

QUARTZ HILL WATER DISTRICT

**COUNTY OF LOS ANGELES
QUARTZ HILL, CALIFORNIA**

FINANCIAL STATEMENTS

June 30, 2018 and 2017

**QUARTZ HILL WATER DISTRICT
BOARD OF DIRECTORS
June 30, 2018**

The members of the Board of Directors of the Quartz Hill Water District holding office during the audit period were as follows:

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Allen Flick	President	November 2021
James D. Powell, DDS	Vice President	November 2021
K. Mike Scott	Director	November 2019
Peggy Powell	Director	November 2021
Sheldon Carter	Director	November 2019

APPOINTED OFFICIALS

Chad Reed, General Manager

Brent Byrne, Assistant General Manager

Debi Pizzo, Secretary

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LANCASTER, CALIFORNIA 93534

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Quartz Hill Water District
Quartz Hill, California

We have audited the accompanying financial statements of the business-type activities of the Quartz Hill Water District as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Quartz Hill Water District as of June 30, 2018 and 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other financial schedules on pages 7 through 13 and page 52 through 55 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 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 audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the District's basic financial statements. The schedule listing the Board of Directors and the budgetary comparison information presented on page 2 and 57, respectively, is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information section has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we express no opinion on it or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Cobb, Doerfler & Associates, CPA

COBB, DOERFLER & ASSOCIATES, CPA
January 15, 2019

MANAGEMENT DISCUSSION AND ANALYSIS

**Quartz Hill Water District
Management Discussion and Analysis
For the Fiscal Years Ended June 30, 2018 and 2017**

As management of the Quartz Hill Water District (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal years ended June 30, 2018 and 2017. 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 2018, the District's net position increased by \$787,183 or by 3.07% to \$26,415,614. In 2017, the District's net position increased by \$805,898 or by 2.98% to \$27,894,611.
- In 2018, the District's operating revenues exceeded its operating expenses, before depreciation, by \$1,573,615, an increase from the prior fiscal year of \$33,625 or 2.18%. Revenues increased by \$311,748 in the current period primarily due to a 3% rate increase and an increased usage. Expenses remained constant with the exception of administrative and general costs which increased by \$265,956 as the result of increased professional service expenses, legal and other costs. In 2017, the District's operating revenues exceeded its operating expenses, before depreciation, by \$1,539,990, an increase from the prior fiscal year of \$1,343,102 or 682.17%. This increase was primarily due to an increase in operating revenues caused by increased water usage of \$759,704, and a decline in water conservation program expenses of \$501,843.
- The District's 2018 net income from non-operating revenues (expenses) was \$94,441, a decrease from the prior fiscal year of \$53,809 or 36.29%. This decrease was due no energy conservation rebates being received in the current period and a decline in investment performance of \$28,861. The District's 2017 net income from non-operating revenues (expenses) was \$148,250, a decrease from the prior fiscal year of \$346,616 or 70.04%. This decrease was substantively due to investment related losses in the current period, the lack of a gain on asset disposals in the current period which was partially offset by increased investment income, SCE rebates and increased property tax revenues.
- In 2018, the District's total expenses increased by \$266,083, due primarily to a \$277,974 increase in operating expenses (including depreciation). In 2017, the District's total expenses decreased by \$277,161 due to decreased water conservation costs of \$501,843 which were partially offset by increased water purchases of \$233,725.
- At June 30, 2018 and 2017, \$11,225,436 and \$12,337,667, respectively, of unrestricted net position was available to provide ongoing services to customers.
- In 2018, the District's Certificate of Participation (COP) liabilities decreased by \$155,000, due to the ongoing retirement of the District's 2011 COPs. In 2017, the District's COP liabilities decreased by \$150,000, due to the ongoing retirement of the District's 2011 COPs.

FINANCIAL STATEMENTS

The Financial Statements presented in this report are intended to provide readers with a broad overview of the District's finances and consist of the Statements of Net Position, the Statements of Revenues, Expenses, and Changes in Net Position, and the Statements of Cash Flows, along with related notes and other information. These statements include all assets and liabilities of the District using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. Under the *accrual basis of accounting*, all of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid. Since the District's primary function is to provide water to its customers and recover appropriate costs through user fees and charges, the financial statements only include business type activities.

**Quartz Hill Water District
Management Discussion and Analysis
For the Fiscal Years Ended June 30, 2018 and 2017**

FINANCIAL STATEMENTS—continued

The Statement of Net Position presents information on all of the District's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. You can think of the District's net position – the difference between assets, liabilities, and deferred inflows/outflows 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. It also provides 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.

The Statement of Revenues, Expenses and Changes in Net Position presents information showing how net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (i.e., uncollected water sales and amounts due vendors). This statement measures the success of the District's operations over the past year and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows, which provides information about the District's cash receipts and cash payments during the reporting period. The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash resulting from operations, noncapital financing, capital and related financing activities, and investing activities and provides 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?

The accounts of the District are organized based on fund accounting. A fund is a group of related self-balancing accounts used to maintain control over resources that have been segregated for specific objectives. Because the District provides these services and recovers these costs through user fees and charges, District funds are accounted for as an enterprise fund type of the proprietary fund group.

The financial statements are presented on pages 15 through 19.

Notes to the Financial Statements

The notes provide additional information that is essential for a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 21 through 50 of this report.

Other Information

In addition to the financial statements and accompanying notes, this report also presents certain supplementary information regarding District's governing board and the District's budgetary information and certain required supplementary information concerning the District's progress in funding its obligation to provide pension and OPEB benefits to its employees. Other supplementary information can be found on pages 2 and 57. Required supplementary information can be found on page 52 through 55.

FINANCIAL ANALYSIS

Overall Analysis

The increase in net position of \$787,183 that occurred during the year ended June 30, 2018, was primarily due to continued strong water sales and other charges that were partially offset by higher administrative and general costs related to professional services and other expenditures and lower non-operating revenues and expenses.

**Quartz Hill Water District
Management Discussion and Analysis
For the Fiscal Years Ended June 30, 2018 and 2017**

FINANCIAL ANALYSIS—continued

Overall Analysis—continued

The District's net position increased by \$805,898 during the year ended June 30, 2017. The increase in net position during the year ended June 30, 2017 was primarily due to increased water revenue and decreases in water conservation costs, due to the easing of mandatory water usage restrictions caused by drought conditions, partially offset by increased water purchase, pumping, transmission and other costs.

Statement of Net Position

	<u>2018</u>	<u>2017</u>	<u>Difference</u>
ASSETS			
Current assets	\$ 15,481,103	\$ 14,051,756	\$ 1,429,347
Non-current assets	1,433,369	1,431,378	1,991
Capital assets, net	<u>21,495,704</u>	<u>22,026,820</u>	<u>(531,116)</u>
Total Assets	<u>38,410,176</u>	<u>37,509,954</u>	<u>900,222</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>756,383</u>	<u>748,726</u>	<u>7,657</u>
LIABILITIES			
Current liabilities	576,206	541,067	35,139
Non-current liabilities	<u>11,781,806</u>	<u>9,303,130</u>	<u>2,478,676</u>
Total Liabilities	<u>12,358,012</u>	<u>9,844,197</u>	<u>2,513,815</u>
DEFERRED INFLOWS OF RESOURCES	<u>392,933</u>	<u>519,872</u>	<u>(126,939)</u>
NET POSITION			
Investment in capital asset-net of related debt	14,617,941	14,989,382	(371,441)
Restricted for debt service/covenants	572,237	567,562	4,675
Unrestricted	<u>11,225,436</u>	<u>12,337,667</u>	<u>(1,112,231)</u>
Total Net Position	<u>\$ 26,415,614</u>	<u>\$ 27,894,611</u>	<u>\$ (1,478,997)</u>

As noted earlier, net position may serve over time as a useful indicator of changes in a government's financial position. In the case of the Quartz Hill Water District, assets and deferred outflows exceeded liabilities and deferred inflows by \$26,415,614 and \$27,894,611 as of June 30, 2018 and 2017, respectively.

A significant portion of the District's net position, 55% and 54% as of June 30, 2018 and 2017, respectively, reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets which is outstanding. The District uses these assets to provide water services to its customers; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The remaining balance of unrestricted net position of \$11,225,436 and \$12,337,667 as of June 30, 2018 and 2017, respectively, may be used to meet these debt service requirements and to provide ongoing services to its customers.

Also, the District implemented GASB Statement 75 this year. With the new reporting change, the District recognized its entire other post-employment benefit (OPEB) liabilities, deferred outflows of resources, deferred inflows of resources, and OPEB expenses. A restatement to record the effects of the new reporting guidance decreased beginning net assets in the 2018 fiscal year by \$2,266,180.

**Quartz Hill Water District
Management Discussion and Analysis
For the Fiscal Years Ended June 30, 2018 and 2017**

FINANCIAL ANALYSIS—continued

Statement of Net Position—continued

In 2018, there was a decrease in net position invested in capital assets of \$371,441, as the construction activity in the current period was insufficient to offset increases in accumulated depreciation. In 2017, the decrease in net position invested in capital assets of \$353,792 was due to current period depreciation expense exceeding total fixed asset additions or betterments made in the period.

During the year ended June 30, 2018, the District's net position increased by \$787,183. The increase was primarily increases in water services revenues, partially offset by increases in operating expenses, and declining investment performance. The District's net position increased by \$805,898 during the year ended June 30, 2017. However, as previously mentioned this increase was primarily related to increased operating revenues and decreased water conservation costs related the easing of drought conditions.

