:

- General and auto liability, public officials and employees' errors and omissions: Total risk financing self-insurance limits of \$1,000,000, combined single limit per occurrence. The ACWA/JPIA purchased additional excess coverage layers: \$59 million for general, auto and public officials liability, which increases the limits on the insurance coverage noted above.
- Property loss is paid at the replacement cost for buildings, fixed equipment, and personal property on file, if replaced within two years after the loss, otherwise paid on actual cash value basis, subject to a \$5,000 deductible per loss; and actual cash value for mobile equipment, subject to a \$1,000 deductible per loss, and licensed vehicles, subject to a \$500 deductible per loss. ACWA/JPIA purchased excess coverage for a combined total of \$100 million per occurrence.
- Boiler and machinery coverage for the replacement cost up to \$100 million per occurrence, subject to various deductibles depending on the type of equipment.
- Workers compensation insurance up to California statutory limits for all work related injuries/illnesses covered by California law, and Employer's Liability Coverage up to \$4 million. The Authority is self-insured up to \$2 million and excess loss insurance has been purchased.

In addition to the above, the Agency also has the following insurance coverage:

- Crime coverage up to \$1,000,000 per loss includes public employee dishonesty, including Public Officials who are required by law to give bonds for the faithful performance of their service, forgery or alteration and computer fraud, subject to a \$1,000 deductible.
- Cyber liability coverage up to \$2,000,000 per occurrence with an aggregate of \$5,000,000 includes defense costs and damages for security, privacy and media liability; fees and expenses incurred from cyber extortion; as well as costs to restore network business interruption and digital asset protection, subject to a \$50,000 deductible.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years (June 30, 2018, June 30, 2017, and June 30, 2016). There were no reductions in insurance coverage in the six month period ended December 31, 2017. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There was no IBNR claims payable as of December 31, 2017 and any of the last three fiscal years (June 30, 2018, June 30, 2017, and June 30, 2016).

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
December 31, 2017

(16) Governmental Accounting Standards Board Statements Issued, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to December 31, 2017, that has effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 83

In November 2016, the GASB issued Statement No. 83 – *Certain Asset Retirement Obligations*. This Statement (1) addresses accounting and financial reporting for certain asset retirement obligations (AROs), (2) establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs, (3) requires that recognition occur when the liability is both incurred and reasonably estimable, (4) requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred, (5) requires the current value of a government’s AROs to be adjusted for the effects of general inflation or deflation at least annually, and (6) requires disclosure of information about the nature of a government’s AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged. The impact of the implementation of this Statement to the Agency’s financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 87

In June 2017, the GASB issued Statement No. 87 – *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.

Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The impact of the implementation of this Statement to the Agency’s financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 88

In April 2018, the GASB issued Statement No. 88 – *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
December 31, 2017

(16) Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued

Governmental Accounting Standards Board Statement No. 88, continued

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged. The impact of the implementation of this Statement to the Agency's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 89

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

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement.

This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively. The impact of the implementation of this Statement to the Agency's financial statements has not been assessed at this time.

(17) Commitments and Contingencies

Department of Water Resources (DWR) Water Contract Commitment

On April 30, 1963, a contract was entered into between the State of California acting by and through its Department of Water Resources and the Agency (the Contract), pursuant to the provisions of the California Water Resources Development Bond Act, the State Central Valley Project Act, and other applicable laws of the State of California.

The contract provides for a maximum annual water entitlement for the Agency of up to 41,500 acre feet. As amended, on January 1, 1991, the Agency began receiving the Devil's Den agricultural entitlement of 12,700 acre feet. In March 1999, the Agency purchased an additional 41,000 acre feet from Wheeler Ridge-Maricopa Water Storage District, bringing the total maximum entitlement to 95,200 acre feet. The agreement contemplated water delivery of 20,100 acre feet beginning in 1981, with increasing deliveries through the years until the maximum entitlement was reached in 1991.

