

PLEASANT VALLEY COUNTY WATER DISTRICT

Financial Statements for the
Years Ended June 30, 2017 and 2016
And Independent Auditor's Report

Fanning & Karrh

Certified Public Accountants

A Professional Corporation

PLEASANT VALLEY COUNTY WATER DISTRICT

Table of Contents

	<u>Page</u>
Independent Auditor's Report.....	1 - 2
Management's Discussion and Analysis.....	3 - 6
Basic Financial Statements:	
Statements of Net Position.....	7
Statements of Revenues and Expenses and Changes in Net Position.....	8
Statements of Cash Flows.....	9
Notes to the Basic Financial Statements.....	10 - 18
Required Supplementary Information.....	19



INDEPENDENT AUDITOR'S REPORT

To the Honorable Board of Directors of
Pleasant Valley County Water District:

We have audited the accompanying financial statements of Pleasant Valley County Water District (District) as of and for the years ended June 30, 2017 and 2016, 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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the basic financial statements are free of material misstatement.

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

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

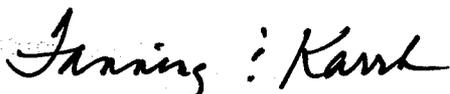
Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pleasant Valley County Water District as of June 30, 2017 and 2016, and the changes in financial position and cash flows thereof for the years then ended in accordance 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 on pages 3 through 6 and the Schedules of Proportionate Share of the Net Pension Liability and of Contributions on page 19 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.


Ventura, California
January 22, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

Pleasant Valley County Water District's ("District") financial performance for the fiscal period ended June 30, 2017 provides an overview of the District's operational activities that impacted the financial position of the District. The District's financial statements which begin on page 7 should be used in conjunction with this discussion and analysis.

Using this Annual Report

The annual report consists of a sequence of financial statements with accompanying notes. The Statements of Net Position provides a comparison of the assets and liabilities which existed at the end of the current and prior fiscal year ends and in addition, manifests the solvency of the District as a going concern. The Statements of Revenues and Expenses and Changes in Net Position provides the results of operations for the fiscal year end, comparing this result with the prior year end, and the effect on the District's net position due from these results.

The District's financial strength can be evaluated by reviewing the Statement of Net Position and measuring the difference between the assets the District owns and the liabilities/debt the District owes. The increase or decrease in the net position over time is an indicator of the wellbeing of the District. However, other non-financial aspects need to be considered when evaluating the District's wellbeing such as capital projects and the District's philosophy to maintain low water rates for its customers.

Method of Accounting: The District uses a single enterprise fund for accounting and reporting the results of all operation. The District's financial statements are presented on the accrual basis of accounting, which is generally used by private-sector businesses. Current year revenue and expenses are recognized as earned or owed, regardless of when the cash is received or paid

Notes to Financial Statements: The notes which follow the financial statements provide indispensable information for a full understanding of the details provided in these financial statements. The notes to these financial statements begin on page 10 of this report.

District as a Whole

The District is operated and reported as a single enterprise fund; therefore there are no subsidiary fund statements presented as part of this report. The operating results in the accompanying financial statements reflect the total performance of the District as a whole.

The District has contracted to purchase water for delivery to its customers from United Water Conservation District (UWCD), and Camrosa Water District (Camrosa). Additionally, the District owns a series of wells which allows the District to deliver water to its customers when none is available from the other sources. The District entered into an agreement with the City of Oxnard during the prior fiscal year to purchase recycled water.

Operating performance in any given year relates to the weather. The water used is applied to the irrigation needs of the District's agricultural customers; therefore sales increase or decrease depending on how much rain falls in any given year. The amount of "effective" rain correlates with the demand by the District's customers. Effective rain is the amount of rain needed to benefit the evapotranspiration

requirements of the crops. Rainfall after the plants root zone has sufficient moisture and minor rainfall which does not penetrate the root zone, add no benefit. Rain which comes in smaller amounts and is well spaced several days apart throughout the rainy season is ideal.

The rainfall total as recorded at the District’s Rainfall Station for year ended September 30, 2017 was 18.21 inches, which is 1.21 inches above the average for Ventura County, California. This represented the second wettest season in 122 years, after five years of consecutive below-normal rainfall.