Statement of Revenues, Expenses and Changes in Net Position

	2018	2017	Difference
REVENUES:			
Operating revenues	\$ 5,685,739	\$ 5,373,991	\$ 311,748
Non-operating revenues	502,564	568,264	(65,700)
Total revenues	6,188,303	5,942,255	246,048
EXPENSES:			
Operating expenses	4,112,124	3,834,001	278,123
Depreciation expense	882,523	882,672	(149)
Non-operating expenses	408,123	420,014	(11,891)
Total expenses	5,402,770	5,136,687	266,083
Net income (loss) before capital contributions	785,533	805,568	(20,035)
CAPITAL CONTRIBUTIONS	1,650	330	1,320
Change in net position	787,183	805,898	(18,715)
Net position, beginning of year	27,894,611	27,088,713	805,898
Net position, beginning of year – restated	25,628,431	27,088,713	(1,460,282)
Net position, end of year	<u>\$ 26,415,614</u>	<u>\$ 27,894,611</u>	<u>\$ (1,478,997)</u>

The activities of the District increased the District's net assets by \$787,183 and by \$805,898 during the years ended June 30, 2018 and 2017, respectively. Key elements in these changes are as follows:

- Operating revenues increased by \$311,748 and by \$1,039,554 or by 5.80% and by 23.98% in 2018 and 2017, respectively. Revenues increased in both 2018 and 2017 due to higher levels of consumption and rate increases.
- Operating expenses during 2018 increased by 7.25% over the prior year primarily due to increased administrative and general costs related to increased professional services and other costs. Operating expenses before depreciation decreased in 2017 primarily due to decreased water conservation expenses, partially offset by higher water purchases and other costs.

**Quartz Hill Water District
Management Discussion and Analysis
For the Fiscal Years Ended June 30, 2018 and 2017**

FINANCIAL ANALYSIS—continued

Statement of Revenues, Expenses and Changes in Net Position—continued

- During the year ended June 30, 2018, investment earnings decreased by \$28,861 due to increased capital losses on investments held in the current period. Investment earnings during the year ended June 30, 2017 decreased by 88.07% due to capital losses experienced on investments in the current period partially offset by ongoing increases in interest rates which resulted in a higher effective yield on those investments.
- In 2018, net income from non-operating revenues and expenses decreased by 36.29%, due to losses on the disposal of investments, partially offset by increased investment income. In 2017, net income from non-operating revenues and expenses decreased by 70.04%, partially due to a capital losses experienced on investments in the current period, the lack of any gains on the sale of assets, partially offset by increased property tax and other revenues.

CAPITAL ASSET ADMINISTRATION

Changes in capital assets in 2018 were as follows:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
Capital Assets				
Non-depreciable assets	\$ 854,615	\$ -0-	\$ (563)	\$ 854,052
Depreciable assets	32,185,602	351,968	(31,417)	32,506,153
Accumulated depreciation	(11,013,397)	(882,521)	31,417	(11,864,501)
Total Capital Assets	<u>\$ 22,026,820</u>	<u>\$ (530,553)</u>	<u>\$ (563)</u>	<u>\$ 21,495,704</u>

Changes in capital assets in 2017 were as follows:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
Capital Assets				
Non-depreciable assets	\$ 691,746	\$ 162,869	\$ -0-	\$ 854,615
Depreciable assets	31,920,804	264,798	-0-	32,185,602
Accumulated depreciation	(10,130,725)	(882,672)	-0-	(11,013,397)
Total Capital Assets	<u>\$ 22,481,825</u>	<u>\$ (455,005)</u>	<u>\$ -0-</u>	<u>\$ 22,026,820</u>

At the end of fiscal years 2018 and 2017, the District's investment in capital assets amounted to \$21,495,704 and \$22,026,820 (net of accumulated depreciation), respectively. The investment in capital assets included land, easements, transmission and distribution systems, wells, tanks, pumps, buildings and structures, equipment, vehicles and construction-in-process, etc. Major depreciable capital asset additions during 2018 included the installation of new meters, computer hardware and software upgrades, a vehicle purchase and other improvements. Major fixed asset deletions during 2018 included the sale of a vehicle. Major depreciable capital asset additions during 2017 included additions to meters, the purchase of a vehicle, property for a new well sight, and software purchases. There were no major deletions during 2017. For further detailed information, see Note E.

**Quartz Hill Water District
Management Discussion and Analysis
For the Fiscal Years Ended June 30, 2018 and 2017**

DEBT ADMINISTRATION

Changes in long-term debt amounts for 2018 were as follows:

	Balance July 1, 2017	Additions/ Deletions	Principal Payments	Balance June 30, 2018
Long-term debt:				
2011 COPs	\$ 7,605,000	\$ -0-	\$ (155,000)	\$ 7,450,000
Total Long-term Debt	<u>\$ 7,605,000</u>	<u>\$ -0-</u>	<u>\$ (155,000)</u>	<u>\$ 7,450,000</u>

Changes in long-term debt amounts for 2017 were as follows:

	Balance July 1, 2016	Additions/ Deletions	Principal Payments	Balance June 30, 2017
Long-term debt:				
2011 COPs	\$ 7,755,000	\$ -0-	\$ (150,000)	\$ 7,605,000
Total Long-term Debt	<u>\$ 7,755,000</u>	<u>\$ -0-</u>	<u>\$ (150,000)</u>	<u>\$ 7,605,000</u>

In 2018 and 2017, long-term debt decreased by \$155,000 and \$150,000, respectively due to regular principal payments and amortization on the District's outstanding debts.

BUDGET ANALYSIS

For the year ended June 30, 2018, the variances between the budgeted amounts and the actual results were significant for several budget line items. Reported revenues were higher than originally budgeted due to increased water consumption sales caused increased water usage and rate increases.

The District's total operating expenses were lower than budgeted due to lower than budgeted OPEB expenses and transmission and distribution costs, and water purchase costs. Net non-operating revenues after expenses were lower than expected due to unexpected investment losses partially offset by higher than expected investment income. The budgetary comparison schedule can be found on page 47 of this report.

FACTORS AFFECTING CURRENT FINANCIAL CONDITION

During the 2017 fiscal year the Governor cancelled the Drought State of Emergency. This lifted the Water Shortage Emergency restrictions regarding water times and quantities. The State Water Board and Quartz Hill Water District swiftly modified its policy to match the new Executive Order (B-40-17). This has enabled customers of the District to resume outdoor watering and other high demand practices and allowed the District to resume normally scheduled maintenance practices. This increase in demand is exemplified by the purchase of greater than 200 acre feet of additional water when comparing fiscal year 2017 to fiscal year 2018 or a roughly 4% increase in water purchases from the District's water wholesaler. These increased sales and prudent financial decisions by Board of Directors and Management have resulted in increased revenues enabling the District to possibly absorb instead of pass-through rate increases from the District's water wholesaler. Another factor that is affecting our current financial condition is with the redacted water conservation policies, general maintenance and construction on the system have resumed and were completed during the 2018 fiscal year. This list would include:

- Coating Systems
 - Tank at 75th (Exterior Coating)
 - Two Small Tanks on the Hill (Interior/Exterior and safety stairs)
 - Well 5A Tank (Exterior Coating)
- Well Rehab
 - Well 5A

**Quartz Hill Water District
Management Discussion and Analysis
For the Fiscal Years Ended June 30, 2018 and 2017**

FACTORS AFFECTING CURRENT FINANCIAL CONDITION – continued

The following are some of the capital improvement projects that are slated for the upcoming two years:

- Arsenic treatment at well 6A
- Tank and Pump station at 32nd
- Well Rehab (Three Wells)
- AMI tower erection and meter swap

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

These financial statements are designed to provide a general overview of the Quartz Hill Water District finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Quartz Hill Water District, General Manager, 5034 West Avenue L, Quartz Hill, CA 93536.

FINANCIAL STATEMENTS

**QUARTZ HILL WATER DISTRICT
STATEMENTS OF NET POSITION
June 30, 2018 and 2017**

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 4,492,473	\$ 4,756,329
Investments	10,075,605	8,308,131
Accounts receivable	797,875	844,101
Interest receivable	550	234
Taxes receivable	20,238	15,939
Note receivable	2,684	2,586
Inventory	88,764	109,729
Prepaid expenses	<u>2,914</u>	<u>14,707</u>
Total Current Assets	<u>15,481,103</u>	<u>14,051,756</u>
NON-CURRENT ASSETS		
Restricted - investments	572,237	567,562
Note receivable	100,332	103,016
Banked water inventory	760,800	760,800
Capital assets - not being depreciated	854,052	854,615
Capital assets, net - being depreciated	<u>20,641,652</u>	<u>21,172,205</u>
Total Non-current Assets	<u>22,929,073</u>	<u>23,458,198</u>
Total Assets	<u>38,410,176</u>	<u>37,509,954</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amounts related to net pension liability	643,086	748,726
Deferred amounts related to other post-employment benefits liability	<u>113,297</u>	<u>-0-</u>
Total Deferred Outflows of Resources	<u>756,383</u>	<u>748,726</u>

QUARTZ HILL WATER DISTRICT
STATEMENTS OF NET POSITION - continued
June 30, 2018 and 2017

	2018	2017
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 191,796	\$ 166,820
Accrued expenses	160,019	159,201
Customer deposits	15,777	15,249
Compensated absences	48,614	44,797
Certificates of Participation	<u>160,000</u>	<u>155,000</u>
Total Current Liabilities	<u>576,206</u>	<u>541,067</u>
LONG-TERM LIABILITIES		
Customer deposits	329,846	318,808
Compensated absences	66,173	60,978
Other post-employment benefits	3,716,410	1,209,002
Net Pension Liability	379,377	264,342
Certificates of Participation	<u>7,290,000</u>	<u>7,450,000</u>
Total Long-Term Liabilities	<u>11,781,806</u>	<u>9,303,130</u>
Total Liabilities	<u>12,358,012</u>	<u>9,844,197</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred amounts related to net pension liability	<u>392,933</u>	<u>519,872</u>
Total Deferred Inflows of Resources	<u>392,933</u>	<u>519,872</u>
NET POSITION		
Investment in capital assets - net of related debt	14,617,941	14,989,382
Restricted for debt service/covenants	572,237	567,562
Unrestricted	<u>11,225,436</u>	<u>12,337,667</u>
Total Net Position	<u>\$ 26,415,614</u>	<u>\$ 27,894,611</u>

QUARTZ HILL WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Years Ended June 30, 2018 and 2017

