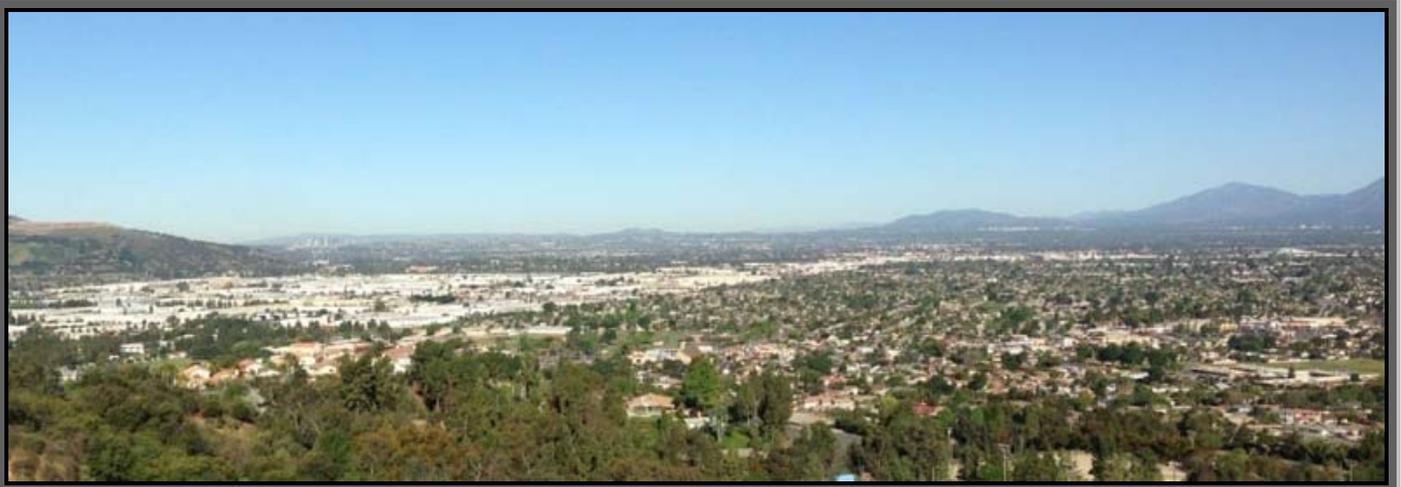




La Puente Valley County Water District

Annual Financial Report

For the Fiscal Years Ended December 31, 2017 and 2016



Mission Statement

The mission of the La Puente Valley County Water District is to provide its customers with high quality water for residential, commercial, industrial and fire protection uses that meets or exceeds all local, state and federal standards and to provide courteous and responsive service at the most reasonable cost.

Board of Directors as of December 31, 2017

Name	Title	Elected/ Appointed	Current Term
David Hastings	President	Elected	November 2020
William R. Rojas	Vice President	Elected	November 2020
Charlie Aguirre	Director	Elected	November 2018
John P. Escalera	Director	Elected	November 2018
Henry P. Hernandez	Director	Elected	November 2018

**La Puente Valley County Water District
Greg B. Galindo, General Manager
112 N. First Street
La Puente, California 91744
(626) 330-2126 – www.lapuentewater.com**



La Puente Valley County Water District

Annual Financial Report

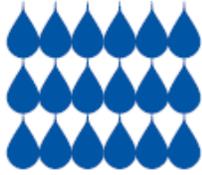
For the Fiscal Years Ended December 31, 2017 and 2016

La Puente Valley County Water District
Annual Financial Report
For the Fiscal Years Ended December 31, 2017 and 2016

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Financial Section



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Independent Auditor's Report

Board of Directors
La Puente Valley County Water District
La Puente, California

Report on the Financial Statements

We have audited the accompanying financial statements of the La Puente Valley County Water District (District), which comprises the statements of net position as of December 31, 2017 and 2016, and the related statements of revenues, expenses and changes in net position and cash flows for the fiscal years then ended, and the related notes to the financial statements, which collectively comprise the District's basic 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 controls 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 basic financial statements based on our audits. We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free of 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the La Puente Valley County Water District as of December 31, 2017 and 2016, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report, continued

Other-Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 and the required supplementary schedules on pages 42 through 44 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audits 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated May 14, 2018, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance. This report can be found on pages 45 and 46.

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
May 14, 2018

La Puente Valley County Water District
Management's Discussion and Analysis
For the Fiscal Years Ended December 31, 2017 and 2016

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the La Puente Valley County Water District (District) provides an introduction to the financial statements of the District for the fiscal years ended December 31, 2017 and 2016. We encourage readers to consider the information presented here in conjunction with the basic financial statements and related notes, which follow this section.

Financial Highlights

- In fiscal year 2017, the District's net position increased 1.40% or \$147,627 from \$10,527,768 to \$10,675,395 as a result of ongoing operations. In fiscal year 2016, the District's net position decreased 0.86% or \$91,126 from \$10,618,894 to \$10,527,768 as a result of ongoing operations.
- In fiscal year 2017, the District's total revenues increased 2.06% or \$76,786. In fiscal year 2016, the District's total revenues decreased 2.92% or \$112,025.
- In fiscal year 2017, the District's total expenses increased 3.17% or \$120,966. In fiscal year 2016, the District's total expenses decreased 13.35% or \$588,798.
- In fiscal year 2017, the District's capital contributions increased 3,412.12% or \$282,933. In fiscal year 2016, the District's capital contributions decreased 84.79% or \$46,213.

Required Financial Statements

This annual report consists of a series of financial statements. The Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position and Statements of Cash Flows provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies.

The Statements of Net Position include all of the District's investments in resources (assets), deferred outflows of resources, the obligations to creditors (liabilities), deferred inflows of resources and net position. They also provide the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current and prior years' revenue and expenses are accounted for in the Statements of Revenues, Expenses and Changes in Net Position. These statements measure the success of the District's operations over the past years and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. These statements can also be used to evaluate profitability and credit worthiness. The final required financial statement is the Statements of Cash Flows, which provide information about the District's cash receipts and cash payments during the reporting periods. The Statements of Cash Flows report cash receipts, cash payments and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities and provide answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Analysis of the District

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the District in a way that helps answer this question. These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources 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.

La Puente Valley County Water District
Management's Discussion and Analysis
For the Fiscal Years Ended December 31, 2017 and 2016

Financial Analysis of the District, continued

These two statements report the District's *net position* and changes in them. You can think of the District's net position – the difference between assets plus deferred outflows of resources less liabilities and deferred inflows of resources – as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net position are one indicator of whether its *financial health* is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, zoning and new or changed government legislation, such as changes in Federal and State water quality standards.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 13 through 41.

Statements of Net Position

Condensed Statements of Net Position

	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>As Restated 2015</u>	<u>Change</u>
Assets:					
Current assets	\$ 4,228,122	3,688,132	539,990	3,986,827	(298,695)
Non-current assets	742,515	737,639	4,876	234,189	503,450
Capital assets, net	<u>7,871,662</u>	<u>8,060,819</u>	<u>(189,157)</u>	<u>8,346,908</u>	<u>(286,089)</u>
Total assets	<u>12,842,299</u>	<u>12,486,590</u>	<u>355,709</u>	<u>12,130,881</u>	<u>(11,775,172)</u>
Deferred outflows of resources	<u>216,368</u>	<u>173,169</u>	<u>43,199</u>	<u>32,353</u>	<u>140,816</u>
Liabilities:					
Current liabilities	547,267	363,729	183,538	318,262	45,467
Non-current liabilities	<u>1,793,181</u>	<u>1,686,233</u>	<u>106,948</u>	<u>1,519,603</u>	<u>166,630</u>
Total liabilities	<u>2,340,448</u>	<u>2,049,962</u>	<u>290,486</u>	<u>1,837,865</u>	<u>212,097</u>
Deferred inflows of resources	<u>42,824</u>	<u>82,029</u>	<u>(39,205)</u>	<u>143,518</u>	<u>(61,489)</u>
Net position:					
Investment in capital assets	7,871,662	8,060,819	(189,157)	8,346,908	(286,089)
Unrestricted	<u>2,803,733</u>	<u>2,466,949</u>	<u>336,784</u>	<u>2,271,986</u>	<u>194,963</u>
Total net position	<u>\$ 10,675,395</u>	<u>10,527,768</u>	<u>147,627</u>	<u>10,618,894</u>	<u>(91,126)</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows exceeded liabilities and deferred inflows by \$10,675,395 and \$10,527,768 as of December 31, 2017 and 2016, respectively.

A portion of the District's net position, 73.74% and 76.57% as of December 31, 2017 and 2016, respectively, reflects the District's investment in capital assets net of accumulated depreciation. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are *not* available for future spending.

At the end of the fiscal year 2017 and 2016, the District showed a positive balance in its unrestricted net position of \$2,803,733 and \$2,466,949, respectively. See note 9 for the amount of spendable net position that may be utilized in future years.