District water deliveries vary in any given year depending on the amount of rain, farmer’s crop rotation, the economy and the amount of fallow fields. During the fiscal year ended June 30, 2017, the water deliveries decreased approximately 17.71% from the prior year due mainly to decrease usage of well water as the region had year of above-normal rainfall.

In 2016, the connection to the City of Oxnard’s Groundwater Recovery Enhancement and Treatment Program (GREAT) was substantially completed and the District began receiving recycled water from the facility. The expected cost of the water will be based on first, second, and third priority rates ranging up to \$650 per acre foot, adjusted annually based on the Consumer Price Index. Although the cost of this water is significantly higher than the cost of well and groundwater, the water source is a supplemental source. The blending of this water with well water and groundwater will improve the overall quality of water the District provides to its customers. As the region had above-normal rainfall, the District only purchased water from the City of Oxnard for four months of the year.

The District continues to enjoy a strong balance sheet as well as a strong long-term financial policy implemented by the Board of Directors.

A summary of the net assets of the District and the change in net position from the prior fiscal year end is as follows:

	(In Millions)	
<u>Assets</u>	<u>2017</u>	<u>2016</u>
Current Assets	\$ 1.89	\$ 2.42
Capital Assets (net of Depreciation)	<u>2.40</u>	<u>2.14</u>
Total Assets	<u>\$ 4.29</u>	<u>\$ 4.56</u>
Deferred Outflows of Resources	<u>\$ 0.10</u>	<u>\$ 0.02</u>
<u>Liabilities</u>		
Current Liabilities	\$ 0.47	\$ 1.30
Long-term Liabilities	<u>0.23</u>	<u>0.10</u>
Total Liabilities	<u>\$ 0.70</u>	<u>\$ 1.40</u>
Deferred Inflows of Resources	<u>\$ 0.06</u>	<u>\$ 0.11</u>
<u>Net Position</u>		
Invested in Capital Assets (Net of Related Debt)	\$ 2.39	\$ 2.14
Unrestricted Net Position	<u>1.24</u>	<u>0.92</u>
Total Net Position	<u>\$ 3.63</u>	<u>\$ 3.06</u>

Current liabilities decreased 64% due to additional accounts payable in the prior year for the connection with the GREAT program and water liability. The overall increase in net position is primarily due to the increase in the price charged to customers.

Revenue compared with the prior fiscal year is as follows:

	(In millions)	
<u>Operating Revenue</u>	<u>2017</u>	<u>2016</u>
Water Sales	<u>\$ 4.20</u>	<u>\$ 3.41</u>
<u>Non-operating Revenue</u>		
Property Taxes	\$ 0.26	\$ 0.27
Interest Income	0.00	0.01
Other Revenue	<u>0.02</u>	<u>0.03</u>
Total non-operating Revenue	<u>\$ 0.28</u>	<u>\$ 0.31</u>
<u>Operating Expenses</u>		
Water purchases	\$2.22	\$ 2.09
Salaries, wages & benefits	.41	0.35
Utilities	.61	0.90
Other	<u>.54</u>	<u>0.68</u>
Total Direct Operating Expenses	<u>\$3.78</u>	<u>\$ 4.02</u>
Depreciation	<u>.13</u>	<u>.11</u>
Total Operating Expenses	<u>\$3.91</u>	<u>\$ 4.13</u>

Revenue increased by approximately 23% from the prior fiscal year. Overall Water sales generated 94% of the total revenue earned and non-operating income generated 6%. The increase is due to the 16.67% increase in the water delivery rate effective July 1, 2016.

Expenses for water purchases and utilities represent 75% of the total direct operating expenses and salaries and benefits represent 11%. All other expenses account for 14% of the total expenses for the period.

Water purchase costs for the fiscal year increased approximately 6% from the prior year, resulting from decrease in water usage offset by increased cost of water.

Actual Results vs. Budget

The Board of Directors adopts an annual budget in June of each year for the fiscal year beginning on July 1. The following is a summary of actual results in comparison to the budget.