	2018	2017
OPERATING REVENUES		
Water consumption sales	\$ 3,337,139	\$ 3,137,644
Monthly water service charges	2,196,445	2,066,230
Other service charges	<u>152,155</u>	<u>170,117</u>
Total Operating Revenues	<u>5,685,739</u>	<u>5,373,991</u>
OPERATING EXPENSES		
Water purchases	1,265,351	1,277,067
Pumping plant	464,776	421,862
Transmission and distribution	564,787	574,335
Customer accounts	355,134	364,617
Administrative and general	1,462,076	1,196,120
Depreciation	<u>882,523</u>	<u>882,672</u>
Total Operating Expenses	<u>4,994,647</u>	<u>4,716,673</u>
Operating Income (Loss)	<u>691,092</u>	<u>657,318</u>
NON-OPERATING REVENUES (EXPENSES)		
Property taxes	428,725	413,792
Investment income	188,065	149,073
Investment gain (loss)	(188,472)	(120,619)
Gain (loss) on disposal of fixed assets	8,000	-0-
Interest and financing costs	(408,123)	(420,014)
SCE rebates	-0-	48,787
Capacity charges	11,361	19,612
Rental income	<u>54,885</u>	<u>57,619</u>
Total Non-operating Revenues (Expenses)	<u>94,441</u>	<u>148,250</u>
Net Increase (Decrease) Before Capital Contributions	<u>785,533</u>	<u>805,568</u>
CAPITAL CONTRIBUTIONS		
Meter sales and installations	<u>1,650</u>	<u>330</u>
Total Capital Contributions	<u>1,650</u>	<u>330</u>
Change in Net Position	787,183	805,898
Net Position at Beginning of Year - Before Restatement	27,894,611	27,088,713
Net Position at Beginning of Year - After Restatement	<u>25,628,431</u>	<u>27,088,713</u>
Net Position at End of the Year	<u>\$ 26,415,614</u>	<u>\$ 27,894,611</u>

**QUARTZ HILL WATER DISTRICT
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2018 and 2017**

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 5,743,530	\$ 5,211,796
Cash paid to suppliers for supplies	(2,421,802)	(2,125,390)
Cash paid to employees and directors	<u>(1,398,513)</u>	<u>(1,518,189)</u>
Net Cash Provided (Used) by Operating Activities	<u>1,923,215</u>	<u>1,568,217</u>
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES		
Receipt of property taxes	424,426	401,441
Receipt of rental income	54,885	57,619
Other non-operating income	<u>-0-</u>	<u>302,533</u>
Net Cash Provided (Used) by Non-capital and Related Financing Activities	<u>479,311</u>	<u>761,593</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Receipt of funds for meter sales and installations	1,650	330
Receipt of capacity charges	11,361	19,612
Acquisition of property and equipment	(343,969)	(427,667)
Principal paid on capital debt	(155,000)	(150,000)
Interest paid on capital debt	<u>(410,700)</u>	<u>(418,425)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(896,658)</u>	<u>(976,150)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Repayment of note receivable	2,586	2,491
Proceeds from sale of investments	4,225,813	3,256,057
Purchase of investments	(6,181,759)	(3,520,129)
Receipt of interest and investment income	<u>183,636</u>	<u>147,783</u>
Net Cash Provided (Used) by Investing Activities	<u>(1,769,724)</u>	<u>(113,798)</u>
Net Change in Cash and Cash Equivalents	(263,856)	1,239,862
Cash and Cash Equivalents - Beginning of Year	<u>4,756,329</u>	<u>3,516,467</u>
Cash and Cash Equivalents - End of Year	<u>\$ 4,492,473</u>	<u>\$ 4,756,329</u>

QUARTZ HILL WATER DISTRICT
STATEMENTS OF CASH FLOWS - continued
For the Years Ended June 30, 2018 and 2017

	2018	2017
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ 691,092	\$ 657,318
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation	882,523	882,672
(Increase) Decrease in Assets:		
Accounts receivable	46,226	(180,791)
Inventory	20,965	(11,757)
Prepaid expenses	11,793	48,660
(Increase) Decrease in Deferred Outflows of Resources		
Deferred amounts related to net pension liability	105,640	20,246
Deferred amounts related to other post-employment benefits liability	(113,297)	-0-
Increase (Decrease) in Liabilities:		
Accounts payable	24,976	3,124
Customer deposits	11,566	18,596
Accrued expenses	3,395	21,195
Compensated absences	9,012	13,913
Other post-employment benefits	241,228	99,330
Net pension liability	115,035	(400,556)
Increase (Decrease) in Deferred Inflows of Resources		
Deferred amounts related to net pension liability	<u>(126,939)</u>	<u>396,267</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 1,923,215</u>	<u>\$ 1,568,217</u>
NON-CASH INVESTING, CAPITAL AND FINANCING TRANSACTIONS		
Purchase of vehicle with non-cash trade-in	\$ 8,000	\$ -0-
Change in fair-value of investments	\$ (188,472)	\$ (119,963)

NOTES TO THE FINANCIAL STATEMENTS

QUARTZ HILL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. The Reporting Entity

Description - Quartz Hill Water District (the "District") was formed as a County Water District under Division 12 of the County Water District law on March 11, 1954. The District is located in Quartz Hill, California and provides water services to portions of incorporated areas of Lancaster and Palmdale and to neighboring unincorporated communities. Currently the Quartz Hill Water District operates and is organized under the California Public Utilities Code Sections 22001 et seq. The District operates under an elected Board of Directors-Manager form of government.

Component Units - In evaluating how to define the District for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in Governmental Accounting Statements No. 61, *The Financial Reporting Entity*. The primary, but not only, criterion for including a potential component unit, which is a legally separate organization for which the elected officials of the primary government are financially accountable, is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, and the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, the District has no potential component units.

The Quartz Hill Water District, for financial purposes, includes all funds relevant to the operations of the District. The Board of Directors has governance responsibilities over all activities related to the District. The District receives funding from local, county, state and federal government sources and must comply with the requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards, since board members are elected by the public and have decision making authority, the power to designate management, and the responsibility to significantly influence operations and primary accountability for fiscal matters.

2. Basis of Accounting, Measurement Focus, and Financial Statement Presentation

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 business enterprises, where the intent of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

The basic financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Under the economic resources measurement focus all assets, deferred outflows of resources, liabilities and deferred inflows of resources (whether current or noncurrent) associated with the District's activities are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized when earned while expenses are recognized when the liability is incurred regardless of the timing of cash flow.

QUARTZ HILL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

3. Classification of Revenues and Expenses

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and delivering water in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Capital contributions are reported as a separate line item in the Statement of Revenues, Expenses and Changes in Net Position.

4. Implementation of New Governmental Accounting Standards Board (GASB) Pronouncements

Governmental Accounting Standards Board Statement No. 88

In April of 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. Statement 88 enhances consistency and comparability by requiring additional essential information related to debt to be disclosed in the notes to the 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. Additional information is also required to be provided separately from other debt for direct borrowings and direct placements of debt. This statement is not expected to have a significant impact on the presentation of the District's financial statements.

Governmental Accounting Standards Board Statement No. 89

In June of 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. Statement 89 requires that interest cost(s) incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. This statement is not expected to have a significant impact on the presentation of the District's financial statements.

Governmental Accounting Standards Board Statement No. 90

In August of 2018, the GASB issued Statement No. 90, *Majority Equity Interests-An Amendment of GASB Statement No. 14 and No. 61*. Statement 90 will increase consistency in accounting for equity interests by establishing uniform guidance accounting for majority equity interests in legally separate organizations. A majority equity interest will be required to be accounted for using the equity method unless it is held by special purpose government engaged in only fiduciary activities, a fiduciary fund, an endowment or a permanent fund in which case the equity interest should be presented at fair value. This statement is not expected to have a significant impact on the presentation of the District's financial statements.

QUARTZ HILL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

5. Financial Statement Amounts

a. Use of Estimates

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

b. Cash and Cash Equivalents

The District has adopted GASB Statement No. 9, "*Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting.*" For purposes of reporting cash flows, all highly liquid investments (unrestricted assets) with a maturity of three months or less at the time of purchase are considered to be cash equivalents.

c. Deposits and Investments

The District adopted GASB Statement No. 40, "*Deposit and Investment Risk Disclosures,*" as of July 1, 2004. GASB Statement No. 40 requires governmental entities to assess categories of risk associated with their deposits and investments and disclose these risks.

The District adopted GASB Statement No. 31, "*Accounting and Financial Reporting for Certain Investments and for External Investment Pools,*" as of July 1, 1997. GASB Statement No. 31 establishes fair value standards for investments in participating interest earning investment contracts, external investment pools, equity securities, option contracts, stock warrants and stock rights that have readily determinable fair values. Accordingly, the District reports its investments at fair value in the Statement of Net Position.

Investments are reported at fair value, which is determined using selected bases. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Cash and external investment pools deposits are reported at carrying amount, which reasonably estimates fair value.

d. Accounts Receivable and Allowance for Uncollectible Accounts

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

e. Inventory

Inventory is based on a physical count at June 30, 2018 and 2017 and is valued at the lower of cost or market, cost being determined on the first-in, first-out basis. Inventory consists of supplies necessary for the repair and maintenance of the water lines.

QUARTZ HILL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

5. Financial Statement Amounts – continued

f. Prepaid Expenses

Certain payments to vendors reflect costs or deposits applicable to future accounting periods and are recorded as prepaid items in the basic financial statements.

g. Restricted Assets

Certain assets of the District are restricted for use by debt covenant and, accordingly, are shown as restricted position on the accompanying statement of net position. The District uses restricted resources, prior to using unrestricted resources, to pay expenses meeting the criteria imposed on the use of the restricted resources by a third party.

h. Capital Assets

All proprietary funds are accounted for on an economic resources measurement focus. This means that all assets and all liabilities associated with their activity, whether current or noncurrent, are included on their statement of net position. Their reported fund equity (net position) is segregated into net position accounts. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net position.