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
December 31, 2017

(17) Commitments and Contingencies, continued

Department of Water Resources (DWR) Water Contract Commitment, continued

However, as of June 30, 2003, the water delivery objectives of the Contract cannot be achieved unless additional conservation features are constructed. The term of the Contract is for the project re-payment period or 75 year, whichever is longer, and provides for a pledge of certain Agency revenues to the bondholders of the State under the Bond Act.

Provision is made in the Contract for two general charges: (1) a Delta water charge and (2) a transportation charge, which are divided into components. The Delta water charge is intended to return to the State all costs of project conservation facilities including capital, maintenance, operation and replacement components, and is charged to the Agency on the basis of water entitlement and/or delivery. The transportation charge is for facilities necessary to deliver water to the contractors and also includes a capital, maintenance, operation and replacement component.

At December 31, 2017, the remaining estimated commitment for these charges is as follows:

<u>Calendar year ending December 31</u>	<u>Amount</u>
2018	\$ 28,917,776
2019	29,043,631
2020	29,162,168
2021	28,887,671
2022	28,956,181
2023-2027	144,241,288
2028-2032	142,514,378
2033-2035	<u>87,398,830</u>
Total	<u>\$ 519,121,923</u>

On May 22, 2007, the Agency entered into a 30-year agreement with the Buena Vista Water Storage District and Rosedale-Rio Bravo Water Storage District for the acquisition of 11,000 acre-feet (AF) of water supply per year for a 30-year period. The purchase price was established in FY 2006/07 at \$486.85 per AF, or \$5,335,350. The purchase price will be adjusted each calendar year by Consumer Price Index (All Urban Consumers – All Items – Southern California Area) and every 10 years based on historical changes to the cost of the State Water Project. The current purchase price is \$803.54 per AF.

Payments due under the DWR and BVRRB agreements are similar in nature to a long-term operating lease, since the Agency does not take title to any assets of the DWR and BVRRB at the end of the water delivery period. Accordingly, no liability under this contract is recorded in the Statement of Net Position.

Litigation

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

Grant Awards

Grant funds received by the Agency are subject to audit by the grantor agencies. Such an audit could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grant. Management of the Agency believes that such disallowances, if any, would not be significant.

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
December 31, 2017

(17) Commitments and Contingencies, continued

Construction Contracts

The Agency has a variety of agreements with private parties relating to the installation, improvement or modification of water facilities and distribution systems and other Agency activities. The financing of such contracts is being provided primarily from the Agency's replacement reserves and advances for construction. The Agency has committed to approximately \$3,812,325 of open construction contracts as of December 31, 2017.

The contracts outstanding include:

<u>Project Name</u>	<u>Contractor</u>	<u>Total Approved Contract</u>	<u>Construction Costs to Date</u>	<u>Balance to Complete</u>
<i>Governmental activities:</i>				
Earl Smith Filtration Plant Clearwell/CT Improvements	Clark Brothers*	\$ 5,616,196	4,375,837	1,240,359
Rio Vista Valve No. 2 Modifications	Environmental Construction	2,169,946	1,603,466	566,480
Foothill Feeder Turnout CLWA-01	GSE Construction	2,752,122	2,415,746	336,376
ESIPS Pipeline Improvement	Pacific Hydrotech Corporation	<u>3,082,540</u>	<u>1,813,778</u>	<u>1,268,762</u>
Sub-Total		<u>13,620,804</u>	<u>10,208,827</u>	<u>3,411,977</u>
<i>Business-type activities:</i>				
Install Water System Golden Vally Ranch Phase 1-4	Tejon	299,915	295,595	4,320
Vista Canyon Ranch Potable Water Phase I	Mesa Engineering	227,225	209,610	17,615
Skyline Ranch Plum Canyon Extension	Staats Construction	380,392	332,801	47,591
TM 60258 Galloway Water Improvements	Mesa Engineering	655,055	425,180	229,875
PH 1 TM 46018-11 Toll Brothers Water Improvements	Staats Construction	431,003	426,728	4,275
PH 2 TM 46018-11 Toll Brothers Water Improvements	Staats Construction	949,310	941,880	7,430
Bouquet Tank Exterior Repaint	Advance Industrial	49,748	-	49,748
Deane Tank No. 1 Tank Exterior Repaint	Advance Industrial	<u>39,494</u>	<u>-</u>	<u>39,494</u>
Sub-Total		<u>3,032,142</u>	<u>2,631,794</u>	<u>400,348</u>
Total		<u>\$ 16,652,946</u>	<u>12,840,621</u>	<u>3,812,325</u>

* This contract was decreased via change order.