	(In Millions)	
	<u>Actual</u>	<u>Budget</u>
Total Operating Revenues	\$ 4.20	\$ 4.83
Less Operating Expenses:		
Water Purchases and Utilities	2.83	4.34

Salaries, Wages and Benefits	0.41	0.33
Services and Supplies	<u>0.54</u>	<u>0.54</u>
Net Operating Revenues	<u>0.42</u>	<u>5.21</u>
Non-operating Revenues:		
Property Taxes	0.26	0.23
Interest Income	0.00	0.00
Other	<u>0.02</u>	<u>0.01</u>
Total Non-operating Revenues	<u>0.28</u>	<u>0.24</u>
Net income (loss) before depreciation	<u>0.70</u>	<u>(0.14)</u>
Depreciation	<u>0.13</u>	
Change in net position	<u>\$ 0.57</u>	

The District's actual Fiscal Year 2016-2017 revenue was approximately 13% under budget and operating expenses were approximately 27% under budget.

Debt Administration

The District has no long-term debt.

Economic Factors: The FY 2016 - 2017 budget was prepared with a conservative expectation of a below normal weather pattern, increased pump charges being assessed by UWCD and no surface water available from UWCD. The Board voted to increase the billing rate for the fiscal year June 30, 2017 from the current rate of \$210/AF to \$300/AF.

Request for Information

This financial report is designed to provide a general overview for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Asst. Secretary/Treasurer, 3275 Old Conejo Road, Thousand Oaks, CA 91320.

PLEASANT VALLEY COUNTY WATER DISTRICT
 STATEMENTS OF NET POSITION
 June 30, 2017 and 2016

ASSETS	Notes	2017	2016
CURRENT ASSETS			
Cash and cash equivalents	2	\$ 1,322,633	\$ 562,925
Time certificates of deposit	2	155,986	405,393
Accounts receivable		409,368	334,148
Recycled water connection facility costs receivable	4	-	1,112,057
Prepaid expenses		5,281	5,466
TOTAL CURRENT ASSETS		<u>1,893,268</u>	<u>2,419,989</u>
CAPITAL ASSETS			
Land and easements		231,144	231,144
Utility plant		7,504,357	6,997,141
Buildings and equipment		682,282	691,107
Construction in progress		70,608	202,146
TOTAL CAPITAL ASSETS		<u>8,488,391</u>	<u>8,121,538</u>
Less: Accumulated depreciation and amortization		<u>(6,093,587)</u>	<u>(5,984,947)</u>
NET CAPITAL ASSETS	3	<u>2,394,804</u>	<u>2,136,591</u>
TOTAL ASSETS		<u>4,288,072</u>	<u>4,556,580</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources related to pensions	5	<u>103,057</u>	<u>20,720</u>
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable		47,937	624,560
Accrued water liability		347,322	607,160
Accrued utilities and other expenses		71,554	69,178
TOTAL CURRENT LIABILITIES		<u>466,813</u>	<u>1,300,898</u>
LONG-TERM LIABILITIES			
Net pension liability	5	<u>227,087</u>	<u>102,719</u>
TOTAL LIABILITIES		<u>693,900</u>	<u>1,403,617</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources related to pensions	5	<u>62,644</u>	<u>112,730</u>
NET POSITION			
Net investment in capital assets		2,394,804	2,136,591
Unrestricted		<u>1,239,781</u>	<u>924,362</u>
TOTAL NET POSITION		<u>\$ 3,634,585</u>	<u>\$ 3,060,953</u>

See accompanying notes to financial statements.

PLEASANT VALLEY COUNTY WATER DISTRICT
 STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN NET POSITION
 For the Years Ended June 30, 2017 and 2016