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets or assets that are dedicated to the District are recorded at estimated fair market value at the date of donation or dedication.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Depreciation of all exhaustible property, plant and equipment used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund statements of net position. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Distribution System	10 to 75 years
General Plant	5 to 40 years
Pumping Plant and Equipment	5 to 40 years
Wells and Improvements	10 to 45 years
Reservoirs and Tanks	10 to 50 years

i. Deferred Outflows of Resources

The District reports decreases in net position that relate to future periods as deferred outflows in a separate section of its proprietary funds statements of net position. Deferred outflows of resources reported in this year's financial statements include amounts related to the District's net pension liability and its other post-employment liability.

QUARTZ HILL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

5. Financial Statement Amounts – continued

j. 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) plan (Plan) and additions to/deductions from the Plan's 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 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

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

k. Other Post-Employment Benefits (OPEB)

For purposes of measuring net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District's plan (OPEB Plan), the assets of the plan (which are \$-0-, as the plan is not yet funded) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined by an independent actuary. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

Valuation Date	June 30, 2018
Measurement Date	June 30, 2018
Measurement Period	July 1, 2017 to June 30, 2018

l. Customer Deposits

Based on a customer's credit, the District may require a deposit deemed reasonable by the District. These deposits are held by the District and used to pay off any balances owed by the customer to the District upon the closure of the customer's account with the District.

m. Compensated Absences

Accumulated vacation benefits and sick leave are recorded as liabilities on the books of the District. The District's policy is to record amounts as operating expenses in the period vacation or sick leave is earned. The allocation of the current and long-term portions of these obligations is based on experience and projections of turnover. The dollar value of such accumulations as of June 30, 2018 and 2017, was \$114,787 and \$105,775, respectively.

n. Deferred Inflows of Resources

The District's statements of net position report a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in net position that applies to a future period(s). Deferred inflows of resources are reported in the District's statements of net position include amounts related to its net pension liability.

QUARTZ HILL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

5. Financial Statement Amounts – continued

o. Water Sales

Water sales are billed on a monthly cyclical basis. Estimated unbilled water revenue through June 30 has been accrued at year-end.

p. Property Tax

Secured property taxes attach as an enforceable lien on property as of March 1 and are levied on July 1 of each year. Taxes are payable in two installments on November 15 and March 15. Unsecured property taxes are payable in one installment on or before August 31. Property taxes are billed and collected for the District by Los Angeles County. The District does not receive any property tax revenues directly; however, delinquent special assessments are turned over to the County for collection with regular delinquent property tax assessments.

q. Capital Contributions

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

r. 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 the valuation inputs used to measure the fair value of the investments. Three levels of the fair value hierarchy are as follows:

Level 1: Inputs are unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly and fair value is determined through the use of models or other valuation methodologies.

Level 3: Inputs are significant unobservable inputs for the asset or liability and significant to the fair value measurement. These unobservable inputs reflect the District's own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). These unobservable inputs are developed based on the best information available in the circumstances and may include the District's own data.

The District utilizes valuation techniques consistent with market, cost or income approaches to determine fair value. The most appropriate technique is utilized to maximize the use of observable inputs and minimize the use of unobservable inputs.

**QUARTZ HILL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

s. Budgets and Budgetary Accounting

The District follows these procedures in establishing the budgetary data reflected in the financial statements.

- i. Prior to June 30, the District Manager submits to the Board of Directors a proposed operating and capital budget for the fiscal year commencing the following July 1. The budget includes proposed expenses and the means of financing them.
- ii. Public hearings are conducted for comments.
- iii. Prior to September 1, the budget is legally enacted.
- iv. Formal budgetary integration is employed as a management control device during the year for the Proprietary Funds.
- v. Budgeted amounts are as originally adopted, or as amended. Individual amendments were not material in relation to the original appropriations which were amended.

t. Net Position

The financial statements utilize a net position presentation. Net position is categorized as investment in fixed assets (net of related debt), restricted and unrestricted as follows:

- Net Investment in Capital Position – This component of net position consists of capital assets, net of accumulated depreciation and reduced by any outstanding debt against the acquisition, construction or improvement of those assets.
- Restricted Net Position – This component of net position consists of constraints placed on net position use through external constraints imposed by creditors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position – This component of net position consists of net position that do not meet the definition of restricted or net investment in capital assets.

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

u. Reclassifications

Non-capital-related borrowings of \$567,562 related to unexpended COP proceeds held in a reserve fund, were previously shown in the prior period financial statements as a reduction to net position - investment in capital assets – net of related debts in the Statement of Net Position, have been reclassified to unrestricted net position to be consistent with the current period's presentation.

**QUARTZ HILL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017**

NOTE B – CASH AND INVESTMENTS

Cash and investments as of June 30, are classified in the accompanying financial statements at fair value as follows:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 4,492,473	\$ 4,756,329
Investments	10,075,605	8,308,131
Restricted – cash and investments	<u>572,237</u>	<u>567,562</u>
Total Cash and Investments	<u>\$ 15,140,315</u>	<u>\$ 13,632,022</u>

Cash and investments as of June 30, consisted of the following:

	<u>2018</u>	<u>2017</u>
Cash on hand	\$ 125	\$ 1,755
Deposits with financial institutions	1,095,609	2,784,688
Money Market funds	<u>3,396,739</u>	<u>1,969,886</u>
Total Cash and Equivalents	4,492,473	4,756,329
External Investment Pool	502,702	101,503
Certificates of Deposit	3,675,997	4,216,079
Money Market funds	572,237	567,562
US Treasury Bills, Notes and Bonds	1,979,629	-0-
Corporate bonds	1,945,237	1,987,349
State or municipality bonds or notes	<u>1,972,040</u>	<u>2,003,200</u>
Total Cash and Investments	<u>\$ 15,140,315</u>	<u>\$ 13,632,022</u>

Investments Authorized by the Entity's Investment Policy

The table below 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 provision 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 investment of debt proceeds held by bond trustees that are governed by the provision 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>
US Treasury Bills, Notes and Bonds	5 Years	None	None
Government Agency Securities	5 Years	None	None
Bankers Acceptances	180 Days	30%	5%
Medium Term Notes and Deposit Notes	5 Years	30%	5%
Commercial Paper	270 Days	10%	5%
Certificates of Deposit	5 Years	30%	10%
Repurchase Agreements	30 Days	10%	None
CA State Local Agency Investment Fund	N/A	None	N/A
Los Angeles County Investment Pool	N/A	20%	N/A
Money Market Mutual Funds	N/A	50%	None
Registered State Warrants, Notes or Bonds	5 Years	20%	10%

**QUARTZ HILL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017**

NOTE B – CASH AND INVESTMENTS – continued

Investments Authorized by Debt Agreements

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

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
US Treasury Bills, Notes and Bonds	5 Years	None	None
Government Agency Securities	5 Years	None	None
Bankers Acceptances	180 Days	40%	None
State or municipality bonds or notes	5 Years	None	None
Commercial Paper	270 Days	40%	None
Certificates of Deposit	5 Years	30%	None
Repurchase Agreements	30 Days	None	None
CA State Local Agency Investment Fund	N/A	None	None
Los Angeles County Investment Pool	N/A	None	None
Money Market Mutual Funds	N/A	20%	None

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 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, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. The District may waive collateral requirements for deposits that are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). As of June 30, 2018 and 2017, \$845,609 and \$2,534,688, respectively of the District's deposits with financial institutions were in excess of federal depository insurance limits.

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. 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.

**QUARTZ HILL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017**

NOTE B – CASH AND INVESTMENTS – continued

Investments in Local Agency Investment Fund (LAIF)

The District is a voluntary participant in the Local Agency Investment Fund that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The 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 value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. LAIF invests some of its portfolio in derivatives. Detailed information on derivative investments held by this pool is not readily available.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater is the sensitivity of its fair value to changes in market interest rates. The District manages interest rate risk by mandating a maximum maturity for single investments of five years, and a maximum average maturity of the portfolio of three years.

As of June 30, 2018, the District had the following investments and maturities:

	Invest Maturities in Years		
	Fair Value	Less Than 1	1 – 5
Investment Type:			
Local Agency Investment Fund	\$ 502,702	N/A	N/A
Corporate Bonds	1,945,237	495,521	1,449,716
State or municipality bonds or notes	1,972,040	-0-	1,972,040
US Treasury Bills, Notes and Bonds	1,979,629	1,979,629	-0-
Certificates of Deposit	3,675,997	749,178	2,926,819
Held by Bond Trustee			
Money Market Deposits	<u>572,237</u>	<u>N/A</u>	<u>N/A</u>
Total	<u>\$ 10,647,842</u>	<u>\$ 3,224,328</u>	<u>\$ 6,348,575</u>

As of June 30, 2017, the District had the following investments and maturities:

	Invest Maturities in Years		
	Fair Value	Less Than 1	1 – 5
Investment Type:			
Local Agency Investment Fund	\$ 101,503	N/A	N/A
Corporate Bonds	1,987,349	-0-	1,987,349
State or municipality bonds or notes	2,003,200	998,680	1,004,520
Certificates of Deposit	4,216,079	1,713,014	2,503,065
Held by Bond Trustee			
Money Market Deposits	<u>567,562</u>	<u>N/A</u>	<u>N/A</u>
Total	<u>\$ 8,875,693</u>	<u>\$ 2,711,694</u>	<u>\$ 5,494,934</u>

**QUARTZ HILL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017**

NOTE B – CASH AND INVESTMENTS – continued

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of yearend for each investment type.