La Puente Valley County Water District
Management's Discussion and Analysis
For the Fiscal Years Ended December 31, 2017 and 2016

Statements of Revenues, Expenses and Changes in Net Position

Condensed Statements of Revenues, Expenses and Changes in Net Position

	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>As Restated 2015</u>	<u>Change</u>
Revenues:					
Operating revenues	\$ 3,481,156	3,437,050	44,106	3,549,657	(112,607)
Non-operating revenues	317,104	284,424	32,680	283,842	582
Total revenues	<u>3,798,260</u>	<u>3,721,474</u>	<u>76,786</u>	<u>3,833,499</u>	<u>(112,025)</u>
Expenses:					
Operating expenses	3,415,126	3,281,429	133,697	3,319,734	(38,305)
Non-operating expense	785	-	785	786	(786)
Depreciation expense	525,947	539,463	(13,516)	1,089,170	(549,707)
Total expenses	<u>3,941,858</u>	<u>3,820,892</u>	<u>120,966</u>	<u>4,409,690</u>	<u>(588,798)</u>
Net income before capital contributions	(143,598)	(99,418)	(44,180)	(576,191)	476,773
Capital contributions	<u>291,225</u>	<u>8,292</u>	<u>282,933</u>	<u>54,505</u>	<u>(46,213)</u>
Change in net position	147,627	(91,126)	238,753	(521,686)	430,560
Net position:					
Beginning of year – as restated	<u>10,527,768</u>	<u>10,618,894</u>	<u>(91,126)</u>	<u>11,140,580</u>	<u>(521,686)</u>
End of year	<u>\$ 10,675,395</u>	<u>10,527,768</u>	<u>147,627</u>	<u>10,618,894</u>	<u>(91,126)</u>

The statements of revenues, expenses and changes in net position show how the District's net position changed during the years. In the case of the District, net position increased 1.40% or \$147,627 from \$10,527,768 to \$10,675,395 as a result of ongoing operations. In fiscal year 2016, the District's net position decreased 0.86% or \$91,126 from \$10,618,894 to \$10,527,768 as a result of ongoing operations.

A closer examination of the sources of changes in net position reveals that:

In fiscal year 2017, the District's total revenues increased 2.06% or \$76,786. In fiscal year 2016, the District's total revenues decreased 2.92% or \$112,025.

In fiscal year 2017, the District's operating revenues increased 1.28% or \$44,106 due primarily to increases of \$73,753 in water consumption sales and \$27,351 in water treatment services, which were offset by a decrease of \$62,260 in water treatment operations and maintenance fees. In fiscal year 2016, the District's operating revenues decreased 3.17% or \$112,607 due primarily to a decrease of \$279,847 in water treatment service revenues, which was offset by increases of \$63,468 in water consumption sales, \$42,791 in project administrative services, \$38,262 in water treatment operations and maintenance fees, and \$10,229 in bi-monthly service charges.

In fiscal year 2017, the District's non-operating revenues increased 11.21% or \$31,895 due primarily to increases of \$14,807 in property taxes, \$10,009 in investment earnings, and \$7,600 in other non-operating revenue. In fiscal year 2016, the District's non-operating revenues increased 0.48% or \$1,368 due primarily to an increase of \$7,730 in investment earnings, which was offset by a decrease of \$6,177 in other non-operating revenue.

In fiscal year 2017, the District's total expenses increased 3.17% or \$120,966. In fiscal year 2016, the District's total expenses decreased 13.35% or \$588,798.

La Puente Valley County Water District
Management's Discussion and Analysis
For the Fiscal Years Ended December 31, 2017 and 2016

Statements of Revenues, Expenses and Changes in Net Position, continued

In fiscal year 2017, the District's operating expenses increased 4.07% or \$133,697 due primarily to increases of \$172,290 in salaries and benefits, \$45,194 in assessments, and \$29,986 in water treatment costs, which were offset by decreases of \$53,594 in source of supply, \$31,885 in transmission and distribution, \$17,812 in pumping costs, and \$9,301 in general and administrative expenses. In fiscal year 2016, the District's operating expenses decreased 1.15% or \$38,305 due primarily to a decrease of \$320,430 in water treatment costs, which was offset by an increase of \$282,125 in water operations expenses.

In fiscal year 2017, the District's non-operating expense increased by \$785 due primarily to a loss on disposal of capital assets. In fiscal year 2016, the District's non-operating expense decreased by \$786 due primarily to a loss on disposal of capital assets recorded in the prior year.

In fiscal year 2017, the District's depreciation expense decreased 2.51% or \$13,516 due primarily to the maturing of existing capital assets. In fiscal year 2016, the District's depreciation expense decreased 50.47% or \$549,707 due primarily to a change in the useful life of the treatment plant capital assets.

In fiscal year 2017, the District's capital contributions increased 3,412.12% or \$282,933 due primarily to increases of \$210,130 in capital contributions from a developer and \$72,803 in developer fees. In fiscal year 2016, the District's capital contributions decreased 84.79% or \$46,213 due primarily to a decrease of \$30,787 in capital contributions and \$15,426 in developer fees.

Capital Asset Administration

At the end of fiscal years 2017 and 2016, the District's investment in capital assets amounted to \$7,871,662 and \$8,060,819 (net of accumulated depreciation), respectively. This investment in capital assets includes land, construction-in-process, water treatment plant, transmission and distribution, pumps and reservoirs, buildings and structures, equipment, vehicles, and software. See note 5 for further information.

Changes in capital asset amounts for 2017, were as follows:

	Balance 2016	Additions	Transfers/ Deletions	Balance 2017
Capital assets:				
Non-depreciable assets	\$ 315,553	217,152	-	532,705
Depreciable assets	24,348,015	120,423	(15,095)	24,453,343
Accumulated depreciation	(16,602,749)	(525,947)	14,310	(17,114,386)
Total capital assets, net	<u>\$ 8,060,819</u>	<u>(188,372)</u>	<u>(785)</u>	<u>7,871,662</u>

Changes in capital asset amounts for 2016, were as follows:

	Balance 2015	Additions	Transfers/ Deletions	Balance 2016
Capital assets:				
Non-depreciable assets	\$ 262,076	107,649	(54,172)	315,553
Depreciable assets	24,226,606	199,897	(78,488)	24,348,015
Accumulated depreciation	(16,141,774)	(539,463)	78,488	(16,602,749)
Total capital assets, net	<u>\$ 8,346,908</u>	<u>(231,917)</u>	<u>(54,172)</u>	<u>8,060,819</u>

La Puente Valley County Water District
Management's Discussion and Analysis
For the Fiscal Years Ended December 31, 2017 and 2016

Requests for Information

This financial report is designed to provide the District's funding sources, customers, stakeholders and other interested parties with an overview of the District'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: Greg B. Galindo, General Manager of La Puente Valley County Water District at 112 N. First Street, La Puente, CA 91744 or by phone (626) 330-2126.

Basic Financial Statements

La Puente Valley County Water District
Statements of Net Position
December 31, 2017 and 2016

	2017	2016
Current assets:		
Cash and cash equivalents (note 2)	\$ 3,257,807	2,684,261
Accrued interest receivable	7,206	3,381
Accounts receivable – water sales and services	323,656	303,499
Accounts receivable – other (note 3)	252,402	341,298
Accounts receivable – property taxes	30,866	30,510
Materials and supplies inventory	87,563	89,445
Prepays	33,920	23,010
Prepaid water rights (note 4)	234,702	212,728
	4,228,122	3,688,132
Non-current assets:		
Investments (note 2)	508,326	503,450
Prepaid water rights (note 4)	234,189	234,189
Capital assets – not being depreciated (note 5)	532,705	315,553
Capital assets – being depreciated, net (note 5)	7,338,957	7,745,266
	8,614,177	8,798,458
Total assets	12,842,299	12,486,590
Deferred outflows of resources:		
Deferred pension outflows (note 8)	216,368	173,169
	216,368	173,169
Current liabilities:		
Accounts payable and accrued expenses	232,380	304,038
Developer deposits	247,367	-
Customer deposits	3,285	1,200
Long-term liabilities – due in one year:		
Compensated absences (note 6)	64,235	58,491
	547,267	363,729
Non-current liabilities:		
Long-term liabilities – due in more than one year:		
Compensated absences (note 6)	64,235	58,492
Other post-employment benefits payable (note 7)	1,100,438	1,112,165
Net pension liability (note 8)	628,508	515,576
	1,793,181	1,686,233
Total liabilities	2,340,448	2,049,962
Deferred inflows of resources:		
Deferred pension inflows (note 8)	42,824	82,029
	42,824	82,029
Net position: (note 9)		
Investment in capital assets	7,871,662	8,060,819
Unrestricted	2,803,733	2,466,949
Total net position	\$ 10,675,395	10,527,768