(18) Subsequent Events

Events occurring after December 31, 2017 have been evaluated for possible adjustment to the financial statements or disclosure as of March 18, 2019, which is the date the financial statements.

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

On January 22, 2018, VWC was dissolved in accordance with California Senate Bill 634 (SB634). The financial statements reflect balances immediately before the dissolution. SB634 is the implementing legislation for the formation of the New Agency, and provides that VWC be dissolved and that all of the Company's assets, property, liabilities and indebtedness be transitioned to the New Agency, which will thereafter provide water service to the customer of VWC. The Plan of Dissolution was approved by VWC's Board of Directors at a special meeting on December 28, 2017. Subsequent to the dissolution, VWC is accounted for as an enterprise fund, called the Valencia Water Division, within the New Agency.



Required Supplementary Information

Castaic Lake Water Agency
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual – General Fund
For the Six Month Period Ended December 31, 2017

	Original and Final Budgeted Amounts*	Actual Amounts	Variance Positive (Negative)
Revenues			
Water sales – Agency	\$ 12,643,256	13,160,699	517,443
Laboratory fees	53,000	66,744	13,744
Interest and investment earnings	53,700	127,213	73,513
Other	867,750	605,427	(262,323)
Total revenues	<u>13,617,706</u>	<u>13,960,083</u>	<u>342,377</u>
Expenditures:			
Water treatment operations	2,592,900	3,141,757	(548,857)
Water resources	3,379,000	1,577,448	1,801,552
Maintenance	1,628,900	1,798,873	(169,973)
Water quality and regulatory affairs	538,200	524,710	13,490
Administration	2,520,050	2,360,618	159,432
Management	1,027,050	891,375	135,675
Engineering	587,250	637,720	(50,470)
Total expenditures	<u>12,273,350</u>	<u>10,932,501</u>	<u>1,340,849</u>
Excess of revenues (under) expenditures	<u>1,344,356</u>	<u>3,027,582</u>	<u>1,683,226</u>
Net change in fund balance	1,344,356	3,027,582	<u>1,683,226</u>
Fund balance – beginning of period	<u>8,415,309</u>	<u>12,248,571</u>	
Fund balance – end of period	<u>\$ 9,759,665</u>	<u>15,276,153</u>	

* As of December 31, 2017, all amounts were applied at 50%, except for water sales, which is at 53%

Castaic Lake Water Agency
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual – Pledged Revenue Fund
For the Six Month Period Ended December 31, 2017

	Original and Final Budgeted Amounts*	Actual Amounts	Variance Positive (Negative)
Revenues:			
Property taxes	\$ 12,373,650	12,828,233	454,583
Facility capacity fee	4,000,000	4,473,676	473,676
Interest and investment earnings	718,700	5,288,441	4,569,741
Other	1,085,950	1,736,132	650,182
Total revenues	<u>18,178,300</u>	<u>24,326,482</u>	<u>6,148,182</u>
Expenditures:			
Capital outlay	7,082,850	2,032,449	5,050,401
Total expenditures	<u>7,082,850</u>	<u>2,032,449</u>	<u>5,050,401</u>
Excess of revenues over expenditures	<u>11,095,450</u>	<u>22,294,033</u>	<u>11,198,583</u>
Other financing sources:			
Transfers out	(23,004,781)	(22,848,278)	(156,503)
Total other financing sources	<u>(23,004,781)</u>	<u>(22,848,278)</u>	<u>(156,503)</u>
Net change in fund balance	(11,909,331)	(554,245)	<u>11,355,086</u>
Fund balance - beginning of period	<u>136,674,409</u>	<u>139,758,949</u>	
Fund balance - end of period	<u>\$ 124,765,078</u>	<u>139,204,704</u>	

