Valencia Water Company

Financial Statements as of January 22, 2018, December 31, 2017, and December 31, 2016, and for the Period from January 1, 2018 to January 22, 2018 and Years Ended December 31, 2017 and December 31, 2016, and Independent Auditors' Report

VALENCIA WATER COMPANY

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Valencia Water Company
Valencia, California

We have audited the accompanying financial statements of Valencia Water Company (the "Company"), which comprise the balance sheets as of January 22, 2018, December 31, 2017, and December 31, 2016, and the related statements of income, changes in stockholder's equity, and cash flows for the period from January 1, 2018 to January 22, 2018 and the years ended December 31, 2017 and 2016, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 Company'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 Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of January 22, 2018, December 31, 2017, and December 31, 2016, and the results of its operations and its cash flows for the period from January 1, 2018 to January 22, 2018 and the years ended December 31, 2017 and 2016 in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

May 4, 2018

VALENCIA WATER COMPANY

BALANCE SHEETS
AS OF JANUARY 22, 2018, DECEMBER 31, 2017, AND DECEMBER 31, 2016
(In thousands)

	January 22, 2018	December 31, 2017	December 31, 2016
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	$ 7,017	$ 7,003	$ 5,455
Investments	9,262	9,262	8,778
Metered, unbilled, and other receivables—net of allowances for doubtful accounts of $41 in 2018, $44 in 2017, and $39 in 2016	4,115	4,120	3,078
Materials and supplies	410	423	412
Income tax receivable		737	
Total current assets	20,804	21,545	17,723
UTILITY AND GENERAL PLANT ASSETS:			
Land and buildings	3,809	3,809	3,809
Wells	11,091	11,091	11,091
Pumping equipment	9,232	9,232	9,232
Transmission and distribution system	143,454	143,381	140,768
General plant	6,616	6,616	6,166
Construction in progress	4,130	3,868	3,492
Total utility and general plant assets	178,332	177,997	174,558
Accumulated depreciation and amortization	(76,305)	(76,027)	(71,537)
Utility and general plant assets—net	102,027	101,970	103,021
DEFERRED TAX ASSETS—State		111	293
OTHER ASSETS	315	665	845
TOTAL	$123,146	$124,291	$121,882

(Continued)

VALENCIA WATER COMPANY

BALANCE SHEETS
AS OF JANUARY 22, 2018, DECEMBER 31, 2017, AND DECEMBER 31, 2016
(In thousands)

	January 22, 2018	December 31, 2017	December 31, 2016
LIABILITIES AND STOCKHOLDER'S EQUITY			
CURRENT LIABILITIES:			
Accounts payable and accrued liabilities	$ 2,788	$ 2,928	$ 2,304
Income taxes payable (Note 5)	8,573		911
Advances for construction—current portion	692	692	692
Secured notes payable—current (Note 4)	23,793	23,789	
Total current liabilities	35,846	27,409	3,907
LONG-TERM LIABILITIES:			
Secured notes payable (Note 4)			23,744
Advances for construction—less current portion	7,517	7,517	8,210
Deferred revenue	965	967	559
Net deferred tax liabilities (Note 5)		3,427	4,719
Deposits held for construction	3,102	3,080	3,534
Total long-term liabilities	11,584	14,991	40,766
Total liabilities	47,430	42,400	44,673
CONTRIBUTIONS IN AID OF CONSTRUCTION	50,675	50,808	50,982
COMMITMENTS AND CONTINGENCIES (Note 8)			
STOCKHOLDER'S EQUITY:			
Common stock, $100 par value—authorized, 50,000 shares; issued, 15,365 shares	1,537	1,537	1,537
Paid-in capital	6,207	6,207	6,207
Retained earnings	17,297	23,339	18,483
Total stockholder's equity	25,041	31,083	26,227
TOTAL	$123,146	$124,291	$121,882

See notes to financial statements. (Concluded)

VALENCIA WATER COMPANY

STATEMENTS OF INCOME
FOR THE PERIOD FROM JANUARY 1, 2018 THROUGH JANUARY 22, 2018
AND YEARS ENDED DECEMBER 31, 2017 AND DECEMBER 31, 2016
(In thousands)

	January 22, 2018	December 31, 2017	December 31, 2016
WATER UTILITY REVENUES	$ 1,680	$31,685	$27,535
OPERATING EXPENSES:			
Purchased water (Note 7)	605	9,362	7,462
Purchased power	98	1,827	1,823
Operations and maintenance	389	6,038	5,661
General and administrative	383	4,443	4,419
Property taxes	15	181	193
Depreciation and amortization	145	2,742	2,746
Total operating expenses	1,635	24,593	22,304
OPERATING INCOME	45	7,092	5,231
OTHER (EXPENSE) INCOME:			
Interest expense	(96)	(1,161)	(1,161)
Interest income	1	107	38
Other	2	29	7
Total other expense—net	(93)	(1,025)	(1,116)
INCOME BEFORE INCOME TAXES	(48)	6,067	4,115
INCOME TAXES (Note 5)	5,994	412	1,527
NET (LOSS) INCOME	$(6,042)	$ 5,655	$ 2,588

See notes to financial statements.