Credit ratings as of June 30, 2018, were as follows:

Investment Type:	Total	Minimum Legal Rating	Exempt From Disclosure	Rating as of Year End	
				At least an A	Not Rated
External Investment Pool (LAIF)\$	502,702	N/A	\$ -0-	\$ -0-	\$ 502,702
Corporate bonds	1,945,237	A	-0-	1,945,237	-0-
State or municipality bonds	1,972,040	N/A	-0-	-0-	1,972,040
US Treasury Bills, Notes and Bonds	1,979,629	N/A	-0-	-0-	1,979,629
Certificates of Deposit	3,675,997	N/A	-0-	-0-	3,675,997
Held by bond trustee:					
Money Market Funds	<u>572,237</u>	N/A	<u>572,237</u>	<u>-0-</u>	<u>-0-</u>
Total	<u>\$ 10,647,842</u>		<u>\$ 572,237</u>	<u>\$ 1,945,237</u>	<u>\$ 8,130,368</u>

Credit ratings as of June 30, 2017, were as follows:

Investment Type:	Total	Minimum Legal Rating	Exempt From Disclosure	Rating as of Year End	
				At least an A	Not Rated
External Investment Pool (LAIF)\$	101,503	N/A	\$ -0-	\$ -0-	\$ 101,503
Corporate bonds	1,987,349	A	-0-	1,987,349	-0-
State or municipality bonds	2,003,200	A	-0-	2,003,200	-0-
Certificates of Deposit	4,216,079	N/A	-0-	-0-	4,216,079
Held by bond trustee:					
Money Market Funds	<u>567,562</u>	N/A	<u>567,562</u>	<u>-0-</u>	<u>-0-</u>
Total	<u>\$ 8,875,693</u>		<u>\$ 567,562</u>	<u>\$ 3,990,549</u>	<u>\$ 4,317,582</u>

Concentrations of Credit Risk

The investment policy of the District contains no limitation on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer represented 5% or more of total investments by the reporting unit, therefore the following amounts are required to be disclosed.

Issuer	Investment Type	Investment amount	
		2018	2017
Southern California Public Power Authority	State or municipality bonds	\$ 1,001,190	\$ -0-
Wells Fargo Bank NA	Corporate Bonds	\$ 495,521	\$ 499,030
Wells Fargo & Company	Corporate Bonds	\$ 1,449,716	\$ 1,488,319
United States Treasury Bill	US Treasury Bills, Notes, Etc.	\$ 1,979,629	\$ -0-
Pasadena California Unified School District	Municipality Bond	\$ -0-	\$ 1,004,520
University of California	Municipality Bond	\$ 970,850	\$ -0-
San Francisco City & County CA	Municipality Bond	\$ -0-	\$ 998,680

QUARTZ HILL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE B – CASH AND INVESTMENTS – continued

Investment Value Measurement

The following is a summary of the District's investments based on the method of measuring value of June 30, 2018:

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investments by Fair Value Level:				
Corporate bonds	\$ -0-	\$ 1,945,237	\$ -0-	\$ 1,945,237
State or municipality bonds	-0-	1,972,040	-0-	1,972,040
US Treasury Bills, Notes and Bonds	-0-	1,979,629	-0-	1,979,629
Certificates of Deposit	-0-	3,675,997	-0-	3,675,997
 Total investments by Fair Value Level	 \$ -0-	 \$ 9,572,903	 \$ -0-	 9,572,903
Investments measured at cost:				
External Investment Pool (LAIF)				502,702
Held by bond trustee:				
Money market funds				<u>572,237</u>
 Total investments measured at cost				 <u>1,074,939</u>
 Total Investments:				 <u>\$ 10,647,842</u>

The following is a summary of the District's investments based on the method of measuring value of June 30, 2017:

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investments by Fair Value Level:				
Corporate bonds	\$ -0-	\$ 1,987,349	\$ -0-	\$ 1,987,349
State or municipality bonds	-0-	2,003,200	-0-	2,003,200
Certificates of Deposit	-0-	4,216,079	-0-	4,216,079
 Total investments by Fair Value Level	 \$ -0-	 \$ 8,206,628	 \$ -0-	 8,206,628
Investments measured at cost:				
External Investment Pool (LAIF)				101,503
Held by bond trustee:				
Money market funds				<u>567,562</u>
 Total investments measured at cost				 <u>669,065</u>
 Total Investments:				 <u>\$ 8,875,693</u>

**QUARTZ HILL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017**

NOTE C – PREPAID EXPENSES

At June 30, the District had paid for expenses for which it expects to receive a benefit in a future period. Prepaid expenses consist of the following:

	<u>2018</u>	<u>2017</u>
Prepaid insurance	\$ -0-	\$ 7,230
Prepaid software costs	-0-	4,600
Miscellaneous prepaid expenses	<u>2,914</u>	<u>2,877</u>
Prepaid Expenses	<u>\$ 2,914</u>	<u>\$ 14,707</u>

NOTE D – BANKED WATER INVENTORY

On December 10, 2010 and March 12, 2013, the District entered into an agreement with Antelope Valley East Kern Water Agency (AVEK) to purchase 1,150 and 2,400 acre feet of water, respectively, for storage in AVEK's water banking facility. Under this agreement, the District expects to be able to purchase water at current market rates and withdraw water from the facility during dry years at a cost substantially below market rates. Banked water inventory at June 30, 2018 and 2017 totaled \$760,800 and \$760,800, respectively.

QUARTZ HILL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE E – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018 is shown below:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
Non-depreciable assets:				
Land and land rights	\$ 808,077	\$ -0-	\$ (563)	\$ 807,514
Construction in progress	46,538	-0-	-0-	46,538
Total non-depreciable assets	854,615	-0-	(563)	854,052
Depreciable assets:				
Distribution system	11,195,228	-0-	-0-	11,195,228
General plant	3,309,402	111,470	-0-	3,420,872
Pumping plant and equipment	1,053,922	-0-	-0-	1,053,922
Wells and improvements	5,582,935	-0-	-0-	5,582,935
Reservoirs and tanks	4,627,668	178,515	-0-	4,806,183
Buildings and structures	4,660,887	-0-	-0-	4,660,887
Office furniture and equipment	396,325	26,921	-0-	423,246
Tools and equipment	360,448	-0-	-0-	360,448
Vehicles	998,787	35,062	(31,417)	1,002,432
Total depreciable assets	32,185,602	351,968	(31,417)	32,506,153
Accumulated depreciation:				
Distribution system	(4,007,709)	(199,572)	-0-	(4,207,281)
General plant	(587,621)	(162,744)	-0-	(750,365)
Pumping plant and equipment	(339,309)	(25,412)	-0-	(364,721)
Wells and improvements	(2,738,249)	(175,851)	-0-	(2,914,100)
Reservoirs and tanks	(1,642,838)	(92,084)	-0-	(1,734,922)
Buildings and structures	(232,027)	(116,522)	-0-	(348,549)
Office furniture and equipment	(270,983)	(61,088)	-0-	(332,071)
Tools and equipment	(341,749)	(5,067)	-0-	(346,816)
Vehicles	(852,912)	(44,181)	31,417	(865,676)
Total accumulated depreciation	(11,013,397)	(882,521)	31,417	(11,864,501)
Total depreciable assets, net	21,172,205	\$ (530,553)	\$ -0-	20,641,652
Total capital assets, net	\$ 22,026,820			\$ 21,495,704

Major depreciable capital asset additions during fiscal year 2018 include meter purchases, computer hardware and software upgrades, a vehicle purchase, and tank recoating's. Major depreciable capital asset deletions during fiscal year 2018 include a vehicle disposal.

QUARTZ HILL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE E – CAPITAL ASSETS—continued

Capital asset activity for the year ended June 30, 2017 is shown below:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
Non-depreciable assets:				
Land and land rights	\$ 691,746	\$ 116,331	\$ -0-	\$ 808,077
Construction in progress	-0-	46,538	-0-	46,538
Total non-depreciable assets	691,746	162,869	-0-	854,615
Depreciable assets:				
Distribution system	11,195,228	-0-	-0-	11,195,228
General plant	3,158,897	150,505	-0-	3,309,402
Pumping plant and equipment	1,042,539	11,383	-0-	1,053,922
Wells and improvements	5,577,475	5,460	-0-	5,582,935
Reservoirs and tanks	4,615,133	12,535	-0-	4,627,668
Buildings and structures	4,660,887	-0-	-0-	4,660,887
Office furniture and equipment	362,719	33,606	-0-	396,325
Tools and equipment	344,362	16,086	-0-	360,448
Vehicles	963,564	35,223	-0-	998,787
Total depreciable assets	31,920,804	264,798	-0-	32,185,602
Accumulated depreciation:				
Distribution system	(3,808,137)	(199,572)	-0-	(4,007,709)
General plant	(424,847)	(162,774)	-0-	(587,621)
Pumping plant and equipment	(313,928)	(25,381)	-0-	(339,309)
Wells and improvements	(2,562,550)	(175,699)	-0-	(2,738,249)
Reservoirs and tanks	(1,546,255)	(96,583)	-0-	(1,642,838)
Buildings and structures	(115,505)	(116,522)	-0-	(232,027)
Office furniture and equipment	(214,433)	(56,550)	-0-	(270,983)
Tools and equipment	(332,563)	(9,186)	-0-	(341,749)
Vehicles	(812,507)	(40,405)	-0-	(852,912)
Total accumulated depreciation	(10,130,725)	(882,672)	-0-	(11,013,397)
Total depreciable assets, net	21,790,079	\$ (617,874)	\$ -0-	21,172,205
Total capital assets, net	\$ 22,481,825			\$ 22,026,820

Major depreciable capital asset additions during fiscal year 2017 include the purchase of additional property for a future well sight, new meters, a new vehicle and software purchases. No major depreciable capital asset deletions occurred during the year ended June 30, 2017.

**QUARTZ HILL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017**

NOTE F – LONG-TERM DEBT

On April 6, 2011, the Quartz Hill Water District issued \$8,400,000 in Series 2011 Revenue Certificates of Participation. These bonds were issued to fund the construction of certain capital improvements in the District including two new reservoirs, three additional well sites, a new administrative and warehouse facility, and to purchase shares in a water banking facility. The 2011 COPs were issued with interest rates ranging from 3.00% to 5.75% with lengths to maturity ranging from seven months to thirty years. At June 30, 2018, the principal balance outstanding of the 2011 COPs was \$7,450,000.

Long-term obligations include debt and other long-term liabilities.