See accompanying notes to the basic financial statements

La Puente Valley County Water District
Statements of Revenues, Expenses and Changes in Net Position
For the Fiscal Years Ended December 31, 2017 and 2016

	2017	2016
Operating revenues:		
Water operation revenues:		
Water consumption sales	\$ 1,254,465	1,180,712
Bi-monthly service charges	604,424	601,298
Other water service charges	30,342	30,664
Fire services	56,901	54,362
Water surplus sales	35,769	30,558
Other water service charges	-	195
Total water service charges	1,981,901	1,897,789
Facility and service contract revenue: (note 10)		
Water treatment services – BPOU	1,189,748	1,162,397
Water treatment operations and maintenance fees – BPOU	12,740	75,000
Water treatment other charges – BPOU	65,461	68,259
Retail water distribution system management fee – City of Industry	182,070	178,500
Project administrative services – PVOU IZ	49,236	55,105
Total facility and service contract revenue	1,499,255	1,539,261
Total operating revenues	3,481,156	3,437,050
Operating expenses:		
Water operation expenses:		
Source of supply	421,870	475,464
Transmission and distribution	284,520	316,405
Pumping	110,733	128,545
Assessments	132,114	86,920
Water treatment	4,124	6,408
Customer accounts	20,907	19,804
General and administrative	320,430	329,731
Salaries and benefits	1,287,439	1,115,149
Total water operation expenses	2,582,137	2,478,426
Facility and service contract expenses: (note 10)		
Water treatment costs – BPOU	832,989	803,003
Total facility and service contract expenses	832,989	803,003
Total operating expenses	3,415,126	3,281,429
Operating income before depreciation expense	66,030	155,621
Depreciation expense	(525,947)	(539,463)
Operating loss	\$ (459,917)	(383,842)

Continued on next page

See accompanying notes to the basic financial statements

La Puente Valley County Water District
Statements of Revenues, Expenses and Changes in Net Position, continued
For the Fiscal Years Ended December 31, 2017 and 2016

	2017	2016
Non-operating revenues:		
Property taxes	\$ 230,515	215,708
Investment earnings	24,001	13,992
Rental revenue (note 11)	34,988	33,969
Gain from disposition of capital assets	-	755
Other non-operating revenues	27,600	20,000
Total non-operating revenues	317,104	284,424
Non-operating expense:		
Loss from disposition of capital assets	785	-
Total non-operating expense	785	-
Total non-operating revenue, net	316,319	284,424
Net loss before capital contributions	(143,598)	(99,418)
Capital contributions:		
Capital contributions - developer	210,130	-
Developer fees	81,095	8,292
Total capital contributions	291,225	8,292
Change in net position	147,627	(91,126)
Net position:		
Beginning of year	10,527,768	10,618,894
End of year	\$ 10,675,395	10,527,768

See accompanying notes to the basic financial statements

La Puente Valley County Water District
Statements of Cash Flows
For the Fiscal Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Cash receipts from customers for water sales and services	\$ 2,211,196	1,891,497
Cash receipts from facility and service contract revenue	1,499,255	1,539,261
Cash receipts from others	151,485	9,561
Cash paid to vendors and suppliers for materials and services	(2,230,347)	(2,134,138)
Cash paid to employees for salaries and wages	(1,257,151)	(1,143,415)
Net cash provided by operating activities	374,438	162,766
Cash flows from non-capital financing activities:		
Proceeds from property taxes	230,159	207,955
Net cash provided by non-capital financing activities	230,159	207,955
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(337,576)	(253,374)
Proceeds from capital contributions	291,225	8,292
Proceeds from the sale of capital assets	-	755
Net cash used in capital and related financing activities	(46,351)	(244,327)
Cash flows from investing activities:		
Purchases of investments	(205,000)	(500,000)
Proceeds from sale of investments	200,566	-
Interest and investment earnings	19,734	9,174
Net cash provided by(used in) investing activities	15,300	(490,826)
Net increase(decrease) in cash and cash equivalents	573,546	(364,432)
Cash and cash equivalents:		
Beginning of year	2,684,261	3,048,693
End of year	\$ 3,257,807	2,684,261

Continued on next page

See accompanying notes to the basic financial statements

La Puente Valley County Water District
Statements of Cash Flows, continued
For the Fiscal Years Ended December 31, 2017 and 2016

	2017	2016
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (459,917)	(383,842)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation expense	525,947	539,463
Rental revenue	34,988	33,969
Other non-operating revenues	27,601	20,000
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources:		
(Increase)Decrease in assets:		
Accounts receivable – water sales and services	(20,157)	(5,092)
Accounts receivable – other	88,896	(44,408)
Materials and supplies inventory	1,882	(4,970)
Prepays	(10,910)	7,336
Prepaid water rights	(21,974)	(9,482)
Increase in deferred outflows of resources:		
Deferred pension outflows	(43,199)	(140,816)
Increase(Decrease) in liabilities:		
Accounts payable and accrued expenses	(71,658)	39,258
Developer deposits	247,367	-
Customer deposits	2,085	(1,200)
Compensated absences	11,487	14,818
Other post-employment benefits payable	(11,727)	(20,224)
Net pension liability	112,932	179,445
Decrease in deferred inflows of resources:		
Deferred pension inflows	(39,205)	(61,489)
Total adjustments	834,355	546,608
Net cash provided by operating activities	\$ 374,438	162,766

See accompanying notes to the basic financial statements

La Puente Valley County Water District
Notes to the Basic Financial Statements
For the Fiscal Years Ended December 31, 2017 and 2016

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The La Puente Valley County Water District (District) was incorporated in August 1924, an independent special district, which operates under the authority of Division 12 of the California Water Code. On April 28, 1925, voters approved a general obligation bond issue for \$135,000. Proceeds of the Bonds were used to purchase the Puente City Water Company for \$35,000 and pay for construction of almost five miles of fourteen and sixteen inch water mains extending from Puente Avenue and Francisquito Avenue to the Hudson Street booster plant and from there to the reservoir on the easterly end of Main Street in La Puente. The last of the bonds were retired in 1964. Since inception, the District has grown to encompass some 1,600 acres in Los Angeles County. The District provides water for residential and commercial purposes, as well as operates and maintains the water distribution system for the City of Industry and the operation and maintenance of groundwater treatment for the Baldwin Park Operable Unit area. The District is governed by a five-member board of directors elected within the District's service area.

The criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Statements No. 61, *The Financial Reporting Entity*. The District is the primary governmental unit based on the foundation of a separately elected governing board that is elected by the citizens in a general popular election. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District is financially accountable for a component unit that has substantively the same governing body, and additionally (1) the primary government and the component unit have a financial benefit or burden relationship or (2) management (below the level of the elected officials) of the primary government have operational responsibility for the activities of the component unit.

B. Basis of Accounting and Measurement Focus

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs of providing water to its service area on a continuing basis be financed or recovered primarily through user charges (water sales), water treatment services, capital grants and similar funding. Revenues and expenses are recognized on the full accrual basis of accounting. 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 and expenses, such as water sales and water purchases, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Management, administration and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses.

The District recognizes revenue from water and service charges based on cycle billings performed bi-monthly. The District accrues revenues with respect to water and service sold but not billed at the end of a fiscal period.

C. Financial Reporting

The District's basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applied to enterprise funds. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District solely operates as a special-purpose government which means it is only engaged in business-type activities; accordingly, activities are reported in the District's proprietary fund.

La Puente Valley County Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended December 31, 2017 and 2016

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

C. Financial Reporting, continued

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

In June 2015, the GASB issued Statement No. 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness or information about postemployment benefits other than pensions (other postemployment benefits of OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.

This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No.50, *Pension Disclosures*.

The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2016. There currently is no impact of the implementation of this Statement to the District's financial statements.

In January 2016, the GASB issued Statement No. 80 – *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*. The objective of this Statement is to improve 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. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. There currently is no impact of the implementation of this Statement to the District's financial statements.

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.

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.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. There currently is no impact of the implementation of this Statement to the District's financial statements.

In March 2016, the GASB issued Statement No. 82 – *Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No.73*. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. There currently is no impact of the implementation of this Statement to the District's financial statements.

La Puente Valley County Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended December 31, 2017 and 2016

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

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

1. 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, deferred outflows of resources, liabilities, and deferred inflows of resources and disclosures of contingent assets, deferred outflows of resources, liabilities, and deferred inflows of resources at the date of the financial statements and the reported changes in net position during the reporting period. Actual results could differ from those estimates.

2. Cash and Cash Equivalents

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

3. Investments and Investment Policy

The District has adopted an investment policy directing management 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. Investments are to be made in the following areas:

- State of California Local Area Investment Fund (LAIF)
- Certificates-of-deposit

4. Fair Value Measurements

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on valuation inputs used to measure the fair value of the asset, as follows:

- **Level 1** – This valuation level is based on quoted prices in active markets for identical assets. The District does not currently hold any investments valued at this level.
- **Level 2** – This valuation level 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. The District currently holds certificates of deposit investments valued at this level.
- **Level 3** – This valuation level 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. The District does not currently hold any investments valued at this level.