* As of December 31, 2017, all amounts were applied at 50%, except for transfers out, which is at 83.93%

Castaic Lake Water Agency
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual – State Water Contract Fund
For the Six Month Period Ended December 31, 2017

	Original and Final Budgeted Amounts*	Actual Amounts	Variance Positive (Negative)
Revenues			
Property taxes	\$ 14,911,400	15,318,951	407,551
Interest and investment earnings	200,500	155,506	(44,994)
Other	-	612,356	612,356
Total revenues	<u>15,111,900</u>	<u>16,086,813</u>	<u>974,913</u>
Expenditures:			
State water contract payments	16,285,000	8,916,917	7,368,083
Capital Outlay	-	3,200,608	(3,200,608)
Total expenditures	<u>16,285,000</u>	<u>12,117,525</u>	<u>4,167,475</u>
Excess of revenues (under) expenditures	<u>(1,173,100)</u>	<u>3,969,288</u>	<u>5,142,388</u>
Net change in fund balance	<u>(1,173,100)</u>	<u>3,969,288</u>	<u>5,142,388</u>
Fund balance – beginning of period	<u>39,026,480</u>	<u>46,695,745</u>	
Fund balance – end of period	<u>\$ 37,853,380</u>	<u>50,665,033</u>	

* As of December 31, 2017, all amounts were applied at 50%.

Castaic Lake Water Agency
Notes to the Required Supplementary Information
December 31, 2017

Basis of Budgeting

The Agency follows specific procedures in establishing the budgetary data reflected in the financial statements. Each April, the Agency's General Manager and Assistant General Manager prepare and submit a capital and operating budget to the Board of Directors and adopted no later than June of each year. Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all government and proprietary funds. Annual budgets are adopted on the modified accrual basis of accounting for government fund types and accrual basis for the proprietary fund. The adopted budget becomes operative on July 1.

The Board of Directors must approve all supplemental appropriations to the budget and transfers between major funds. The legal level of budgetary control is at the fund level. Budget information is presented as required supplementary information for the general fund, pledged revenue fund and state water contract fund.

Castaic Lake Water Agency
Schedule of the Agency's Proportionate Share of the Net Pension Liability
As of December 31, 2017
Last 10 Fiscal Years*

Defined Benefit Pension Plan

<u>Description</u>	<u>Measurement Dates</u>			
	<u>6/30/2017</u>	<u>6/30/2016</u>	<u>6/30/2015</u>	<u>6/30/2014</u>
Agency's Proportion of the Net Pension Liability	0.10384%	0.09891%	0.09014%	0.09601%
Agency's Proportionate Share of the Net Pension Liability	\$ <u>10,298,330</u>	<u>8,559,161</u>	<u>6,187,106</u>	<u>5,974,266</u>
Agency's Covered-Employee Payroll	\$ <u>10,699,055</u>	<u>9,517,107</u>	<u>9,606,446</u>	<u>8,961,588</u>
Agency's Proportionate Share of the Net Pension Liability as a percentage of its Covered-Employee Payroll	<u>96.25%</u>	<u>89.93%</u>	<u>64.41%</u>	<u>66.67%</u>
Plan's Fiduciary Net Position as a Percentage of the Total Pension Liability	<u>78.21%</u>	<u>79.28%</u>	<u>83.87%</u>	<u>83.03%</u>

Notes:

Changes in Benefit Terms – The Agency can make changes to their plan provisions, and such changes occur on an ongoing basis. A summary of the plan provisions that were used for the Agency's plan can be found in the plan's annual valuation report.