VALENCIA WATER COMPANY

STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY
FOR THE PERIOD FROM JANUARY 1, 2018 THROUGH JANUARY 22, 2018
AND YEARS ENDED DECEMBER 31, 2017 AND DECEMBER 31, 2016
(In thousands)

	Common Stock	Paid-In Capital	Retained Earnings	Total Stockholder's Equity
BALANCE—January 1, 2016	$1,537	$6,207	$16,694	$24,438
Net income			2,588	2,588
Dividends—common stock (Note 6)			(799)	(799)
BALANCE—December 31, 2016	1,537	6,207	18,483	26,227
Net income			5,655	5,655
Dividends—common stock (Note 6)			(799)	(799)
BALANCE—December 31, 2017	1,537	6,207	23,339	31,083
Net loss			(6,042)	(6,042)
BALANCE—January 22, 2018	$1,537	$6,207	$17,297	$25,041

See notes to financial statements.

VALENCIA WATER COMPANY

STATEMENTS OF CASH FLOWS
FOR THE PERIOD FROM JANUARY 1, 2018 THROUGH JANUARY 22, 2018
AND YEARS ENDED DECEMBER 31, 2017 AND DECEMBER 31, 2016
(In thousands)

	January 22, 2018	December 31, 2017	December 31, 2016
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net (loss) income	$(6,042)	$ 5,655	$ 2,588
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	145	2,742	2,746
Deferred income taxes	(3,316)	(1,110)	72
Amortization of deferred financing costs	4	45	45
Amortization of deferred revenue	(2)	(29)	(18)
Changes in assets and liabilities:			
Changes in metered, unbilled, and other receivables	5	(1,042)	(466)
Changes in materials and supplies	13	(11)	5
Changes in income taxes receivable	737	(737)	
Changes in other assets	350	180	71
Changes in accounts payable and accrued liabilities	(232)	482	236
Changes in income taxes payable	8,573	(911)	415
Net cash provided by operating activities	235	5,264	5,694
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investments		(17,418)	(19,708)
Sale of investments		16,934	13,730
Acquisition of utility and general plant assets	(243)	(3,478)	(2,379)
Net cash used in investing activities	(243)	(3,962)	(8,357)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Refunds of advances for construction		(693)	(696)
Deposits held for construction received	22	1,611	1,182
Contributions in aid of construction received		127	
Dividends paid		(799)	(799)
Net cash (used in) provided by financing activities	22	246	(313)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	14	1,548	(2,976)
CASH AND CASH EQUIVALENTS—Beginning of period	7,003	5,455	8,431
CASH AND CASH EQUIVALENTS—End of period	$ 7,017	$ 7,003	$ 5,455

(Continued)

VALENCIA WATER COMPANY

STATEMENTS OF CASH FLOWS
FOR THE PERIOD FROM JANUARY 1, 2018 THROUGH JANUARY 22, 2018
AND YEARS ENDED DECEMBER 31, 2017 AND DECEMBER 31, 2016
(In thousands)

	January 22, 2018	December 31, 2017	December 31, 2016
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Interest paid	$ -	$ 1,109	$ 1,109
Income taxes paid	$ -	$ 3,171	$ 1,040
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:			
Amortization of contributions in aid of construction and related reduction to net utility and general plant assets	$ 133	$ 1,929	$ 1,916
Transfers of deposits held for construction to contributions in aid of construction	$ -	$ 1,629	$ 511
Liabilities accrued for the purchase of utility and general plant assets	$ 264	$ 172	$ 30

See notes to financial statements. (Concluded)

1. ORGANIZATION AND DESCRIPTION OF THE REPORTING ENTITY

Valencia Water Company (the "Company") was incorporated on April 7, 1954, in the state of California. The Company provides potable water service to approximately 31,000 customers within an area encompassing a portion of the incorporated City of Santa Clarita and within the surrounding unincorporated communities of Castaic, Newhall, Saugus, Stevenson Ranch, and Valencia in northern Los Angeles County.