The District's investment in LAIF is valued at amortized cost therefore the District has determined it does not meet fair value measurement criteria.

5. Accounts Receivable

The District extends credit to customers in the normal course of operations. When management deems customer accounts uncollectible, the District uses the direct write-off method for those accounts based on individual customer evaluation and specific circumstances.

La Puente Valley County Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended December 31, 2017 and 2016

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

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

6. Materials and Supplies Inventory

Materials and supplies inventory consists primarily of water pipe and pipefittings for construction and repair to the District's water treatment and distribution system. Materials and supplies are valued at cost using a weighted average method. Inventory items are charged to expense at the time the items are withdrawn from inventory or consumed.

7. Prepaids and Prepaid Water Rights

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

8. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets as follows: (1) \$10,000 for land, plant, buildings and related improvements, (2) \$5,000 for infrastructure, and (3) \$2,000 for vehicles and equipment. Donated assets are recorded at estimated fair market value at the date of donation. 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:

Water treatment plant	25 years
Transmission and distribution	20-50 years
Pumps and reservoirs	10-33 years
Buildings and structures	10 years
Tools and equipment	10-30 years
Automotive equipment	5-7 years
Office equipment and fixtures	5-10 years
Radio equipment	10 years
Software	10 years

9. Deferred Outflows of Resources

The statement of net position reports a separate section for deferred outflows of resources. This financial statement element, *deferred outflows of resources*, represents a consumption of resources applicable to future periods and therefore will *not* be recognized as an outflow of resources (expenditure) until that time.

The District has the following pension related items that qualify for reporting in this category:

- Deferred outflow which is equal to the employer contributions made after the measurement date of the net pension liability. This amount will be amortized-in-full against the net pension liability in the next fiscal year.
- Deferred outflow for the net changes in assumptions which will be amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plan. In the prior year, this item was reported as a deferred inflow.

La Puente Valley County Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended December 31, 2017 and 2016

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

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

9. Deferred Outflows of Resources, continued

The District has the following pension related items that qualify for reporting in this category:

- Deferred outflow for the net changes in proportion which will be amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plan. In the prior year, this item was reported as a deferred inflow.
- Deferred outflow for the net difference in projected and actual earnings on investments of the pension plans fiduciary net position. This amount is amortized over a 5 year period.

10. Compensated Absences

The District's personnel policies provide for accumulation of vacation and sick leave. Liabilities for vacation and sick leave are recorded when benefits are earned. Cash payment of unused vacation is available to those qualified employees when retired or terminated.

11. Pensions

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

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:

At December 31, 2017, the following timeframes were used:

- Valuation Date: June 30, 2016
- Measurement Date: June 30, 2017
- Measurement Period: July 1, 2016 to June 30, 2017

At December 31, 2016, the following timeframes were used:

- Valuation Date: June 30, 2015
- Measurement Date: June 30, 2016
- Measurement Period: July 1, 2015 to June 30, 2016

12. Deferred Inflows of Resources

The statement of net position and the governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This financial statement element, *deferred inflows of resources*, represents an acquisition of resources applicable to future periods and therefore will *not* be recognized as an inflow of resources (revenue) until that time.

The District has the following pension related items that qualify for reporting in this category:

- Deferred inflow for the net differences between the actual and expected experience which will be amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plan. In the prior year, this item was reported as a deferred outflow.

La Puente Valley County Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended December 31, 2017 and 2016

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

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

12. Deferred Inflows of Resources, continued

- Deferred inflow for the net differences in actual and proportionate share of employer contribution and net changes in proportion which will be amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plan.

13. Net Position

The financial statements utilize a net position presentation. Net position is categorized as follows:

- **Investment in Capital Assets Component of Net Position** – This component of net position consists of capital assets net of accumulated depreciation.
- **Unrestricted Component of Net Position** – This component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the investment in capital assets.

14. Property Taxes and Assessments

The County of Los Angeles Assessor’s Office assesses all real and personal property within the County each year. The County of Los Angeles Collector’s Office bills and collects the District’s share of property taxes and assessments. The County of Los Angeles Treasurer’s Office remits current and delinquent property tax collections to the District 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 collected by the County of Los Angeles, which have not been credited to the District's cash balance as of December 31. The property tax calendar is as follows:

Lien date	January 1
Levy date	June 30
Due dates	November 1 and February 1
Collection dates	December 10 and April 10

15. Water and Sewer Service Charges

The District recognizes water and sewer services charges based on cycle billings rendered to the customers on a bi-monthly basis.

16. Capital Contributions

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

17. Budgetary Policies

The District adopts a one year non-appropriated budget for planning, control, and evaluation purposes. Budgetary control and evaluation are affected by comparisons of actual revenues and expenses with planned revenues and expenses for the period. Encumbrance accounting is not used to account for commitments related to unperformed contracts for construction and services.

La Puente Valley County Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended December 31, 2017 and 2016

(2) Cash and Investments

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

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 3,257,807	2,684,261
Investments	<u>508,326</u>	<u>503,450</u>
Total cash and investments	<u>\$ 3,766,133</u>	<u>3,187,711</u>

Cash and investments as of December 31 consisted of the following:

	<u>2017</u>	<u>2016</u>
Cash on hand	\$ 300	300
Deposits with financial institutions	1,259,382	701,136
Investments	<u>2,506,451</u>	<u>2,486,275</u>
Total cash and investments	<u>\$ 3,766,133</u>	<u>3,187,711</u>

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

The following table identifies the investment types that are authorized by the District in accordance with the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio *</u>	<u>Maximum Investment in One Issuer</u>
State and Local Agency Bonds	5 years	100%	None
U.S. Treasury Obligations	5 years**	100%	None
U.S. Government Agency Securities	5 years**	100%	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase agreements	1 year	100%	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
California Local Agency Investment Fund (LAIF)	N/A	100%	None
Beneficial Interest of a Joint Power Authority	N/A	100%	None

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

** Except when authorized by the District's legislative body in accordance with Government Code Section

La Puente Valley County Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended December 31, 2017 and 2016

(2) Cash and Investments, continued

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 District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. Of the District's bank balances, up to \$250,000 is federally insured. The remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

Investment in State Investment Pool

The District 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 District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which is recorded on an amortized cost basis.

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

- Each agency in the fund may invest up to \$40 million and may invest without limitation in special bond proceeds accounts.
- 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.
- Prior to funds transfer, an authorized person must call LAIF to do a verbal transaction.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio matures or comes close to maturity evenly over time as necessary to provide requirements for cash flow and liquidity needed for operations. Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity date:

La Puente Valley County Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended December 31, 2017 and 2016

(2) Cash and Investments, continued

Investment maturities as of December 31, 2017, were as follows:

<u>Investment Type</u>	<u>Amount</u>	<u>Remaining Maturity (in Months)</u>		
		<u>12 Months Or Less</u>	<u>13 to 24 Months</u>	<u>25-60 Months</u>
Local Agency Investment Fund (LAIF)	\$ 1,998,125	1,998,125	-	-
Certificates of Deposit	508,326	403,635	104,691	-
Total	\$ 2,506,451	2,401,760	104,691	-

Investment maturities as of December 31, 2016, were as follows:

<u>Investment Type</u>	<u>Amount</u>	<u>Remaining Maturity (in Months)</u>		
		<u>12 Months Or Less</u>	<u>13 to 24 Months</u>	<u>25-60 Months</u>
Local Agency Investment Fund (LAIF)	\$ 1,982,825	1,982,825	-	-
Certificates of Deposit	503,450	202,907	250,472	50,071
Total	\$ 2,486,275	2,185,732	250,472	50,071

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 District's investment policy, or debt agreements, and the actual rating as of the years ended for each investment type.