Changes in long-term obligations for the period ended June 30, 2018 are as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
2011 COPs	\$7,605,000	\$ -0-	\$ (155,000)	\$7,450,000	\$ 160,000

Changes in long-term obligations for the period ended June 30, 2017 are as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
2011 COPs	\$7,755,000	\$ -0-	\$ (150,000)	\$7,605,000	\$ 155,000

The annual requirements to amortize the 2011 COPs, outstanding as of June 30, 2018, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 160,000	\$ 404,400	\$ 564,400
2020	165,000	397,694	562,694
2021	175,000	390,250	565,250
2022	185,000	381,919	566,919
2023	190,000	372,775	562,775
2024-2028	1,120,000	1,701,175	2,821,175
2029-2033	1,480,000	1,347,469	2,827,469
2034-2038	1,955,000	869,931	2,824,931
2039-2042	2,020,000	240,925	2,260,925
Totals	\$ 7,450,000	\$ 6,106,538	\$ 13,556,538

NOTE G – COMPENSATED ABSENCES

Summary of changes to compensated absences balances for the year ended June 30, 2018, were as follows:

<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>	<u>Due in More Than One Year</u>
\$ 105,775	\$ 106,341	\$ (97,329)	\$ 114,787	\$ 48,614	\$ 66,173

Summary of changes to compensated absences balances for the year ended June 30, 2017, were as follows:

<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>	<u>Due in More Than One Year</u>
\$ 91,682	\$ 32,038	\$ (17,945)	\$ 105,775	\$ 44,797	\$ 60,978

**QUARTZ HILL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017**

NOTE H – DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plan

Plan Description

All qualified permanent and probationary employees are eligible to participate in the District's cost sharing defined benefit pension plan administered by the California Public Employee's Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. 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 plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credit service, equal to one year of full time employment. A Classic CalPERS Miscellaneous member with five years of total service is eligible to retire at age 50 with statutorily reduced benefits. A Public Employee's Pension Reform Act (PEPRA) member with five years of total service is eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The death benefit is one of the following: the Basic Death Benefit, the 1959 Survivor Benefit, or the Pre-Retirement Option 2W Death Benefit. The cost of living adjustments for the plan are applied as specified by the Public Employees' Retirement Law.

The Plan's provisions and benefits in effect at June 30, 2018 and 2017, are summarized as follows:

	<u>Classic</u> Prior to <u>January 1, 2013</u>	<u>PEPRA</u> On or after <u>January 1, 2013</u>
Benefit formula	2% @ 55	2% @ 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50-63	52-67
Monthly benefits, as a % of eligible compensation	2% to 2.418%	1% to 2.5%
Required employee contribution rates	7.0%	6.50%
Required employer contributions rates:		
For the Year Ended June 30, 2017	9.846%	7.066%
For the Year Ended June 30, 2018	9.887%	7.045%

**QUARTZ HILL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017**

NOTE H – DEFINED BENEFIT PENSION PLAN—continued

Employees Covered

As of June 30, 2017 actuarial valuation, the following current and former employees were covered by the benefit terms under the Miscellaneous Plan:

<u>Plan Members</u>	<u>Classic</u>	<u>PEPRA</u>	<u>Total</u>
Active employees	8	2	10
Transferred employees	5	-0-	5
Separated employees	7	1	8
Retired employees	15	-0-	15
Total	<u>35</u>	<u>3</u>	<u>38</u>

As of June 30, 2016 actuarial valuation, the following current and former employees were covered by the benefit terms under the Miscellaneous Plan:

<u>Plan Members</u>	<u>Classic</u>	<u>PEPRA</u>	<u>Total</u>
Active employees	10	2	12
Transferred employees	5	-0-	5
Separated employees	6	-0-	6
Retired employees	14	-0-	14
Total	<u>35</u>	<u>2</u>	<u>37</u>

Funding Policy

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in rate. Funding contributions for the Plan is 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. The District makes the contributions required of District employees on their behalf.

QUARTZ HILL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE H – DEFINED BENEFIT PENSION PLAN—continued

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

Summary of the pension plan for the year ended June 30, 2018, is as follows:

<u>Type of Account</u>	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2018</u>
Deferred Outflows of Resources:				
Pension Contributions made after the measurement date: \$	81,899	\$ 85,598	\$ (81,899)	\$ 85,598
Differences between projected and actual earnings on pension investments	216,483	-0-	(168,417)	48,066
Difference between actual and proportionate share of employer contributions	445,627	-0-	(167,849)	277,778
Adjustment due to differences in proportions	-0-	35,319	-0-	35,319
Difference between Expected and Actual Experience	4,717	-0-	(4,717)	-0-
Changes of Assumptions	<u>-0-</u>	<u>196,325</u>	<u>-0-</u>	<u>196,325</u>
Total Deferred Outflows of Resources	<u>\$ 748,726</u>	<u>\$ 317,242</u>	<u>\$ (422,882)</u>	<u>\$ 643,086</u>
Net Pension Liability:				
CalPERS – Miscellaneous Plan	<u>\$ 264,342</u>	<u>\$ 196,934</u>	<u>\$ (81,899)</u>	<u>\$ 379,377</u>
Deferred Inflows of Resources:				
Differences between actual and proportionate share of employer contributions	\$ -0-	\$ 73,885	\$ -0-	\$ 73,885
Adjustment due to differences in proportions	474,379	-0-	(178,159)	296,220
Differences between Projected and actual experience	871	21,957	-0-	22,828
Changes of Assumptions	<u>44,622</u>	<u>-0-</u>	<u>(44,622)</u>	<u>-0-</u>
Total Deferred Inflows of Resources	<u>\$ 519,872</u>	<u>\$ 95,842</u>	<u>\$ (222,781)</u>	<u>\$ 392,933</u>

QUARTZ HILL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE H – DEFINED BENEFIT PENSION PLAN—continued

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions—continued

Summary of the pension plan for the year ended June 30, 2017, is as follows:

<u>Type of Account</u>	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2017</u>
Deferred Outflows of Resources:				
Pension Contributions made after the measurement date: \$	761,635	\$ 81,899	\$ (761,635)	\$ 81,899
Differences between projected and actual earnings on pension investments	-0-	216,483	-0-	216,483
Difference between actual and proportionate share of employer contributions	-0-	445,627	-0-	445,627
Difference between Expected and Actual Experience	<u>7,337</u>	<u>-0-</u>	<u>(2,620)</u>	<u>4,717</u>
Total Deferred Outflows of Resources	<u>\$ 768,972</u>	<u>\$ 744,009</u>	<u>\$ (764,255)</u>	<u>\$ 748,726</u>
Net Pension Liability:				
CalPERS – Miscellaneous Plan	<u>\$ 664,898</u>	<u>\$ 361,079</u>	<u>\$ (761,635)</u>	<u>\$ 264,342</u>
Deferred Inflows of Resources:				
Differences between actual and proportionate share of employer contributions	\$ 9,841	\$ -0-	\$ (9,841)	\$ -0-
Difference between projected and actual earnings on pension plan investments	34,797	-0-	(34,797)	-0-
Adjustment due to differences in proportions	9,555	464,824	-0-	474,379
Differences between Projected and actual experience	-0-	871	-0-	871
Changes of Assumptions	<u>69,412</u>	<u>-0-</u>	<u>(24,790)</u>	<u>44,622</u>
Total Deferred Inflows of Resources	<u>\$ 123,605</u>	<u>\$ 465,695</u>	<u>\$ (69,428)</u>	<u>\$ 519,872</u>

**QUARTZ HILL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017**

NOTE H – DEFINED BENEFIT PENSION PLAN—continued

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions—continued

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

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

<u>Plan Type and Balance Descriptions</u>	<u>Plan Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Change in Plan Net Pension Liability</u>
CalPERS – Miscellaneous Plan:			
Balance as of June 30, 2016	\$ 4,481,896	\$ 4,217,554	\$ 264,342
Balance as of June 30, 2017	<u>5,093,262</u>	<u>4,713,885</u>	<u>379,377</u>
Change in Plan Net Pension Liability	<u>\$ 611,366</u>	<u>\$ 496,331</u>	<u>\$ 115,035</u>

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

<u>Plan Type and Balance Descriptions</u>	<u>Plan Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Change in Plan Net Pension Liability</u>
CalPERS – Miscellaneous Plan:			
Balance as of June 30, 2015	\$ 4,044,522	\$ 3,379,624	\$ 664,898
Balance as of June 30, 2016	<u>4,481,896</u>	<u>4,217,554</u>	<u>264,342</u>
Change in Plan Net Pension Liability	<u>\$ 437,374</u>	<u>\$ 837,930</u>	<u>\$ 400,556</u>

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

1. In determining a cost-sharing a cost-sharing plan’s proportionate share, total amounts of liabilities and assets are first calculated for the risk pool as a whole on the valuation date (June 30, 2016 and 2015). The risk pool’s fiduciary net position (“FNP”) subtracted from its total pension liability (TPL) determines the net pension liability (NPL) at the valuation date.
2. Using standard actuarial roll forward methods, the risk pool TPL is then computed at the measurement date (June 30, 2017 and 2016). Risk pool FNP at the measurement date is then subtracted from this number to compute the NPL for the risk pool at the measurement date. For purposes of FNP in this step and any later reference thereto, the risk pool’s FNP at the measurement date denotes the aggregate risk pool’s FNP at June 30, 2017 and 2016 less the sum of all additional side fund (or unfunded liability) contributions made by all employers during the measurement period (2016-17 fiscal year and the 2015-16 year).
3. The individual plan’s TPL, FNP and NPL are also calculated at the valuation date.
4. Two ratios are created by dividing the plan’s individual TPL and FNP as of the valuation date from (3) by amounts in step (1), the risk pool’s total TPL and FNP, respectively.

**QUARTZ HILL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017**

NOTE H – DEFINED BENEFIT PENSION PLAN—continued

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions—continued

Proportionate Share of Net Pension Liability and Pension Expense – continued

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

At June 30, 2018 and 2017, the District reported a liability of \$379,377 and \$264,342 for its proportionate share of the net pension liability. The District's proportion of the net pension liability was based on its proportion of the Miscellaneous Risk Pool, actuarially determined. At June 30, 2017 and 2016, the District's proportion was 0.00962% and 0.00761%, respectively.