On December 21, 2012, Castaic Lake Water Agency ("Castaic") acquired all of the Company's common stock from The Newhall Land and Farming Company, a California limited partnership ("Newhall Land"), by an action of eminent domain. Castaic is a public water wholesaler that provides water from the California State Water Project to the Company and other water retailers in the Santa Clarita Valley.

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

The Company's water supply consists of local ground water, purchases of water from Castaic, and a minor amount of recycled water to serve nonpotable landscape irrigation services. The mix of groundwater, purchased water, and recycled water was 43%, 56%, and 1%, respectively, for the period ended January 22, 2018; 36%, 63%, and 1%, respectively, in 2017, and 58%, 40%, and 2%, respectively, in 2016.

2. REGULATORY MATTERS

Rate changes by the Company are subject to the Board of Directors' approval. The Board of Directors approved a 6.3% general rate increase, which took effect on January 1, 2018, followed by subsequent increases of 6.3% to be effective on January 1, 2019 and January 1, 2020. The Board of Directors approved a 7.62% general rate increase, which took effect on May 1, 2015, followed by subsequent increases of 4.37% and 2.32% effective as of January 1, 2016, and January 1, 2017, respectively. Additionally, the Board of Directors approved a revenue adjustment surcharge effective October 1, 2016, which is expected to remain in effect until late-2018.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation—The financial statements of the Company are presented in conformity with accounting principles generally accepted in the United States of America.

Management Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses; disclosure of contingent assets or liabilities as of the date of the financial statements; and reported amounts of changes in stockholder's equity during the reporting period. Actual results could differ from those estimates. Significant accounting estimates reflected in the Company's financial statements include depreciation and unbilled revenues.

Revenue Recognition—Water utility revenues include amounts billed monthly to customers and unbilled revenue of $1,226,000 for the period ended January 22, 2018, $2,077,000, and $2,223,000 for the years ended December 31, 2017 and 2016, respectively, based on estimated usage from the last meter-reading date to period end at current rates. Water utility revenues are recognized as water is delivered to the customer.

Cash and Cash Equivalents—Included in cash and cash equivalents are short-term investments that have original maturity dates of three months or less. The carrying amounts of these short-term investments approximate fair value due to their short-term nature. The Company has its cash and cash equivalents on deposit with banks, which are insured by the Federal Deposit Insurance Corporation up to $250,000 per financial institution. At various times during the period ended January 22, 2018, and years ended December 31, 2017 and 2016, the Company maintained balances in excess of insured amounts.

Investments—Included in investments are certificates of deposit with banks, which are insured by the Federal Deposit Insurance Corporation up to $250,000 per financial institution, and investments in commercial paper with original maturity dates ranging from 3 months to one year.

Utility and General Plant Assets—The cost of additions, renewals, and betterments to utility and general plant assets is capitalized in the appropriate plant accounts. Costs include labor, material, and other direct and certain indirect charges. The cost of utility and general plant assets retired or otherwise disposed of, including removal costs, is charged to accumulated depreciation. Depreciation is recorded primarily on a straight-line basis over the assets' useful lives (40 years for buildings, 30 years for wells, 20 years for pumping equipment, 20 to 40 years for transmission and distribution system, and 7 to 20 years for general plant) and was equivalent to approximately 3% of depreciable utility and general plant assets for the period ended January 22, 2018, and years ended December 31, 2017 and 2016.

Expenditures that materially increase the lives of utility and general plant assets are capitalized, while costs of maintenance and repairs are charged to expense as incurred.

The Company reviews its investments in long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If, after review, an asset is determined to be impaired, an impairment loss in the amount by which the carrying amount of the asset exceeds its fair value is recorded. There were no impairment losses recorded during the period ended January 22, 2018, or the years ended December 31, 2017 and 2016.

Other Assets—Other assets include prepaid expenses related primarily to property and liability insurance policies.

Advances for Construction—Advances for construction represent cash received from developers by the Company for extensions of the Company's distribution system. Advance contracts are generally refundable to the depositor at a rate of 2.5% each year over a 40-year period and do not bear interest. The Company expects to repay approximately $692,000 in advances in each year from 2018 through 2022, with the remaining $4,749,000 in advances due in years thereafter.