Credit ratings as of December 31, 2017, were as follows:

<u>Investment Type</u>	<u>Amount</u>	<u>Minimum Legal Rating</u>	<u>Rating as of year-end Not Rated</u>
Local Agency Investment Fund (LAIF)	\$ 1,998,125	N/A	\$ 1,998,125
Certificates of Deposit	508,326	N/A	508,326
Total	\$ 2,506,451		\$ 2,506,451

Credit ratings as of December 31, 2016, were as follows:

<u>Investment Type</u>	<u>Amount</u>	<u>Minimum Legal Rating</u>	<u>Rating as of year-end Not Rated</u>
Local Agency Investment Fund (LAIF)	\$ 1,982,825	N/A	\$ 1,982,825
Certificates of Deposit	503,450	N/A	503,450
Total	\$ 2,486,275		\$ 2,486,275

Concentration of Credit Risk

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

La Puente Valley County Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended December 31, 2017 and 2016

(2) Cash and Investments, continued

Fair Value Measurements

Investments measured at fair value as of December 31, 2017, on a recurring and non-recurring basis, were as follows:

<u>Investment Type</u>	<u>Total</u>	<u>Fair Value Measurements 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>
Certificates of Deposit	\$ 508,326	-	508,326	-
Investments at Amortized Cost:				
Local Agency Investment Fund (LAIF)	1,998,125			
Total	\$ 2,506,451			

Investments measured at fair value as of December 31, 2016, on a recurring and non-recurring basis, were as follows:

<u>Investment Type</u>	<u>Total</u>	<u>Fair Value Measurements 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>
Certificates of Deposit	\$ 503,450	-	503,450	-
Investments at Amortized Cost:				
Local Agency Investment Fund (LAIF)	1,982,825			
Total	\$ 2,486,275			

(3) Accounts Receivable – Other

At December 31 accounts receivable – other was comprised of the following balances by vendor:

	<u>2017</u>	<u>2016</u>
San Gabriel Basin Water Quality Authority	\$ 96,716	242,127
Industry Public Utilities	79,269	69,759
Northrop Grumman Systems Corporation	21,204	14,332
Suburban Water Systems	12,074	13,995
Upper San Gabriel Valley Municipal Water District	-	800
City of Industry	9,795	285
Developer – Brandywine Homes	33,344	-
Total accounts receivable – other	\$ 252,402	341,298

La Puente Valley County Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended December 31, 2017 and 2016

(4) Prepaid Water Rights

Prepaid water rights at December 31 were as follows:

<u>Balance</u> <u>2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>2017</u>	<u>Current</u> <u>Portion</u>	<u>Long-term</u> <u>Portion</u>
\$ 446,917	234,702	(212,728)	468,891	234,702	234,189

<u>Balance</u> <u>2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>2016</u>	<u>Current</u> <u>Portion</u>	<u>Long-term</u> <u>Portion</u>
\$ 437,436	212,728	(203,247)	446,917	212,728	234,189

On May 7, 2009, the District purchased 2,000 acre feet of untreated cyclic storage water from the Main San Gabriel Basin Watermaster at a cost of \$251.90 per acre-foot. At December 31, 2017, the remaining available water from the initial purchase amounted to \$234,189. The available balance was unchanged from December 31, 2016, therefore the balance is classified as non-current.

On July 1, 2015, the District entered into an agreement for the purchase commitment of leased water production rights for 2016, 2017, and 2018. The available water production rights for lease are determined by Watermaster's Operating Safe Yield, which is typically set in May of each year. The District has agreed to lease the rights at 91% of the price to purchase replenishment water from another governmental agency effective July of each year. The District estimated there are a total of 335.39 acre-feet of water production rights available for lease at a cost of \$699.79 per acre-foot. The balance is expected to be utilized in the following fiscal year and therefore is classified as current. As of December 31, 2017 and 2016, the District prepaid for the water production rights in the amount of \$234,702 and 212,728, respectively. For further information, please see note 15.

(5) Capital Assets

Construction-In-Progress

The District has been involved in various construction projects throughout the year. The balances of the various construction projects that comprise the construction-in-progress balances at December 31 were as follows:

	<u>2017</u>	<u>2016</u>
New district office building	\$ 21,928	21,928
Recycled water project	110,397	110,397
Zone 3 improvements	7,022	-
Developer project – 747 Del Valle	210,130	-
Total construction-in-process	\$ 349,477	132,325

La Puente Valley County Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended December 31, 2017 and 2016

(5) Capital Assets, continued

Changes in capital assets for December 31 were as follows:

	<u>Balance 2016</u>	<u>Category Transfers</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2017</u>
Non-depreciable assets:					
Land	\$ 183,228	-	-	-	183,228
Construction-in-process	132,325	-	217,152	-	349,477
Total non-depreciable assets	<u>315,553</u>	<u>-</u>	<u>217,152</u>	<u>-</u>	<u>532,705</u>
Depreciable assets:					
Water treatment plant	10,864,600	1,725	-	-	10,866,325
Transmission and distribution	9,330,232	(1,725)	57,904	-	9,386,411
Pumps and reservoirs	2,636,944	-	-	-	2,636,944
Buildings and structures	503,438	-	-	-	503,438
Tools and equipment	628,868	-	-	-	628,868
Automotive equipment	304,418	-	39,731	-	344,149
Office equipment and fixtures	42,174	-	22,788	(15,095)	49,867
Radio equipment	12,944	-	-	-	12,944
Software	24,397	-	-	-	24,397
Total depreciable assets	<u>24,348,015</u>	<u>-</u>	<u>120,423</u>	<u>(15,095)</u>	<u>24,453,343</u>
Accumulated depreciation:					
Water treatment plant	(8,918,730)	94,797	(158,213)	-	(8,982,146)
Transmission and distribution	(5,488,316)	(19,123)	(236,342)	-	(5,743,781)
Pumps and reservoirs	(1,142,927)	-	(71,337)	-	(1,214,264)
Buildings and structures	(342,853)	-	(25,172)	-	(368,025)
Tools and equipment	(398,285)	(94,797)	(13,644)	-	(506,726)
Automotive equipment	(232,971)	-	(16,007)	-	(248,978)
Office equipment and fixtures	(54,270)	19,123	(3,938)	14,310	(24,775)
Radio equipment	-	-	(1,294)	-	(1,294)
Software	(24,397)	-	-	-	(24,397)
Total accumulated depreciation	<u>(16,602,749)</u>	<u>-</u>	<u>(525,947)</u>	<u>14,310</u>	<u>(17,114,386)</u>
Total depreciable assets, net	<u>7,745,266</u>	<u>-</u>	<u>(405,524)</u>	<u>(785)</u>	<u>7,338,957</u>
Total capital assets, net	<u>\$ 8,060,819</u>	<u>-</u>	<u>(188,372)</u>	<u>(785)</u>	<u>7,871,662</u>

Category Transfers

During the fiscal year ended December 31, 2017, the District transferred amount's between categories' for depreciable asset cost and accumulated depreciation for the purpose of properly aligning depreciable asset cost and accumulated depreciation for financial reporting.

La Puente Valley County Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended December 31, 2017 and 2016

(5) Capital Assets, continued

Changes in capital assets for December 31 were as follows:

	<u>Balance 2015</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2016</u>
Non-depreciable assets:				
Land	\$ 164,624	18,604	-	183,228
Construction-in-process	97,452	89,045	(54,172)	132,325
Total non-depreciable assets	<u>262,076</u>	<u>107,649</u>	<u>(54,172)</u>	<u>315,553</u>
Depreciable assets:				
Water treatment plant	10,864,600	-	-	10,864,600
Transmission and distribution	9,279,166	51,066	-	9,330,232
Pumps and reservoirs	2,633,838	3,106	-	2,636,944
Buildings and structures	503,438	-	-	503,438
Tools and equipment	529,538	99,330	-	628,868
Automotive equipment	289,459	33,451	(18,492)	304,418
Office equipment and fixtures	56,314	-	(14,140)	42,174
Radio equipment	45,856	12,944	(45,856)	12,944
Software	24,397	-	-	24,397
Total depreciable assets	<u>24,226,606</u>	<u>199,897</u>	<u>(78,488)</u>	<u>24,348,015</u>
Accumulated depreciation:				
Water treatment plant	(8,740,741)	(177,989)	-	(8,918,730)
Transmission and distribution	(5,251,448)	(236,868)	-	(5,488,316)
Pumps and reservoirs	(1,071,693)	(71,234)	-	(1,142,927)
Buildings and structures	(317,681)	(25,172)	-	(342,853)
Tools and equipment	(391,776)	(6,509)	-	(398,285)
Automotive equipment	(235,822)	(15,641)	18,492	(232,971)
Office equipment and fixtures	(62,360)	(6,050)	14,140	(54,270)
Radio equipment	(45,856)	-	45,856	-
Software	(24,397)	-	-	(24,397)
Total accumulated depreciation	<u>(16,141,774)</u>	<u>(539,463)</u>	<u>78,488</u>	<u>(16,602,749)</u>
Total depreciable assets, net	<u>8,084,832</u>	<u>(339,566)</u>	<u>-</u>	<u>7,745,266</u>
Total capital assets, net	<u>\$ 8,346,908</u>	<u>(231,917)</u>	<u>(54,172)</u>	<u>8,060,819</u>

(6) Compensated Absences

Compensated absences comprise unpaid vacation leave, sick leave and compensating time off which is accrued as earned. The District's liability for compensated absences is determined annually.

Changes in compensated absences for December 31 were as follows:

	<u>Balance 2016</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance 2017</u>	<u>Current Portion</u>	<u>Long-term Portion</u>
\$	<u>116,983</u>	<u>45,733</u>	<u>(34,246)</u>	<u>128,470</u>	<u>64,235</u>	<u>64,235</u>

La Puente Valley County Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended December 31, 2017 and 2016

(6) Compensated Absences, continued

Changes in compensated absences for December 31 were as follows:

	<u>Balance 2015</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance 2016</u>	<u>Current Portion</u>	<u>Long-term Portion</u>
\$	102,165	53,158	(38,340)	116,983	58,491	58,492

(7) Other Post-Employment Benefits Payable

The District provides other post-employment benefits (OPEB) to qualified employees who retire from the District and meet the District's vesting requirements. The reporting requirements for these benefit programs as they pertain to the District are set forth below.