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
OPERATING REVENUES			
Water sales and irrigation		\$ 4,195,902	\$ 3,405,118
OPERATING EXPENSES			
Water purchases		2,224,203	2,087,274
Salaries, wages and benefits		405,510	349,983
Utilities		606,963	898,273
Professional fees		339,281	493,396
Repairs and maintenance		98,092	76,067
Outside services		46,224	55,144
Insurance		14,750	14,818
Other		37,635	41,387
Depreciation and amortization		133,281	115,274
TOTAL OPERATING EXPENSES		<u>3,905,939</u>	<u>4,131,616</u>
INCOME (LOSS) FROM OPERATIONS		<u>289,963</u>	<u>(726,498)</u>
NON-OPERATING REVENUES AND EXPENSES			
Property taxes		258,816	270,742
Interest income		3,153	4,954
Other revenue		21,910	34,934
Loss on disposition of capital assets		(210)	-
TOTAL NON-OPERATING REVENUES AND EXPENSES		<u>283,669</u>	<u>310,630</u>
CHANGE IN NET POSITION		573,632	(415,868)
NET POSITION - Beginning of year		<u>3,060,953</u>	<u>3,476,821</u>
NET POSITION - End of year		<u>\$ 3,634,585</u>	<u>\$ 3,060,953</u>

See accompanying notes to financial statements.

PLEASANT VALLEY COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from user charges	\$ 4,117,062	\$ 3,284,937
Cash payments to employees	(410,650)	(385,166)
Cash payments for operating expenses	<u>(3,652,831)</u>	<u>(3,465,486)</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>53,581</u>	<u>(565,715)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(354,664)	(308,136)
Cash paid for recycled water connection facility	(551,132)	(560,925)
Cash received for recycled water connection facility	<u>1,075,017</u>	<u>-</u>
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	<u>169,221</u>	<u>(869,061)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property taxes collected	<u>258,816</u>	<u>270,742</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities of time certificates of deposit	250,000	304,064
Interest income	6,180	3,433
Other revenue	<u>21,910</u>	<u>34,934</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>278,090</u>	<u>342,431</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	759,708	(821,603)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>562,925</u>	<u>1,384,528</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,322,633</u>	<u>\$ 562,925</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income (loss)	\$ 289,963	\$ (726,498)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation and amortization	133,281	115,274
Pension contribution in excess of pension expense	(8,055)	(39,958)
Changes in operating assets and liabilities:		
Accounts receivable - customers	(78,840)	(120,183)
Prepays and other current assets	185	74
Accounts payable	(25,491)	(9,142)
Accrued water liability	(259,838)	210,847
Accrued utilities and other expenses	<u>2,376</u>	<u>3,871</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>\$ 53,581</u>	<u>\$ (565,715)</u>
NONCASH ACTIVITIES		
Accrued liabilities for recycled water connection facility	<u>\$ -</u>	<u>\$ 551,132</u>
Reinvestment of interest on time certificates of deposit	<u>\$ 593</u>	<u>\$ 1,866</u>

See accompanying notes to financial statements.

PLEASANT VALLEY COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – The Pleasant Valley County Water District (District), a special district of the State of California, was organized in 1956 and formed under the County Water District Law of the State of California, as amended, Government Code Sections 30,000 et seq. The District is located in the easternmost section of the Oxnard plain in Ventura County, California and comprises an area of approximately 12,500 acres within the United Water Conservation District. Management of the District is by a five-member Board of Directors. All of the Directors own property within the District boundaries and either purchase water from the District or guarantee the payment of water purchases by tenants. Directors are elected for four year terms. The current directors are:

Thomas P. Vujovich, Jr.	President
Craig R. Kaihara	Vice- President
John S. Broome	Member
Peter W. Hansen	Member
John Menne	Member

The water distribution system is connected to the Pleasant Valley terminal reservoir constructed by the United Water Conservation District for the purpose of providing a supplemental agricultural water supply to the land in the Pleasant Valley area. The water transported into the District serves to alleviate the problems of groundwater overdraft and salt water intrusion into the underground basin presently supplying the District. In addition, the distribution system provides means of serving the intruded areas near the coast from inland wells should supplemental water not be available from the United Water Conservation District or Calleguas Water District.

The District has also constructed a series of wells which allows it to deliver water to its customers when none is available from United Water Conservation District or Calleguas Water District.

The District receives property taxes from the County of Ventura. The amount received approximates the current year property tax times a historical percentage, which is based on the three-year period prior to the passage of Proposition 13.

Reporting Entity – The District’s reporting entity includes all significant operation and revenue sources which the District Board of Directors exercises oversight responsibility. Oversight responsibility is determined on the basis of selection of the governing board, designation of management, ability to significantly influence operations, accountability for fiscal matters, and the scope of public service. There are no component units included in this report.