Contributions in Aid of Construction—Contributions in aid of construction are nonrefundable contributions received by the Company in cash, services, or property, primarily from developers for the purpose of constructing utility plant assets. Depreciation applicable to such utility plant assets is charged directly to the contributions in aid of construction account rather than to depreciation expense in the statements of income. The charges continue until the cost applicable to such utility plant assets has been fully depreciated or the asset is retired. Although the contribution remains on the Company's financial statements until the asset is fully depreciated, the Company has no future obligations to these developers for the contribution other than general maintenance of the utility plant assets. Accordingly, contributions in aid of construction have not been classified as a liability or as equity in the accompanying financial statements.

As certain contributions in aid of construction received by the Company in cash are taxable, the Company collects an additional amount above the cost of the related utility plant (an income tax gross-up component). This additional amount received by the Company is recorded as deferred revenue on the balance sheets and recognized as revenue over the estimated useful life of the related utility plant.

Deposits Held for Construction—Deposits held for construction represent cash received by the Company for extensions of the Company's distribution system. Deposits are based on the estimated cost to construct the extension of the Company's distribution system. When construction of these assets is complete, they become part of the Company's distribution system and are accounted for as advances for construction or contributions in aid of construction, depending on the terms of the agreement.

Income Taxes—The Company uses the asset and liability method of accounting for income taxes. This method requires the recognition of tax consequences of temporary differences between tax bases and financial reporting bases of assets and liabilities.

Recent Accounting Pronouncements—In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU No. 2014-09 supersedes most existing revenue recognition guidance, including industry-specific revenue recognition guidance. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers*, which deferred the effective date of ASU No. 2014-09 by one year to annual reporting periods beginning after December 15, 2018 for private entities. Further, the application of ASU No. 2014-09 permits the use of either the full retrospective or cumulative effect transition approach. Early adoption is permitted for fiscal years beginning after December 15, 2016. The Company will adopt ASU No. 2014-09 on January 1, 2019. The Company has not yet selected a transition method nor has it determined the impact the adoption of ASU No. 2014-09 will have on its financial statements, if any.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. This ASU requires that lessees recognize assets and liabilities for leases with lease terms greater than twelve months in the balance sheet and also requires improved disclosures to help users of financial statements better understand the amount, timing and uncertainty of cash flows arising from leases. This update is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. The Company is in the process of assessing the impact that the adoption of this ASU will have on its financial statements.

4. SECURED NOTES PAYABLE

On June 1, 2010, the Company entered into a $12,000,000 senior secured note with Modern Woodmen of America ("Modern Woodmen"). On September 15, 2010, the Company 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 Company'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 the Company was in compliance as of January 22, 2018, and December 31, 2017 and 2016. 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. The balance of the note has been reduced by the unamortized balance of the debt financing costs of $207,000, $211,000, and $256,000 as of January 22, 2018, December 31, 2017, and December 31, 2016, respectively. In connection with the dissolution of the Company, the Senior Secured Notes were paid off on January 25, 2018.

5. INCOME TAXES

In connection with the dissolution of the Company, the Internal Revenue Code requires that the Company's corporate dissolution be treated as a deemed sale of the Company's assets and liabilities at estimated fair market value. As of January 22, 2018, the estimated fair market value of the Company's assets and liabilities were significantly greater than the tax carrying value of the Company's assets and liabilities. The resulting liquidation tax is assessed on the Company and is due with the Company's final corporate tax return for the period ended January 22, 2018. The liquidation tax payable is reported as a current liability on the Company's January 22, 2018 balance sheet and the resulting income tax expense is reported as an expense on the statement of operations for the period ended January 22, 2018.

In addition, on December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "TCJA"). The TCJA makes broad and complex changes to the U.S. tax code, including, but not limited to, reducing the U.S. statutory corporate income tax rate from 35 percent to 21 percent, effective January 1, 2018. U.S. GAAP requires that deferred income tax assets and liabilities be re-measured at the income tax rate expected to apply when those temporary differences reverse, and that the effects of any change to such income tax rate be recognized in the period when the change was enacted. In connection with the Company's initial analysis of the impact of the TCJA, the Company recorded a discrete net tax benefit of $2,054,900 in the year ended December 31, 2017. This net benefit is primarily due to the re-measurement of the Company's existing deferred tax assets and liabilities.

The SEC staff issued Staff Accounting Bulletin No. 118 ("SAB 118"), which provides guidance on accounting for the tax effects of the TCJA. The FASB has confirmed acceptance of this for non-SEC reporting Companies. SAB 118 provides a measurement period that should not extend beyond one year from the TCJA enactment date for companies to complete the related accounting. To the extent that a company's accounting for certain income tax effects of the TCJA is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements.