Changes of Assumptions – In fiscal year 2018, the financial reporting discount rate was lowered from 7.65% to 7.15%. In December 2016, the CalPERS Board approved lowering the funding discount rate used from 7.50% to 7.00%, which is to be phased-in over a three-year period (7.50% to 7.375%, 7.375% to 7.25%, and 7.25% to 7.00%) beginning with the June 30, 2016, valuation reports. The funding discount rate includes a 15 basis-point reduction for administrative expenses, and the remaining decrease is consistent with the change in the financial reporting discount rate.

* The Agency has presented information for those years for which information is available until a full 10-year trend is compiled.

**Castaic Lake Water Agency
Schedule of Pension Plan Contributions
For the Six Month Period Ended December 31, 2017
Last 10 Years***

Defined Benefit Pension Plan

Description	Years Ended				
	12/31/2017	6/30/2017	6/30/2016	6/30/2015	6/30/2014
Actuarially Determined Contribution	\$ 1,332,202	1,261,244	1,127,997	1,112,501	1,049,369
Contributions in Relation to the Actuarially Determined Contribution	<u>(673,464)</u>	<u>(1,256,199)</u>	<u>(1,140,043)</u>	<u>(1,138,635)</u>	<u>(790,373)</u>
Contribution Deficiency (Excess)	\$ <u>658,738</u>	<u>5,045</u>	<u>(12,046)</u>	<u>(26,134)</u>	<u>258,996</u>
Agency's Covered Payroll	\$ <u>10,946,311</u>	<u>10,699,055</u>	<u>9,517,107</u>	<u>9,606,446</u>	<u>8,961,588</u>
Contribution's as a percentage of Covered-Employee Payroll	<u>6.15%</u>	<u>11.74%</u>	<u>11.98%</u>	<u>11.85%</u>	<u>8.82%</u>

Note:

* The Agency has presented information for those years for which information is available until a full 10-year trend is compiled.

Castaic Lake Water Agency
Schedule of Changes in Net OPEB Liability and Related Ratios
As of December 31, 2017
Last Ten Years*

Defined Benefit OPEB Plan

	December 31, 2017
	<u> </u>
Total OPEB Liability	
Service cost	\$ 274,360
Interest	838,660
Benefit payments	<u>(475,120)</u>
Net change in total OPEB liability	637,900
Total OPEB liability - beginning of year	<u>16,995,216</u>
Total OPEB liability - end of year (a)	<u>\$ 17,633,116</u>
Plan Fiduciary Net Position	
Contributions - employer	\$ 475,120
Net investment income	236,590
Benefit payments	(249,606)
Administrative fee	<u>(2,510)</u>
Net change in plan fiduciary net position	459,594
Plan Fiduciary Net Position - beginning of year	<u>8,969,996</u>
Plan Fiduciary Net Position - end of year (b)	<u>9,429,590</u>
Net OPEB Liability - ending (a) - (b)	<u>\$ 8,203,526</u>
Plan Fiduciary Net Position as a percentage of the Total OPEB Liability	53.48%
Covered - employee payroll	12,296,456
Net OPEB Liability as a percentage of covered- employee payroll	66.71%

Notes to Schedule

Benefit changes – None noted.

Changes of assumptions – None noted.

* The Agency has presented information for those years for which information is available until a full 10-year trend is compiled.

**Castaic Lake Water Agency
Schedule of OPEB Contributions
For the Six Month Period Ended December 31, 2017
Last Ten Years***

Defined Benefit OPEB Plan

	December 31, 2017
Actuarially Determined Contribution**	\$ 1,787,444
Contributions in relation to the Actuarially Determined Contribution	<u>(1,731,944)</u>
Contribution Deficiency (Excess)	<u>\$ 55,500</u>
District's Covered-Employee Payroll	12,296,456
Contribution's as a percentage of Covered-Employee Payroll	14.08%

Notes to Schedule

Valuation date:

The Agency has been prefunding its OPEB liability by contributing 100% or more of the actuarially determined contribution each year.