For the years ended June 30, 2018 and 2017, the District recognized pension expense of \$151,370 and \$20,606. At June 30, 2018 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net Difference between Projected And Actual Earnings on Pension Plan Investments	\$ 48,066	\$ -0-
Changes of Assumptions	196,325	-0-
Change in Employer's Proportion	35,319	(296,220)
Differences between Projected and Actual Experience	-0-	(22,828)
Difference between Actual versus Proportionate Share of Contributions	277,778	(73,885)
Contributions Subsequent to the Measurement Date	<u>85,598</u>	<u>-0-</u>
	<u>\$ 643,086</u>	<u>\$ (392,933)</u>

**QUARTZ HILL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017**

NOTE H – DEFINED BENEFIT PENSION PLAN—continued

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions—continued

At June 30, 2017 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net Difference between Projected And Actual Earnings on Pension Plan Investments	\$ 216,483	\$ -0-
Changes of Assumptions	-0-	(44,622)
Adjustment due to Differences in Proportions	-0-	(474,379)
Differences between Projected and Actual Experience	4,717	(871)
Difference in Actual vs Projected Contributions	445,627	-0-
Contributions Subsequent to the Measurement Date	81,899	-0-
	\$ 748,726	\$ (519,872)

\$85,598 and \$81,899 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be or has been recognized as a reduction to the net pension liability for the years ended June 30, 2018 and 2017, respectively.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Amount
2019	\$ 25,422
2020	103,537
2021	64,134
2022	(28,537)
	\$ 164,556

Actuarial Assumptions – The June 30, 2016 actuarial valuation was rolled forward to determine the June 2017 total pension liability, using the following actuarial methods and assumptions:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.15%
Mortality Rate Table	Derived using CalPERS Membership Data
Post Retirement Benefit Increase	Contract COLA up to 2.75%

**QUARTZ HILL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017**

NOTE H – DEFINED BENEFIT PENSION PLAN—continued

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions—continued

Actuarial Assumptions – continued – The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2016 valuation were based on the results of a 2014 CalPERS Experience Study for the period from 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The expected rate of return was then set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using each major asset class. The table below reflects long-term real rate of return by asset class.

Asset Class:	Target Allocation	Real Return Years 1 - 10	Real Return Years 11+
Global Equity	47%	4.90%	5.38%
Global Fixed Income	19%	0.80%	2.27%
Inflation Sensitive	6%	0.60%	1.39%
Private Equity	12%	6.60%	6.63%
Real Estate	11%	2.80%	5.21%
Infrastructure and Forestland	3%	3.90%	5.36%
Liquidity	2%	(0.40%)	(0.90%)

Change in Assumptions – Since the last actuarial valuation date the CalPERS Board of Administration lowered the discount rate assumption, the long-term rate of return, from 7.65% to 7.15% which will result in increased public agency employer contribution costs.

Discount Rate – The discount rate used to measure the total pension liability was 7.15% for the Plan. The projection of cash flows used to determine the discount rate assumed that both members and employers will make their required contributions on time and as scheduled in all future years. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans ran out of assets. Therefore, the current 7.15 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

Sensitivity of the District's 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 calculated using the discount rate of 7.15 percent, 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 1-percentage point lower (6.15 percent) or 1-percent higher (8.15 percent) than the current rate for the June 30 2017 Valuation date as follows:

	Discount Rate – 1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate + 1% (8.15%)
Plan's Net Pension Liability/(Asset)	\$ 1,079,940	\$ 379,377	\$ (200,841)

**QUARTZ HILL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017**

NOTE H – DEFINED BENEFIT PENSION PLAN—continued

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions—continued

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate – continued – The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.65 percent, 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 1-percentage point lower (6.65 percent) or 1-percent higher (8.65 percent) than the current rate for the June 30 2016 Valuation date as follows:

	Discount Rate – 1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate + 1% (8.65%)
Plan's Net Pension Liability/(Asset)	\$ 867,745	\$ 264,342	\$ (234,340)

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial report.

NOTE I – DEFERRED COMPENSATION PLAN

All employees who meet the eligibility requirements may participate in a “qualified deferred compensation plan.” This plan is qualified under the Internal Revenue Code of 1986 Section 457, and is administered by the District. Participants in this plan may elect to defer a portion of their annual compensation as provided for by the plan document and Code Section 457. The District makes no employer contribution on behalf of the employee participant.

While the Employer/District is considered the owner of the plan assets, these assets are held in trust and the District has no rights of acquisition. All funds are held for the benefit of, and must be distributed to, plan participants.

**QUARTZ HILL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017**

NOTE J – OTHER POST EMPLOYMENT BENEFITS

Plan Description

The District administers a single-employer defined benefit other post-employment healthcare plan (the OPEB Plan) providing health plan coverage to eligible retired employees. The District offers retirees coverage through the Association of California Water Agencies Joint Powers Insurance Authority (ACWA JPIA). The contribution requirements of the plan members and the District are established and may be amended by the Board of Directors. The District does not prepare a separate financial report for the OPEB Plan. Employees are broken into tiers based off of the date of their hire and retirement dates become eligible to receive healthcare benefits upon retirement based off of the following criteria:

Tier 1: Employees hired and retired on or before January 1, 2013

After one year of service these retirees are eligible to receive a lifetime medical benefit of 100% of the retiree-only medical premium for any plan provided by the District. Coverage must be transitioned to a supplemental plan once eligible under Medicare.

Tier 2: Employees hired on or before January 1, 2013 but retired after this date

To qualify for retiree medical coverage and benefits, the employee must retire from the District at age 50 or older and have been a full time employee of the District while employed. These retirees are eligible to receive a lifetime medical benefit of 100% of the retiree-only medical premium, not to exceed the premium for the Anthem Blue Cross Advantage Plan. Coverage must be transitioned to a supplemental plan once eligible for coverage under Medicare.

Tier 3 Employees hired after January 1, 2013

To qualify for retiree medical coverage and benefits, these employees must retire from the District at age 55 or older and have been a full time employee of the District for at least 5 years. These retirees are eligible to receive a lifetime medical benefit equal to a vested percentage of the retiree-only medical premium for the Anthem Blue Cross Advantage Plan. Coverage must be transitioned to a supplemental plan once eligible for coverage under Medicare.

The vested percentage is determined based on the employee's year of District service:

<u>Years of Service</u>	<u>% of Premium Paid</u>
5 But Less Than 11	33%
11 But Less Than 15	66%
15 or more	100%

Retirees must be covered under a District sponsored medical plan to receive the benefits described above. No benefit is provided if the retiree chooses coverage under a different medical plan. Medical coverage is not available for the dependents of retirees, even at the retiree's expense, other than as required by COBRA.

**QUARTZ HILL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017**

NOTE J – OTHER POST EMPLOYMENT BENEFITS – continued

Employees Covered

As of June 30, 2018 actuarial valuation, the following current and former employees were covered by the benefit terms under the OPEB Plan:

Active employees	11
Inactive employees or beneficiaries currently receiving plan benefits	8
Inactive employees entitled to, but not yet receiving benefits	<u>-0-</u>
Total	<u><u>19</u></u>

Contributions

The annual contribution is based on projected pay-as-you-go financing requirements and no assets have been accumulated in a trust for the purposes of paying future benefits. For the fiscal year ended June 30, 2018, the District's cash contributions were \$68,238 in current premiums and the estimated implied subsidy was \$27,567 resulting in total payments of \$95,805.

Net OPEB Liability

The District's net OPEB liability was measured as of June 30, 2018 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2018, based on the following actuarial methods and assumptions:

Discount Rate		2.92%
Inflation		2.75%
Salary Increases	3.25% per annum, in aggregate	
Investment Rate of Return		2.92%
Mortality Rate	Derived using CalPERS Membership Data	
Pre-Retirement Turnover	Derived using CalPERS Membership Data	
Healthcare Trend Rate	7.5 (effective January 1, 2019) and grade down to 5% for years 2024 and thereafter	

The underlying mortality assumptions, pre-retirement turnover assumption and all other actuarial assumption used in the June 30, 2018 valuation were based on the results of the 2014 CalPERS Experience Study for the period from 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website.

The long term expected rate of return on OPEB Plan assets was assumed to equal to the yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher (or equivalent quality on another rating scale).

Discount Rate

The discount rate used to measure the total OPEB liability was 2.92 percent. This discount rate is based on the S&P Municipal Bond 20 Year High Grade Index rate as of June 30, 2018. This rate assumes that the District will continue to fund its OPEB liability on a pay-as-you-go, or "PAYGO", basis which is when the District contribute the required retiree benefits when due. When funding retiree benefits on a pay-as-you-go basis, GASB 75 requires the use of a discount rate equal to the 20-year high grade municipal bond rate.

**QUARTZ HILL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017**

NOTE J – OTHER POST EMPLOYMENT BENEFITS – continued

Changes in the OPEB Liability

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

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability/(Asset) (c)=(a) – (b)
Balance at June 30, 2017 (Measurement Date June 30, 2017)	\$ 3,475,182	\$ -0-	\$ 3,475,182
Changes recognized for the measurement period:			
Service cost	95,654	-0-	95,654
Interest	110,268	-0-	110,268
Employer Contributions	-0-	95,805	(95,805)
Benefit Payments	(95,805)	(95,805)	-0-
Assumption Changes	131,111	-0-	131,111
Net Changes in Fiscal Year 2017-2018	241,228	-0-	241,228
Balance at June 30, 2018 (Measurement Date June 30, 2018)	\$ 3,716,410	\$ -0-	\$ 3,716,410

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

The following present the net OPEB liability of the District if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2018:

	Discount Rate – 1% (1.92%)	Current Discount Rate (2.92%)	Discount Rate + 1% (3.92%)
Net OPEB Liability	\$ 4,444,761	\$ 3,716,410	\$ 3,147,811

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

The following presents the net OPEB liability of the District if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30 2018:

	Current Trend – 1%	Current Trend Rate	Current Trend + 1%
Net OPEB Liability	\$ 3,066,473	\$ 3,716,410	\$ 4,629,877

Recognition of Deferred Outflows and Deferred Inflows of Resources

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

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

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

Net difference between projected and actual earnings on OPEB plan investments	5 years
All Other Amounts	Expected average remaining Service lifetime (EARSL) (7.36 at June 30, 2018)

**QUARTZ HILL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017**

NOTE J – OTHER POST EMPLOYMENT BENEFITS – continued

Recognition of Deferred Outflows and Deferred Inflows of Resources – continued

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB Plan's fiduciary net position is available in the separately issued MacLeod Watts GASB 75 Actuarial Report for the Fiscal Year Ending June 30, 2018 for the District.