The Company recorded the effects of the TCJA in 2017 using its best estimates and the information available through the date the financial statements were issued. However, the Company's analysis is ongoing and as such, the income tax effects recorded are provisional.

The provision for income taxes for the period ended January 22, 2018, and for the years ended December 31, 2017 and 2016, is as follows (in thousands):

	January 22, 2018	**December 31, 2017**	**December 31, 2016**
Current:			
Federal	$ 7,696	$ 1,157	$1,073
State	1,614	366	382
Total current	9,310	1,523	1,455
Deferred:			
Federal	(3,427)	(1,293)	89
State	111	183	(17)
Total deferred	(3,316)	(1,110)	72
Total provision for income taxes	$ 5,994	$ 413	$1,527

For the period ended January 22, 2018, the effective tax rate is not comparable to the previous years presented due to the recording of the liquidation tax described above. For the year ended December 31, 2017, the tax provision represents an effective tax rate of approximately 6.8% compared to 37.1% in 2016. The significant decrease in the effective tax rate for the year ended December 31, 2017 as compared to the year ended December 31, 2016 is the result of the enactment of the TCJA and the resulting one time re-measurement of the Company's deferred tax assets and deferred tax liabilities.

Due to the taxable liquidation transaction mentioned above, all of the Company's deferred tax assets and deferred tax liabilities were realized in the period ended January 22, 2018.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities as of December 31, 2017 and 2016, are as follows (in thousands):

	December 31, 2017	December 31, 2016
Deferred tax assets:		
Advances for construction	$ 630	$ 1,052
Contributions in aid of construction liability	15,161	21,841
Settlement proceeds	372	534
Other	188	441
Total deferred tax assets	16,351	23,868
Deferred tax liabilities:		
Excess tax depreciation	(8,038)	(11,540)
Contributions in aid of construction fixed assets	(11,512)	(16,637)
Investment tax credit	(117)	(117)
Total deferred tax liabilities	(19,667)	(28,294)
Net deferred tax liabilities	$ (3,316)	$ (4,426)

No valuation allowance was provided against the deferred tax assets as of December 31, 2017 and 2016. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Based on this assessment, management has concluded that it is more likely than not that the results of future operations will generate sufficient taxable income to realize the deferred tax assets.

As of December 31, 2017 and 2016, the Company did not have unrecognized tax benefits that, if recognized, would affect the effective tax rate. The Company recognizes interest accrued related to unrecognized tax benefits as income tax expense. During the period ended January 22, 2018, and years ended December 31, 2017 and 2016, the Company recognized no interest expense related to income taxes.

The Company is subject to taxation in the United States and California jurisdictions. As of January 22, 2018, the Company is no longer subject to examinations by United States Federal tax authorities for years before 2014 or by California State state tax authorities for years before 2013.

6. STOCKHOLDER'S EQUITY

The Board of Directors authorized, and the Company declared and paid dividends on its common stock of $799,000 during each of the years ended December 31, 2017 and December 31, 2016. No dividends were paid during the period from January 1, 2018 through January 22, 2018.

7. RELATED-PARTY TRANSACTIONS

As mentioned above, the Company purchases water from Castaic, which also provides the Company with water quality testing services, and the associated expense is included within operations and maintenance expenses. In addition, Castaic provides human resources services to the Company, and the associated expense for these services is included within general and administrative expenses. The amounts for these related-party transactions are listed below (in thousands):

	January 22, 2018	December 31, 2017	December 31, 2016
Purchased water	$605	$9,362	$7,179
Water quality testing	1	47	41
Human resources services expense	4	44	36

The Company has the following related-party amounts recorded on the balance sheets (in thousands):

	January 22, 2018	December 31, 2017	December 31, 2016
Accounts receivable	$ 5	$ 5	$ 2
Accounts payable	601	220	563

8. COMMITMENTS AND CONTINGENCIES

Commitments—The Company leases vehicles under operating leases expiring in 2018 through 2021. Rent expenses under these leases were $18,000, $181,000, and $177,000 for the period ended January 22, 2018, and for the years ended December 31, 2017 and 2016, respectively, and are included within operations and maintenance expenses. Future minimum payments due under these leases as of January 22, 2018, are as follows (in thousands):

Years Ending December 31	
2018	$178
2019	166
2020	119
2021	73

Litigation—The Company is involved in litigation and various claims, including those arising from its ordinary conduct of business. Management is of the opinion that the ultimate liability from this litigation and/or various claims will not materially affect the Company's financial statements. The Company believes it has adequate insurance to protect itself against any future material property and casualty losses.

9. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through May 4, 2018, the date the financial statements were available to be issued.

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