Plan Description – Eligibility

The District provides post-retirement benefits for certain retired members of the Board of Directors and two retired employees. Effective December 31, 1991, the District began providing these benefits to eligible retired Directors or employees, at age 50 and with at least ten years of continuous service to the District. The benefits include medical, dental and vision insurance coverage. Effective January 9, 2012, the District modified the post-employment benefits for employees hired after November 1, 2011. These employees are eligible for post-employment benefits at age 55 and with at least twenty years of continuous service to the District.

Membership in the OPEB plan consisted of the following members as of December 31:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Active plan members	13	13	13
Retirees and beneficiaries receiving benefits	2	2	3
Separated plan members entitled to but not yet receiving benefits	-	-	-
Total plan membership	<u>15</u>	<u>15</u>	<u>16</u>

Plan Description – Benefits

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

Funding Policy

The District is required to contribute the *Annual Required Contribution (ARC) of the Employer*, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC rate (annual required contribution / covered payroll) is 13.65% for 2017 of the annual covered payroll.

La Puente Valley County Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended December 31, 2017 and 2016

(7) Other Post-Employment Benefits Payable, continued

Annual Cost

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

For the years ended December 31, 2017 and 2016, the District's ARC cost was \$175,783 and \$173,285, respectively. The District's net OPEB payable obligation amounted to \$1,100,438 and \$1,112,165 for the years ended December 31, 2017 and 2016, respectively. The District contributed \$175,762 and \$181,547 in age adjusted contributions for current retiree OPEB premiums for the years ended December 31, 2017 and 2016.

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Annual OPEB expense:			
Annual required contribution (ARC)	\$ 175,783	173,285	170,859
Interest on net OPEB obligation	66,730	67,943	69,590
Adjustment to annual required contribution	<u>(78,478)</u>	<u>(79,905)</u>	<u>(81,842)</u>
Total annual OPEB expense	164,035	161,323	158,607
Change in net OPEB payable obligation:			
Age adjusted contributions made	<u>(175,762)</u>	<u>(181,547)</u>	<u>(186,059)</u>
Total change in net OPEB payable obligation	(11,727)	(20,224)	(27,452)
OPEB payable – beginning of year	<u>1,112,165</u>	<u>1,132,389</u>	<u>1,159,841</u>
OPEB payable – end of year	<u>\$ 1,100,438</u>	<u>1,112,165</u>	<u>1,132,389</u>

Funded Status and Funding Progress of the Plan

The most recent valuation (dated December 31, 2015) includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of \$1,275,542. The covered payroll (annual payroll of active employees covered by the plan) for the years ended December 31, 2017 and 2016, amounted to \$1,137,194 and \$1,092,709, respectively. The ratio of the unfunded actuarial accrued liability to annual covered payroll is 112.17%.

See the Schedule of Funding Status of the District's Other Post-Employment Benefits Obligation in the Required Supplementary Information Section on page 44.

Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and the pattern of sharing of costs between the employer and plan members to that point. Consistent with the long-term perspective of actuarial calculations, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities for benefits.

La Puente Valley County Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended December 31, 2017 and 2016

(7) Other Post-Employment Benefits Payable, continued

Actuarial Methods and Assumptions, continued

The following is a summary of the actuarial assumptions and methods:

Valuation date	December 31, 2015
Actuarial cost method	Entry age normal cost method
Amortization method	30 year level dollar method
Actuarial assumptions:	
Investment rate of return	6.00%
Projected salary increase	3.00%
Inflation rate	2.75%

(8) Defined Benefit Pension Plan

Plan Description

All qualified permanent and probationary employees are eligible to participate in the Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan (Plan) administered by the California Public Employees' Retirement System (CalPERS). The Plan consists of a miscellaneous risk pool and a safety risk pool, which are comprised of individual employer miscellaneous and safety plans, respectively. Benefit provisions under the Plan are established by State statute and the District'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 or may be obtained from their executive office at 400 P Street, Sacramento, California 95814.

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 District's CalPERS 2.0% at 60 Risk Pool Retirement Plan to new employee entrants effective December 31, 2012. For employees hired prior to January 1, 2013, who are current members of CalPERS or a reciprocal agency as of December 31, 2012 and have not been separated from service from such agency for more than six months, the retirement benefit is 2.0% @ 60 years of age; highest single year of compensation. All other employees hired after January 1, 2013, are eligible for the District's CalPERS 2.0% at 62 Retirement Plan under PEPRA.

La Puente Valley County Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended December 31, 2017 and 2016

(8) Defined Benefit Pension Plan, continued

Benefits Provided, continued

The District participates in the Plan's miscellaneous risk pool. The provisions and benefits for the Plan's miscellaneous pool in effect at December 31 are summarized as follows:

	Miscellaneous Plan			
	2017		2016	
Hire date	Prior to January 1, 2013	On or after January 1, 2013	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.0% @ 60	2.0% @ 62	2.0% @ 60	2.0% @ 62
Benefit vesting schedule	5 years of service	5 years of service	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life	monthly for life	monthly for life
Retirement age	50 - 63	52 - 67	50 - 63	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%	1.0% to 2.5%	2.0% to 2.5%	1.0% to 2.5%
Required employee contribution rates				
Six months ended June 30	6.886%	6.250%	6.880%	6.250%
Six months ended December 31	6.900%	6.250%	6.886%	6.250%
Required employer contribution rates				
Six months ended June 30	7.159%	6.555%	6.709%	6.237%
Six months ended December 31	7.200%	6.533%	7.159%	6.555%

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 July 1, following notice of a change in the rate. Funding contributions for the Plan are determined annually on an 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 District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

As of the fiscal years ended December 31, the contributions recognized as part of pension expense for the Plan was as follows:

	Miscellaneous Plan	
	2017	2016
Contributions – employer	\$ 87,395	76,785
Contributions – employee (paid by employer)	55,955	53,505
Total employer paid contributions	\$ 143,350	130,290

Net Pension Liability

As of the fiscal years ended December 31 the District reported net pension liabilities for its proportionate share of the net pension liability of the Plan as follows:

	Miscellaneous Plan	
	2017	2016
Proportionate share of net pension liability	\$ 628,508	515,576

La Puente Valley County Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended December 31, 2017 and 2016

(8) Defined Benefit Pension Plan, continued

Net Pension Liability, continued

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability for the miscellaneous risk pool. As of the fiscal years ended December 31, 2017 and 2016, the net pension liability of the Plan is measured as of June 30, 2017 and 2016 (the measurement dates), respectively. The total pension liability for the Plan's miscellaneous risk pool used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 and 2015 (the valuation dates), rolled forward to June 30, 2017 and 2016, respectively, using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

The District's proportionate share of the net pension liability for the Plan's miscellaneous risk pool as of the measurement dates June 30, 2017 and 2016, was as follows:

Proportional Share	Miscellaneous Plan
Measurement Date of June 30, 2016 for the year ended December 31, 2016	0.00596%
Measurement Date of June 30, 2017 for the year ended December 31, 2017	0.00634%
Change – Increase (Decrease)	0.00038%

Deferred Outflows/Inflows of Resources Related to Pensions

For the year ended December 31, 2017 and 2016, the District recognized pension expense of \$75,807 and \$27,145, respectively.

As of December 31, 2017 and 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	2017		2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to the measurement date	\$ 45,279	-	50,005	-
Net differences between actual and expected experience	-	(14,457)	1,898	-
Net changes in assumptions	124,339	-	-	(23,299)
Net differences between actual contribution and proportionate share of contribution	-	(28,367)	-	(22,482)
Net adjustment due to differences in proportions of the net pension liability	16,308	-	-	(36,248)
Net differences between projected and actual earnings on plan investments	30,442	-	121,266	-
Total	\$ 216,368	(42,824)	173,169	(82,029)

La Puente Valley County Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended December 31, 2017 and 2016

(8) Defined Benefit Pension Plan, continued

Deferred Outflows/Inflows of Resources Related to Pensions, continued

As of December 31, 2017 and 2016, the District reported \$45,279 and 50,005, respectively, as deferred outflows of resources related to pension contributions subsequent to the measurement date June 30, 2017 and 2016, and will be/were recognized as a reduction of the net pension liability for the years ended December 31, 2018 and 2017, respectively.