Basis of Accounting – The Pleasant Valley County Water District is accounted for as a proprietary fund in accordance with generally accepted accounting principles as applied to governmental units. Proprietary funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises – where the expenses, including depreciation, of providing goods or services to the general public are recovered through user charges, or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, and other purposes. Because the District is accounted for as a proprietary fund, the District uses the economic resources measurement focus and the accrual basis of accounting is used for financial statement reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Statement of Net Position. Net position is segregated into investment in capital and unrestricted.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing goods and delivering goods in connection with a proprietary fund'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.

Principles of Presentation – The accompanying financial statements are presented utilizing the accrual method of accounting.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents – For the purpose of the Statement of Cash Flows, the District considers all highly liquid investments with original maturities of 90 days or less to be cash and cash equivalents. The District considers funds in the Ventura County Treasury Fund to be cash equivalents.

Capital Assets – Capital assets are recorded at cost. Depreciation is calculated using the straight-line and accelerated rates to distribute the cost of properties over their estimated service lives, ranging from three to fifty years.

Deferred Outflows of Resources and Deferred Inflows of Resources – Deferred outflows of resources is a consumption of net position by the District that is applicable to a future period and deferred inflows of resources is an acquisition of net position by the District that is applicable to a future reporting period. Both deferred outflows and inflows are reported in the Statements of Net Position, but are not recognized in the financial statements as revenue and expenses until the period(s) to which they relate. Deferred outflows of resources and deferred inflows of resources are related to pensions.

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

Net Position – Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources on the financial statements. Net position is classified in the following categories:

- Net investment in capital assets – This category includes capital assets, net of accumulated depreciation and reduced by any outstanding debt related to the acquisition, construction or improvement of those assets.
- Restricted – This category consists of net position with legal limitations imposed on their use by external restrictions by other governments, creditors, grantors, contributors, laws or regulations, or through constitutional provision, or enabling legislation. As of June 30, 2017 and 2016, the District did not have restricted net position.
- Unrestricted net position – This category consists of all other net position that does not meet the definition of restrict or invested in capital assets.

Reclassifications - Certain reclassifications have been made to the prior year financial statements in order to conform to the presentation of the current year financial statements for comparative purposes. There is no material effect on the financial statements.

2. DEPOSITS AND INVESTMENTS

The District's carrying value of deposits with a bank was \$1,110,655 and \$664,735 at June 30, 2017 and 2016, respectively. The corresponding bank balance was \$1,287,345 and \$756,001, respectively. Of the bank balance at June 30, 2017, \$250,000 was covered by Federal deposit insurance. The California Government Code requires all financial institutions to secure a local government agency's deposits by pledging governmental securities as collateral. The market value of pledged securities must equal 110% of an agency's deposits. California law also allows financial institutions to secure an agency's deposits by pledging first trust deed mortgage notes having a value of 150% of an agency's total deposits, and collateral is considered to be held in the name of the District. All cash held by financial institutions is, therefore, entirely insured or collateralized.

At June 30, 2017 and 2016, the District had \$367,941 and \$303,560, respectively, held in an external investment pool in the County of Ventura. Carrying value approximates fair value.

The County Treasurer maintains a cash investment pool for all funds of the County and other agencies for which the County treasury is the depository. Interest earned on the pooled funds is allocated and credited to these funds quarterly. Interest is apportioned to the District based on the average daily balances on deposit with the County Treasurer. Investment earnings are accrued at year-end. The investment pool operates in accordance with appropriate state laws and regulations and the investment policy of the County. The District's investment in the County of Ventura Investment Pool was rated AAA by Standard & Poor's for a primary objective of safety and SI by Standard & Poor's for a secondary objective of liquidity.

To address credit risk, the District invests its funds in accordance with state statutes and the District's investment policy. The criteria for selecting investments are, in order of priority, (1) safety – consideration of the potential loss of principal or interest, (2) liquidity – the ability to have funds available at any moment in time with a minimal potential loss and (3) yield – the optimum rate of return while preserving capital.