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

For the fiscal year ended June 30, 2018, the District recognized OPEB expense of \$223,736. As of fiscal year ended June 30, 2018, the District reported deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of Assumptions	\$ 113,297	\$ -0-
	\$ 113,297	\$ -0-

Amounts reported as deferred outflows of resources related to OPEB will be recognized as expense as follows:

	Amount
Year Ending June 30, 2019	\$ 17,814
2020	17,814
2021	17,814
2022	17,814
2023	17,814
Thereafter	24,227
	\$ 113,297

**QUARTZ HILL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017**

NOTE K – JOINT VENTURES

The District participates in the property and liability program organized by the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA). ACWA/JPIA is a Joint Powers Authority created to provide a self-insurance program to water agencies in the State of California. The ACWA/JPIA is not a component unit of the District for financial reporting purposes as explained below.

ACWA/JPIA provides liability, property and workers' compensation insurance for approximately 292 water agencies for losses in excess of the member districts' specified self-insurance retention levels. Individual claims (and aggregate public liability and property claims) in excess of specified levels are covered by excess insurance policies purchased from commercial carriers. ACWA/JPIA is governed by a separate board comprised of members from participating districts. The board controls the operation of ACWA/JPIA, including selection of management and approval of operating budgets, independent of any influence by the members beyond their representation on the board. Each member shares surpluses and deficiencies proportionately to its participation in ACWA/JPIA. Based on financial information at September 30, 2017 ACWA/JPIA had total assets, liabilities and fund balance of \$199,365,344, \$123,871,469, and \$75,322,674, respectively. Based on financial information at September 30, 2016 ACWA/JPIA had total assets, liabilities and fund balance of \$189,566,761, \$121,474,323, and \$87,957,173, respectively. The ACWA/JPIA issues separately financial statements that are available on its website.

NOTE L – RESTATEMENT OF NET POSITION

As a result of implementing GASB Statement No. 75 in the fiscal year ended June 30, 2018, the beginning net position was reduced by \$2,266,180. Financial information for the year ended June 30, 2017 was not restated because the necessary actuarial information was not available.

Net Position as of June 30, 2017, as previously reported	\$ 27,894,611
Change in accounting principle: GASB 75 Adjustment	<u>(2,266,180)</u>
 Net Position as of June 30, 2017, as restated	 <u>\$ 25,628,431</u>

REQUIRED SUPPLEMENTARY INFORMATION

QUARTZ HILL WATER DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
AND RELATED RATIOS AS OF THE MEASUREMENT DATE
For the Measurement Periods Ended June 30,

	2017		2016		2015
Employer's Proportion of the Net Pension Liability/(Asset)	0.00962%		0.00761%		0.02424%
Employer's Proportionate Share of the Net Pension Liability/(Asset)	\$ 379,377	\$	264,342	\$	664,898
Employer's Covered Payroll	\$ 857,605	\$	876,622	\$	846,211
Employer's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered Payroll	50.97%		30.15%		78.57%
Employer's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	92.55%		94.10%		83.56%
Employer's Proportionate Share of Aggregate Employer Contributions	\$ 81,899	\$	96,221	\$	103,549

Notes to the Schedule:

Benefits Changes: The figures above do not include any liability impact that may have resulted from plan changes which occurred after the June 30, 2016 valuation date.

Changes in assumptions: In 2017, amounts reported reflect an adjustment of the discount rate from 7.65 percent to 7.15 percent. In 2016, there were no changes. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense).

Pension Liability: Based on the respective June 30, 2017, 2016, and 2015 measurement dates.

*Future years' information will be displayed up to 10 years as information becomes available.

**QUARTZ HILL WATER DISTRICT
SCHEDULE OF PENSION PLAN CONTRIBUTIONS
Last Ten Fiscal Years***

	Fiscal Year 6/30/2018	Fiscal Year 6/30/2017	Fiscal Year 6/30/2016	Fiscal Year 6/30/2015
Actuarially Determined Contribution ¹	\$ 85,598	\$ 81,899	\$ 96,221	\$ 103,549
Contributions in Relation to the Actuarially Determined Contribution ¹	<u>(85,598)</u>	<u>(81,899)</u>	<u>(766,284)</u>	<u>(103,549)</u>
Contribution Deficiency (Excess)	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ (670,063)</u>	<u>\$ -0-</u>
Covered Payroll ²	\$ 891,515	\$ 857,605	\$ 876,622	\$ 846,211
Contributions as a percentage of Covered Payroll	9.60%	9.55%	10.98%	12.24%

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

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

*Future years' information will be displayed up to 10 years as information becomes available.

**QUARTZ HILL WATER DISTRICT
SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY
AND RELATED RATIOS AS OF THE MEASUREMENT DATE
Last Then Fiscal Years***

Fiscal Year Ended	June 30, 2018
Total OPEB Liability	
Service Cost	\$ 95,654
Interest on the total OPEB liability	110,268
Changes in assumptions	131,111
Benefit Payments	<u>(95,805)</u>
Net Change in Total OPEB Liability	241,228
Total OPEB Liability - Beginning	<u>3,475,182</u>
Total OPEB Liability - Ending (a)	<u>\$ 3,716,410</u>
Plan Fiduciary Net Position	
Contribution - employer	\$ 95,805
Benefit payments	<u>(95,805)</u>
Net Change in Plan Fiduciary Net Position	-0-
Plan Fiduciary Net Position - Beginning	<u>-0-</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ -0-</u>
Net OPEB liability - ending (a) - (b)	<u>\$ 3,716,410</u>
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	0.00%
Covered-Employee Payroll	\$ 880,698
Net OPEB Liability as a Percentage of Covered-Employee Payroll	421.98%

Notes to Schedule:

Benefit Changes: There were no changes in benefits.

Changes in assumptions: The discount rate was changed from 3.13 percent to 2.92 percent for the measurement period ended June 30, 2018

Net OPEB Liability: Based on the June 30, 2018 measurement date.

Historical information is required only for measurement periods for which GASB 75 is applicable.

*Future years' information will be displayed up to 10 years as information becomes available.

**QUARTZ HILL WATER DISTRICT
SCHEDULE OF OPEB CONTRIBUTIONS
LAST TEN FISCAL YEARS***

Fiscal Year Ended	June 30, 2018
Actuarially Determined Contribution (ADC)	\$ 95,805
Contributions in relation to the ADC	<u>(95,805)</u>
Contribution Deficiency (Excess)	<u>\$ -0-</u>
Contributions as a percentage of covered-employee payroll	10.88%

Notes to Schedule:

*Actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2018 were from the June 30, 2018 actuarial valuation.

Methods and assumptions used to determine contributions:

Actuarial Cost Method	Entry Age Normal Cost, level percent of pay
Amortization Method/Period	Straight recognition over expected average remaining service lifetime(EARSL) of 7.36 years.
Asset Valuation Method	Market Value of Assets (\$-0-; plan is not yet funded)
Inflation	2.75% per year
Payroll Growth	3.25% per year
Investment Rate of Return	2.92% per annum
Healthcare cost-trend rates	7.5%(effective January 1, 2019) and grade down to 5% for years 2024 and thereafter.
Retirement Age	If hired prior to 1/1/2013 - 2.0% @ 55 and if hired on or after 1/1/2013, PEPR: 2% @ 62. The probabilities of Retirement are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011.
Mortality	Pre-retirement and Post-retirement mortality probability is based on 2014 CalPERS 1997-2011 Experience Study covering CalPERS participants, except for projection of future mortality improvements which use the 2014 CalPERS 1997-2011 Experience Study adjusted to back out 20 years of Scale BB to central year 2008 and then projected forward 6 years using <i>MacLeod Watts Scale 2017</i> to year 2014.

Historical information is required only for measurement periods for which GASB 75 is applicable.

*Future years' information will be displayed up to 10 years as information becomes available.

SUPPLEMENTARY INFORMATION

QUARTZ HILL WATER DISTRICT
COMPARISON STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
BUDGET TO ACTUAL
For the Year Ended June 30, 2018

	BUDGET	ACTUAL	OVER (UNDER) BUDGET
OPERATING REVENUES			
Water consumption sales	\$ 2,995,036	\$ 3,337,139	\$ 342,103
Monthly water service charges	1,922,112	2,196,445	274,333
Other service charges	327,991	152,155	(175,836)
Total Operating Revenues	5,245,139	5,685,739	440,600
OPERATING EXPENSES			
Water purchases	1,504,282	1,265,351	(238,931)
Pumping plant	439,271	464,776	25,505
Transmission and distribution	617,786	564,787	(52,999)
Customer accounts	342,795	355,134	12,339
Water conservation	15,000	-0-	(15,000)
Administrative and general	1,632,911	1,462,076	(170,835)
Depreciation	850,000	882,523	32,523
Total Operating Expenses	5,402,045	4,994,647	(407,398)
Net Operating Income (Loss)	(156,906)	691,092	847,998
NON-OPERATING REVENUES (EXPENSES)			
Property taxes	400,000	428,725	28,725
Investment income	131,000	188,065	57,065
Investment gain or (loss)	500	(188,472)	(188,972)
Gain (loss) on disposal of fixed assets	-0-	8,000	8,000
Interest and financing costs	(416,425)	(408,123)	8,302
Capacity charges	30,000	11,361	(18,639)
Rental income	55,000	54,885	(115)
Total Non-Operating Revenues (Expenses)	200,075	94,441	(105,634)
Net Increase (Decrease) Before Capital Contributions	43,169	785,533	742,364
CAPITAL CONTRIBUTIONS			
Meter sales and installations	1,265	1,650	(385)
Total Capital Contributions	1,265	1,650	(385)
Change in Net Position	\$ 44,434	\$ 787,183	\$ 741,979