As of December 31 other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>2017</u>		<u>2016</u>	
<u>Fiscal Year</u>	<u>Deferred Net</u>	<u>Fiscal Year</u>	<u>Deferred Net</u>
<u>Ending</u>	<u>Outflows/</u>	<u>Ending</u>	<u>Outflows/</u>
<u>December 31,</u>	<u>(Inflows) of</u>	<u>December 31,</u>	<u>(Inflows) of</u>
<u>Resources</u>	<u>Resources</u>	<u>Resources</u>	<u>Resources</u>
2018	\$ 13,262	2018	\$ (25,694)
2019	81,081	2019	(16,420)
2020	51,984	2020	51,399
2021	(18,062)	2021	31,850
2022	-	2022	-
Thereafter	-	Thereafter	-

Actuarial Assumptions

The total pension liabilities in the June 30, 2016 and 2015, actuarial valuations were determined using the following actuarial assumptions and methods:

Valuation Date	June 30, 2016 and 2015
Measurement Date	June 30, 2017 and 2016
Actuarial cost method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial assumptions:	
Discount rate	7.15% and 7.65%, respectively
Inflation	2.75%
Salary increases	Varies by Entry Age and Service
Mortality Rate Table*	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

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

La Puente Valley County Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended December 31, 2017 and 2016

(8) Defined Benefit Pension Plan, continued

Discount Rate

At the measurement dates, December 31, 2017, the discount rate used to measure the total pension liability was lowered from 7.65% to 7.15% for the Plan. The discount rate reflects the long-term expected rate of return for the Plan net of investment expenses and without reduction for administrative expenses. For the Plan, 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 PERF C. The crossover test results can be found on CalPERS' website.

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 to 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. These rates of return are net of administrative expenses.

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

<u>Asset Class</u>	<u>Target 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 Asset	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>		

La Puente Valley County Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended December 31, 2017 and 2016

(8) Defined Benefit Pension Plan, continued

Discount Rate, continued

As of December 31, 2016, the target allocation and the long-term expected real rate of return by asset class is as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Real Return Years 1-10</u>	<u>Real Return Year 11+</u>
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	20.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	10.0	6.83	6.95
Real Asset	10.0	4.50	5.13
Infrastructure and Forestland	2.0	4.50	5.09
Liquidity	1.0	(0.55)	(1.05)
Total	<u>100.0%</u>		

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

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

As of December 31, 2017, the District'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:

	<u>Discount Rate - 1%</u> <u>6.15%</u>	<u>Current Discount Rate</u> <u>7.15%</u>	<u>Discount Rate + 1%</u> <u>8.15%</u>
District's Net Pension Liability \$	<u>1,072,197</u>	<u>628,508</u>	<u>261,036</u>

As of December 31, 2016, the District'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:

	<u>Discount Rate - 1%</u> <u>6.65%</u>	<u>Current Discount Rate</u> <u>7.65%</u>	<u>Discount Rate + 1%</u> <u>8.65%</u>
District's Net Pension Liability \$	<u>908,089</u>	<u>515,576</u>	<u>191,184</u>

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial reports. See pages 42 and 43 for the Required Supplementary Information.

La Puente Valley County Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended December 31, 2017 and 2016

(8) Defined Benefit Pension Plan, continued

Payable to the Pension Plan

At December 31, 2017 and 2016, the District reported \$0, respectively, in payables for the outstanding amount of contribution to the pension plan.

(9) Net Position

As of December 31 the calculation of net position is as follows:

	2017	2016
Investment in capital assets:		
Capital assets – not being depreciated	\$ 532,705	315,553
Capital assets – being depreciated, net	7,338,957	7,745,266
Total investment in capital assets	7,871,662	8,060,819
Unrestricted net position:		
Non-spendable net position:		
Materials and supplies inventory	87,563	89,445
Prepays	33,920	23,010
Prepaid water rights – current	234,702	212,728
Prepaid water rights – long-term	234,189	234,189
Total non-spendable net position	590,374	559,372
Spendable net position is designated as follows:		
Capital reserve	875,000	875,000
Operating reserve	317,387	317,387
Emergency reserve	200,000	200,000
Unrestricted	820,972	512,070
Total spendable net position	2,213,359	1,907,577
Total unrestricted net position	2,803,733	2,466,949
Total net position	\$ 10,675,395	10,527,768

(10) Facility and Service Contract Revenue

Water Treatment Services – Baldwin Park Operable Unit (BPOU)

On March 29, 2002, the District entered into the Baldwin Park Operable Unit (BPOU) Project Agreement to address the contamination of groundwater in the San Gabriel Valley Superfund Sites. In the agreement, the United States Environmental Protection Agency (EPA) named certain entities as potentially responsible parties (PRPs) and local water agencies (Water Entities) from which the District is included.

The Water Entities filed lawsuits against the PRPs for costs allegedly incurred in meeting their water supply and distribution needs and for claims for damages allegedly suffered as a result of the involuntary conversion of their property and rights due to contamination of the groundwater and water supply wells in the BPOU area. In the lawsuits, the Water Entities claim a taking of and damage to their property and rights by the PRPs. The PRPs dispute these claims.

La Puente Valley County Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended December 31, 2017 and 2016

(10) Facility and Service Contract Revenue, continued

Water Treatment Services – Baldwin Park Operable Unit (BPOU), continued

While disputing the Water Entities' claims, and without admitting or acknowledging any fault or liability, the PRPs settled the Water Entities' lawsuits and claims by entering into a settlement agreement to fund the reasonable and necessary costs of design, construction, operation, maintenance and management of groundwater extraction, treatment and distribution facilities within the BPOU area. In addition, the PRPs agreed to pay certain other compensation for the purpose of settling the lawsuits brought, claims made, and proceedings initiated (and imminently to be initiated) against the PRPs.

As part of this settlement agreement, the La Puente Valley County Water District received reimbursement for the costs related to the construction of extraction, treatment and distribution facilities. In addition to the reimbursements of these capital costs, the District will receive an amount on an annual basis for reimbursement for operations and maintenance expenses. At December 31, 2017, the District reported water treatment service revenue and related water treatment costs of \$1,189,748 and \$832,989, respectively. At December 31, 2016, the District reported water treatment service revenue and related water treatment costs of \$1,162,397 and \$803,003, respectively.

Retail Water Distribution System Management Fee – City of Industry

On March 1, 2004, the District has entered into a 10-year operation and management agreement with the City of Industry wherein the District will operate, maintain and manage the portable water distribution system (the system) owned by the City of Industry. Under the agreement, the District will perform all routine and preventive maintenance and repair of the system's facilities as necessary for the efficient operation of the system. The District will also be responsible for managing contractual arrangements for the exchange of water supplies between the District's water system and the system, and performs all billings, collections, disbursements, accounting and record-keeping functions related to the system.

The system consists of approximately three wells and other production facilities, 30,000 feet of pipeline, three storage tanks and four booster pump stations and other related water storage and distribution facilities.

On October 14, 2010, the agreement was amended to extend the service period to February 28, 2024.

Under terms of the agreement, the District will receive an initial annual management fee of \$175,000 per year on a quarterly basis increasing at a rate of 2% per year thereafter. As of December 31, 2017 and 2016, the District reported retail water distribution system management fee revenue of \$182,070 and \$178,500, respectively.

Water Treatment Project and Services – Puente Valley Operable Unit Intermediate Zone (PVOU IZ)

On October 8, 2014, the District entered into an interim participation agreement with the Puente Basin Water Agency (PBWA) and Northrop Grumman Systems Corporation (Northrop Grumman). In the agreement the United States Environmental Protection Agency (EPA) named Northrop Grumman as a potentially responsible party for the clean-up of groundwater from the Puente Valley Operable Unit Intermediate Zone (PVOU IZ) in the Main San Gabriel Groundwater Basin.

Northrop Grumman shall retain responsibility for managing extraction of the impacted groundwater, satisfying regulatory requirements for remediation, auditing all contracts, and paying all reasonable costs for the remediation of the impacted groundwater. Northrop Grumman has developed plans to remediate the contaminated groundwater through a system comprised of groundwater extraction wells, collection pipelines and construction of a treatment plant for which it will retain the custody of. The District and PBWA have agreed to support and coordinate with Northrop Grumman on necessary permits, government approvals and construction of the Project.

La Puente Valley County Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended December 31, 2017 and 2016

(10) Facility and Service Contract Revenue, continued

Water Treatment Project and Services – Puente Valley Operable Unit Intermediate Zone (PVOU IZ), continued

The end users of the treated groundwater will be the District and the PBWA. However, certain water system improvements are required in order for the District and PBWA to receive the finished water that meets applicable drinking water standards.

The District is responsible for the permitting, designing and constructing of the improvements required for the District to receive water from the treatment plant. This includes interconnections at Hudson Avenue and upgrade of 16-inch interconnection at Industry Hills Pumps Station No. 1 between the District and Industry Public Utilities. These necessary improvements will be reimbursed by Northrop Grumman. As of December 31, 2017, the project is still in its planning phase and construction has not yet begun.