3. CAPITAL ASSETS

	Balance <u>June 30, 2016</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>June 30, 2017</u>
Capital assets not being depreciated -				
Land and permanent easements	\$ 231,144	\$ -	\$ -	\$ 231,144
Construction in progress	<u>202,146</u>	<u>107,648</u>	<u>(239,186)</u>	<u>70,608</u>
Total capital assets not being depreciated	<u>433,290</u>	<u>107,648</u>	<u>(239,186)</u>	<u>301,752</u>
Capital assets being depreciated:				
Water distribution system	6,997,141	507,216	-	7,504,357
Buildings and equipment	<u>691,107</u>	<u>16,026</u>	<u>(24,851)</u>	<u>682,282</u>
Total capital assets being depreciated	<u>7,688,248</u>	<u>523,242</u>	<u>(24,851)</u>	<u>8,186,639</u>
Less accumulated depreciation and amortization for:				
Water distribution system	(5,459,016)	(114,880)	24,641	(5,549,255)
Buildings and equipment	<u>(525,931)</u>	<u>(18,401)</u>	<u>-</u>	<u>(544,332)</u>
Total accumulated depreciation and amortization	<u>(5,984,947)</u>	<u>(133,281)</u>	<u>24,641</u>	<u>(6,093,587)</u>
Total capital assets being depreciated and amortized, net	<u>1,703,301</u>	<u>389,961</u>	<u>(210)</u>	<u>2,093,052</u>
Total capital assets, net	<u>\$ 2,136,591</u>	<u>\$ 497,609</u>	<u>\$ (239,396)</u>	<u>\$ 2,394,804</u>

4. RECYCLED WATER CONNECTION FACILITY COSTS RECEIVABLE

The District has an agreement with the City of Oxnard (Oxnard) and other parties which provides for the delivery of recycled water from Oxnard's Groundwater Recovery Enhancement and Treatment Program (GREAT) (see note 6). In accordance with the agreement, the District was responsible for the design and construction of a connection facility for the recycled water. The facility was completed during the year ended June 30, 2017. The recycled water connection facility costs receivable at June 30, 2016 represented that portion of the facility costs to be reimbursed from Oxnard and other parties. Such amounts were received during the year ended June 30, 2017.

5. DEFINED BENEFIT PENSION PLAN

A. General Information about the Pension Plan

Plan Descriptions, Benefits Provided and Employees Covered – All qualified permanent and probationary employees are eligible to participate in the District's Miscellaneous Employee Pension Plan (Plan). The Plan is a cost-sharing multiple employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plan are established by State statute and Local Government resolution. The Plan provides retirement, death and disability benefits to plan members and beneficiaries. The benefit provisions of the plan's employees are established by statute. A full description regarding number of employees covered, benefit provisions, assumptions, and membership information for the Plan is listed in the District's June 30, 2015 Annual Valuation Report. This report and CalPERS audited financial statements are publicly available reports that can be found on CalPERS website.

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

	<u>Prior to January 1, 2013</u>	<u>On or after January 1, 2013</u>
Hire date		
Benefit formula	2% @ 60	2% @ 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50	52
Required employee contribution rates	7%	6.25%
Required employer contribution rates	7.159%	6.555%

Contributions – Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in rate. The Plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by employees during the year. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

Beginning for the year ended June 30, 2016, CalPERS collected employer contributions towards unfunded liability as a dollar amount instead of the prior method of a contribution rate. The pool's unfunded liability is allocated to each individual plan based on the plan's total liability rather than by plan individual payroll. The District's unfunded liability payment for the year ended June 30, 2017 was \$12,218.

For the year ended June 30, 2017, the contributions recognized as part of pension expense were as follows:

Contributions - employer	\$	32,352
Contributions - employee (paid by employer)	\$	16,043

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

As of June 30, 2017, the District's reported net liability for its proportionate share of the net pension liability was \$227,087.