Methods and assumptions used to determine contribution rates:

Valuation Date	July 1, 2015
Measurement Date	December 31, 2016
Measurement Period	June 30, 2016 to December 31, 2016
Actuarial cost method	Entry Age Normal cost method in accordance with the requirements of GASB Statement No. 75
Salary increases	3% per year; this is used to calculate the ARC/ADC as a level percent of payroll.
General inflation rate	2.5% per year.
Long Term Return on Assets	7.28%, net of plan investment expenses and including inflation
Mortality	Pre-retirement mortality rates were based on the MP-2014 and is applied generationally.
Service requirement	Per the service schedule contained in California Government Code Section 22893.
Discount rate	7.28% as of June 30, 2016 and June 30, 2017.

* The Agency has presented information for those years for which information is available until a full 10-year trend is compiled.

Supplemental Information Section

Castaic Lake Water Agency
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual – Capital Projects Fund
For the Six Month Period Ended December 31, 2017

	Original and Final Budgeted Amounts*	Actual Amounts	Variance Positive (Negative)
Revenues:			
Interest and investment earnings	\$ 87,900	225,544	137,644
Others	<u>950,000</u>	<u>889,679</u>	<u>(60,321)</u>
Total revenues	<u>1,037,900</u>	<u>1,115,223</u>	<u>77,323</u>
Expenditures:			
Capital outlay	<u>10,729,000</u>	<u>7,544,349</u>	<u>3,184,651</u>
Total expenditures	<u>10,729,000</u>	<u>7,544,349</u>	<u>3,184,651</u>
Excess of revenues (under) expenditures	<u>(9,691,100)</u>	<u>(6,429,126)</u>	<u>3,261,974</u>
Net change in fund balance	<u>(9,691,100)</u>	<u>(6,429,126)</u>	<u>3,261,974</u>
Fund balance - beginning of period	<u>22,363,743</u>	<u>33,687,112</u>	
Fund balance - end of period	<u>\$ 12,672,643</u>	<u>27,257,986</u>	

* As of December 31, 2017, all amounts were applied at 50%.

Castaic Lake Water Agency
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual – Debt Service Fund
For the Six Month Period Ended December 31, 2017

	Original and Final	Actual	Variance
	Budgeted	Amounts	Positive
	Amounts*	Amounts	(Negative)
Revenues:	\$		
Interest and investment earnings	<u>76,600</u>	<u>36,608</u>	<u>(39,992)</u>
Total revenues	<u>76,600</u>	<u>36,608</u>	<u>(39,992)</u>
Expenditures:			
Interest expense	4,404,670	7,923,118	(3,518,448)
Principal payments expense	<u>18,600,111</u>	<u>11,450,447</u>	<u>7,149,664</u>
Total expenditures	<u>23,004,781</u>	<u>19,373,565</u>	<u>3,631,216</u>
Excess of revenues (under) expenditures	<u>(22,928,181)</u>	<u>(19,336,957)</u>	<u>3,591,224</u>
Other financing sources:			
Transfers in	<u>23,004,781</u>	<u>19,415,465</u>	<u>(3,589,316)</u>
Total other financing sources	<u>23,004,781</u>	<u>19,415,465</u>	<u>(3,589,316)</u>
Net change in fund balance	76,600	78,508	<u>1,908</u>
Fund balance - beginning of period	<u>5,477,637</u>	<u>5,465,687</u>	
Fund balance - end of period	\$ <u>5,554,237</u>	<u>5,544,195</u>	

* As of December 31, 2017, all amounts were applied at 50%, except for principal payments and transfers in, which is at 100% and 83.93%, respectively.

Report on Internal Controls and Compliance



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

Board of Directors
Castaic Lake Water Agency
Santa Clarita, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Castaic Lake Water Agency (Agency), as of and for the six month period ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated March 18, 2019. Our report includes a reference to other auditors who audited the financial statements of Valencia Water Company (Company), as described in our report on the Agency's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Company were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

**Independent Auditor's Report on Compliance 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, Continued***

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Agency'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.

A handwritten signature in black ink that reads "Fedak & Brown LLP". The signature is written in a cursive, slightly slanted style.

Fedak & Brown LLP
Cypress, California
March 18, 2019