Once construction is complete the District will be responsible for staffing and operating the treatment plant to meet all applicable drinking water standards, as well as for delivering the finished water to end users. All District labor and administrative costs associated with the operation of the Treatment Plant will be reimbursed or paid for within an Operation and Management Fee to be negotiated between Northrop Grumman and the District. As of December 31, 2017, this agreement has not yet been entered into as of the date of these financial statements.

At December 31, 2017 and 2016, the District reported project administrative service revenue of \$49,236 and \$55,105, respectively.

(11) Rental Revenue

The District owns property adjacent to its District administration building on Main Street in La Puente, California. On March 19, 2014, the District signed an agreement to lease the property site. The term of the agreement calls for monthly payments ranging from \$2,688 to \$3,507 for the period beginning April 1, 2014 through March 31, 2024. As of December 31, 2017 and 2016, rental revenue collected was \$34,988 and \$33,969, respectively.

As of December 31, 2017, future minimum rental payments are due as follows:

Fiscal Year		
Ending		
December 31	Amount	
2018	\$	36,038
2019		37,119
2020		38,233
2021		39,380
2022		40,561
Thereafter		52,300
	\$	<u>243,631</u>

La Puente Valley County Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended December 31, 2017 and 2016

(12) Deferred Compensation Plan

For the benefit of its employees, the District participates in a 457 Deferred Compensation Program (Program) administered by Lincoln Financial. 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 unforeseen emergency. Until the funds are paid or otherwise made available to the employee, the employee is not obligated to report the deferred salary for income tax purposes.

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. Accordingly, the District is in compliance with this legislation. Therefore, these assets are not the legal property of the District, and are not subject to claims of the District's general creditors. As of December 31, 2017 and 2016, the market value of all plan assets held in trust by the District plan amounted to \$527,748 and \$406,160, respectively.

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

(13) Risk Management

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

- General and auto liability, public officials and employees' errors and omissions: Total risk financing self-insurance limits of \$5,000,000 per occurrence. The District has additional excess coverage layers through ACWA/JPIA: \$55 million for general, auto and public officials liability, which increases the limits on the insurance coverage noted above.

In addition to the coverage described on the previous page, the District also has the following insurance coverage:

- Employee dishonesty coverage from the ACWA/JPIA provides self-insurance up to \$100,000 subject to a \$1,000 deductible per loss. The District has purchased excess coverage for an additional \$500,000 per loss, subject to a \$100,000 deductible. Coverage includes public employee dishonesty, forgery or alteration, computer fraud, and faithful performance.
- Property loss is paid at the replacement cost for property on file, if replaced within two years after the loss, otherwise paid on an actual cash value basis, to a combined total of \$150 million per occurrence, subject to a \$1,000 deductible per occurrence. Mobile equipment is replaced at actual cash value subject to a \$1,000 deductible per occurrence. Scheduled vehicles covered for comprehensive and collision, actual cash value basis subject to \$500 deductible per occurrence.
- Boiler and machinery coverage for the replacement cost up to \$150 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. Employer's Liability limit is \$2,000,000 each incident.

La Puente Valley County Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended December 31, 2017 and 2016

(13) Risk Management, continued

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

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

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to the report date, that have effective dates that may impact future financial presentations.

Governmental 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. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2017. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

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) and 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.

Governmental Accounting Standards Board Statement No. 84

In January 2017, the GASB issued Statement No. 84 – *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

La Puente Valley County Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended December 31, 2017 and 2016

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

Governmental Accounting Standards Board Statement No. 84, continued

This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

Governmental 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]).

The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

Governmental 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.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

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.

La Puente Valley County Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended December 31, 2017 and 2016

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

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 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.

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.

(15) Commitments and Contingencies

Water Rights Purchase Commitment

On July 1, 2015, the District entered into an agreement purchase commitment of leased water production rights for water production years 2016, 2017 and 2018. The available water production rights for lease are determined by the Watermaster's Operating Safe Yield, which is typically set in May of each year. The District has agreed to lease the rights at 91% of the price to purchase replenishment water from another governmental agency effective July of each year. The District estimates there will be 335.39 acre-feet of water production rights available for lease at an estimated purchase price of \$699.79 per acre-foot.

As of December 31, 2017, the District prepaid for the 2018 water rights as described in note 4. As of December 31, 2017, remaining purchase commitment balance of estimated water production rights for the 2018 water production year is \$234,703.

Recycled Water Project

On November 1, 2015, the District entered into a memorandum of understanding (MOU) with Upper San Gabriel Valley Municipal Water District (Upper District), a wholesale provider of recycled water, to facilitate the establishment and expansion of the District's recycled water service area. The term of this MOU is for 25 years commencing on November 1, 2015 and concluding October 31, 2040. Under the MOU, the District will own, operate and maintain the recycled water assets comprised of a pump station and recycled water lines (Project).

The District is funding the Project in its entirety, supplemented by any and all available financial assistance and grant funding, except for the design phase of the Project which will be completed by the Upper District. In addition, the Upper District will prepare and submit for financial assistance from Metropolitan Water District's Local Resource Program and grant funding from Proposition 84 to offset the District's capital cost of the Project. Terms of the agreement call for the District to reimburse Upper District for 50% of the final design cost.

La Puente Valley County Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended December 31, 2017 and 2016

(15) Commitments and Contingencies, continued

Recycled Water Project, continued

Once the recycled water plant is complete, Upper District has agreed to sell recycled water to the District at Upper District's cost from Los Angeles County Sanitation District, plus 80% of Upper District's surcharge, not including the cost of imported water to Upper District.

As of December 31, 2017, the Project is continuing its design phase and is included as part of construction-in-progress.

Construction Contracts

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

Grant Awards

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

Litigation

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

Required Supplementary Information

La Puente Valley County Water District
District's Proportionate Share of the Net Pension Liability – Last Ten Years*
As of December 31, 2017

<u>Description</u>	<u>Measurement Date</u>			
	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>	<u>June 30, 2013</u>
District's proportion of the net pension liability	0.00634%	0.00596%	0.00490%	0.00673%
District's proportionate share of the net pension liability	\$ 628,508	515,576	336,132	418,940
District's covered-employee payroll	\$ 971,214	842,275	878,289	788,280
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	64.71%	61.21%	38.27%	53.15%
Plan's fiduciary net position as a percentage of the total pension liability	80.52%	82.30%	87.57%	83.30%

Notes:

Changes in Benefit Terms – There were no changes in benefit terms for the measurement date June 30, 2017.

Changes of Assumptions – The financial reporting discount rate for the PERF C was lowered from 7.65 percent to 7.15 percent for the measurement date June 30, 2017.

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

La Puente Valley County Water District
Pension Plan Contributions – Last Ten Years*
As of December 31, 2017

<u>Description</u>	<u>Fiscal Year</u>			
	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Actuarially determined contribution	\$ 81,407	67,743	67,711	76,316
Contributions in relation to the actuarially determined contribution	<u>(83,075)</u>	<u>(69,343)</u>	<u>(71,736)</u>	<u>(203,999)</u>
Contribution deficiency (excess)	<u>\$ (1,668)</u>	<u>(1,600)</u>	<u>(4,025)</u>	<u>(127,683)</u>
District's covered payroll	<u>\$ 971,214</u>	<u>842,275</u>	<u>878,289</u>	<u>788,280</u>
Contribution's as a percentage of covered-employee payroll	<u>8.55%</u>	<u>8.23%</u>	<u>8.17%</u>	<u>25.88%</u>

Notes:

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

La Puente Valley County Water District
Funding Status – Other Post-Employment Benefits Obligation
As of December 31, 2017

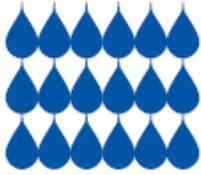
Schedule of Funding Status - Other Post-Employment Benefits Obligation

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c)
12/31/2015	\$ 413,524	\$ 1,689,066	\$ 1,275,542	32.42%	\$ 1,137,194	112.17%
12/31/2014	123,569	1,790,825	1,667,256	7.41%	783,130	212.90%
12/31/2013	-	1,554,600	1,554,600	0.00%	751,600	206.84%

Funding progress is presented for the past three years that an actuarial study has been prepared since the effective date of GASB Statement 45. Actuarial review and analysis of the post-employment benefits liability and funding status is performed annually. The next scheduled actuarial review and analysis of the post-employment benefits liability and funding status will be performed in 2018 based on the year ending December 31, 2018.

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Report on Internal Controls and Compliance



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

Board of Directors
La Puente Valley County Water District
La Puente, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the La Puente Valley County Water District (District), which comprise the statement of net position as of December 31, 2017 and 2016, and the related statement of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon date May 14, 2018.

Internal Control Over Financial Reporting

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contract 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*.

**Independent Auditor's Report on Internal Control Over Financial Reporting
And on Compliance and Other Matters Based on the Audit of Financial
Statements Performed in Accordance with *Government Auditing Standards, continued***

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal controls 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
May 14, 2018