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

The District's proportionate share of the net pension liability as of June 30, 2015 and 2016 was as follows:

Proportion - June 30, 2015	0.00374%
Proportion - June 30, 2016	0.00654%
Change - Increase (Decrease)	0.00280%

For the year ended June 30, 2017, the District recognized pension expense of \$40,110. 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
Pension contributions subsequent to measurement date	\$ 32,352	\$ -
Net differences between projected and actual earnings on plan investments	51,323	-
Difference between Expected and Actual Experiences	803	-
Changes in assumptions	-	9,861
Differences between Actual Contributions and Proportionate Share of Contributions	255	7,976
Change in Employer's Proportion	<u>18,324</u>	<u>44,807</u>
Total	<u>\$ 103,057</u>	<u>\$ 62,644</u>

The \$32,352 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Measurement Period Ended June 30:	Deferred Outflows/(inflows) of Resources, Net
2017	\$ (18,340)
2018	(12,636)
2019	25,743
2020	<u>13,294</u>
Total	<u>\$ 8,061</u>

Actuarial Methods and Assumptions - For the measurement period ended June 30, 2016 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2015 total pension liability determined in the June 30, 2015 actuarial accounting valuation. The June 30, 2016 total pension liability was based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Projected Salary Increase	3.3 % to 14.20%, depending on Entry Age and Service
Investment Rate of Return	7.50%
Mortality	Derived using CalPERS' Membership Data
Post Retirement Benefit Increase	Contract COLA up to 2.75% until purchasing power protection allowance floor on purchasing power applies, 2.75% thereafter

The underlying mortality assumption and all other actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study can be found on the CalPERS' website under Forms and Publications.

Discount Rate – The discount rate used to measure the total pension liability was 7.65%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the 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 run out of assets. Therefore, the current 7.65% discount rate is deemed adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.65% is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained from the CalPERS' website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as schedule in all future years. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11–60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

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

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11+ (b)
Global Equity	51.0%	5.25%	5.71%
Global Debt Securities	20.0%	0.99%	2.43%
Inflation Assets	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	1.0%	-0.55%	-1.05%

(a) An expected inflation of 2.5% used for this period

(b) An expected inflation of 3.0% used for this period

Amortization of Deferred Outflows and Deferred Inflows of Resources – Under GASB 68, actuarial gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time.

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

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

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

The net difference between projected and actual investment earnings on pension plan investments is amortized over a five-year period on a straight-line basis. One-fifth is recognized in pension expense during the measurement period, and the remaining net difference between projected and actual investment earnings on pension plan investments at the measurement date is to be amortized over the remaining four-year period. The net difference between projected and actual investment earnings on pension plan investments in the schedule of collective pension amounts represents the unamortized balance relating to the current measurement period and the prior measurement period on a net basis.

Deferred outflows of resources and deferred inflows of resources relating to differences between expected and actual experience, changes of assumptions and employer-specific amounts should be amortized over EARSL of members provided with pensions through the plan.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.65%, 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%) or 1 percentage point higher (8.65%) higher than the current year:

	1% Decrease 6.65%	Current Discount Rate 7.65%	1% Increase 8.65%
District's proportionate share of the net pension liability	\$ 414,136	\$ 227,087	\$ 72,500

Pension Plan Fiduciary Net Position – The plan's fiduciary net position disclosed in the District's GASB 68 accounting valuation report may differ from the plan assets reported in the District's funding actuarial valuation report due to several reasons. For the accounting valuations, CalPERS must keep items such as deficiency reserves, fiduciary self-insurance and OPEB expense included in fiduciary net position. These amounts are excluded for rate setting purposes in the District's funding actuarial valuation. Detailed information about the pension plan's fiduciary net position is available in the separately CalPERS financial reports.

C. Payable to the Pension Plan

At June 30, 2017, the District reported a payable of \$0 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2017.

6. COMMITMENTS

United Water Conservation District Water Delivery Contract – The District's contract with United Water Conservation District (United) calls for the District to receive 12.22% of all the water diverted at the Freeman Diversion through January 24, 2030. The cost of the water can be modified each year and is based on criteria sent out in the contract. As of June 30, 2017, the cost of the water was \$122.80 per acre foot plus a fixed monthly charge of \$43,700, decreasing to \$28,720 effective July 1, 2017. As part of this agreement, the District is required to maintain a reserve account with United which equals two times the average operating and maintenance expenditures incurred by United to operate the pipeline to the District.

Additionally, the District had a supplemental agreement with United which required monthly water purchase payments through the year ended June 30, 2017 to United sufficient to cover certain debt service requirements in connection with improvements to the Pleasant Valley Reservoir made by United.

Camrosa Water District Water Sales Agreement – The District entered into a contract with Camrosa Water District (Camrosa) on April 10, 2014 for the purchase of recycled and recaptured water from the Conejo Creek Project. The contract was entered into concurrently with the termination of a similar agreement with between the District and Calleguas Municipal Water District. The contract calls for the District to take up 3,000 acre feet of water per year of all water made available to it by Camrosa from water harvested through the Conejo Creek Project. The base unit price of the water is \$154.89 per acre foot, subject to an annual price adjustment on September 1st of each year based on the Consumer Price Index. This contract continues through April 2054.

The District pumps groundwater from the Fox Canyon Aquifer. This aquifer is managed by the Fox Canyon Groundwater Management Agency (GMA). The GMA adopted an ordinance which requires reduction of groundwater pumping. The reduction is based on the average annual water pumped during 1985-1989. Annual pumping must ultimately be reduced 25% on a graduated basis. There are financial penalties for pumping amounts in excess of the stated base period amounts. Users can build up conservation credits by pumping less than the annual quota. To date, the District has operated below its allocation and has not paid any penalties.

However, in accordance with the agreement with Camrosa, the District has agreed to transfer to Camrosa any GMA conservation credits earned as a result of the use of water delivered by Camrosa under the water sales agreement.

Recycled Water Management and Use Agreement – In January 2014, the District entered into an agreement with the City of Oxnard (Oxnard) and other parties which provides for the delivery of recycled water from Oxnard’s Groundwater Recovery Enhancement and Treatment Program (GREAT) and will be used to provide water service to its customers. The agreement also provides for the joint coordination and management of the recycled water. Water delivery rates will be based on first, second and third priority rates ranging up to \$650 per acre foot, adjusted annually based on the Consumer Price Index. The term of the Agreement will be for 10 years, with an option to renew for an additional 10 years.

7. MAJOR CUSTOMERS

The District has three customers whose water charges represent a significant portion of water revenue. Revenue from these three customers represented 19%,12% and 9%, respectively, of water revenue during the fiscal year ended June 30, 2017.

8. RISK MANAGEMENT

The District is exposed to potential losses from claims arising from its business operations. Significant losses are covered by commercial insurance. There have been no significant reductions in insured coverage. Settlement amounts have not exceeded insurance coverage.

9. SUBSEQUENT EVENTS

The District has evaluated subsequent events through January 22, 2018, the date which the financial statements were available to be issued.

PLEASANT VALLEY COUNTY WATER DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 California Public Employees' Retirement System
 June 30, 2017 and 2016
 Last 10 years *

Schedule of Proportionate Share of the Net Pension Liability

Year Ended *	Proportion of the Net Pension Liability	Proportionate Share (Amount) of Net Pension Liability	Actual Covered Member Payroll	Net Pension Liability as a Percentage of Covered Payroll	Fiduciary Net Position as a Percentage of Total Pension Liability
6/30/15	0.71300%	\$ 176,794	\$ 253,149	69.84%	86.15%
6/30/16	0.37400%	\$ 102,719	\$ 248,383	41.36%	92.31%
6/30/17	0.65400%	\$ 227,087	\$ 254,800	89.12%	83.66%

* The data provided in the schedule is based as of the measurement date of CalPERS net pension liability, which is as of the beginning of the District's fiscal year.

Schedule of Contributions

Year Ending	Statutorily Required Contributions	Actual Employer Contributions	Contribution Excess/ (Deficiency)	Actual Covered Member Payroll	Contributions as a Percentage of Covered Payroll
6/30/14	\$ 17,353	\$ 17,353	\$ -	\$ 253,149	6.85%
6/30/15	\$ 16,397	\$ 16,397	\$ -	\$ 248,383	6.60%
6/30/16	\$ 29,160	\$ 29,160	\$ -	\$ 254,800	11.44%
6/30/17	\$ 32,352	\$ 32,352	\$ -	\$ 281,382	11.50%

These schedules are intended to show information for ten years. Additional years will be displayed as they become available.