ANTELOPE VALLEY-EAST KERN WATER AGENCY

COUNTY OF LOS ANGELES
PALMDALE, CALIFORNIA

AUDITED FINANCIAL STATEMENTS
JUNE 30, 2018

BURKEY COX EVANS & BRADFORD
Accountancy Corporation
1058 West Avenue M-14, Suite B
Palmdale, CA 93551

ANTELOPE VALLEY-EAST KERN WATER AGENCY
HISTORY, ORGANIZATION AND BOARD OF DIRECTORS
JUNE 30, 2018

HISTORY AND ORGANIZATION

The Antelope Valley-East Kern Water Agency (AVEK) was granted its charter as regional water agency by the California State Legislature in 1959. In 1962 AVEK signed a water supply contract with the State to assure delivery of imported water through the State Water Project which includes the California Aqueduct System.

AVEK covers a land area of nearly 2,300 square miles. In addition to Northern Los Angeles and Eastern Kern Counties, the Agency's boundaries include a small portion of Ventura County.

The water agency consists of seven divisions, each represented by a director. Directors are elected to four year staggered terms by voters in the divisions in which they live.

BOARD OF DIRECTORS

MEMBER	OFFICE	TERM EXPIRES
Keith Dyas (Division 2)	President	January 2019
Shelley Sorsabal (Division 1)	Vice President	January 2019
Robert A. Parris (Division 5)	Director	January 2019
Marlon Barnes (Division 6)	Director	January 2021
Justin Lane (Division 4)	Director	January 2021
Frank S. Donato (Division 3)	Director	January 2019
Gary Van Dam (Division 7)	Director	January 2021

GENERAL MANAGER

Dwayne Chisam

FINANCE MANAGER

Teresa Yates

ANTELOPE VALLEY-EAST KERN WATER AGENCY
JUNE 30, 2018

TABLE OF CONTENTS

FINANCIAL INFORMATION

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Antelope Valley-East Kern Water Agency
Palmdale, California

We have audited the accompanying financial statements of the business-type activities of Antelope Valley-East Kern Water Agency (the Agency) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 Agency, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year 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 3-7 and Other Post Employment Benefit Plan – Schedule of Funding Progress on pages 34 to be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Agency's basic financial statements. The schedule of revenues and expenses - proprietary fund type – budget and actual on page 35 are presented for purposes of additional analysis and are not a required part of the financial statements. The schedule of revenues and expenses – proprietary fund type – budget and actual is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2018, on our consideration of the Antelope Valley-East Kern Water Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.

Burkey Cox Evans & Bradford

BURKEY COX EVANS & BRADFORD
Accountancy Corporation

Palmdale, California
October 19, 2018

Antelope Valley-East Kern Water Agency
Management's Discussion and Analysis
For the Years Ended June 30, 2018 and 2017

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Antelope Valley-East Kern Water Agency introduces the financial statements of the Agency for the fiscal years ended June 30, 2018 and 2017. Readers are encouraged to consider the information presented here in conjunction with the basic financial statements and related notes, which follow this section.

Required Financial Statements

This annual report consists of a series of financial statements. The Statement of Net Position, Statement of Revenues and Expenses and Changes In Net Position and Statement of Cash Flows provide information about the activities and performance of the Agency using accounting methods similar to those used by private sector companies through the application of a single enterprise fund.

The Statement of Net Position includes the Agency's investment in resources (assets) and the obligations to creditors (liabilities). This information provides for the evaluation of the capital structure of the Agency and assesses its liquidity and financial flexibility. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the results of the Agency's operations over the past year and can be used to determine if the Agency has successfully recovered all of its costs through its rates and other charges. The final required financial statement is the Statement of Cash Flows, which provides information about the Agency's cash receipts, cash payments and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities and provides answers to such questions as where did the cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

Financial Analysis of the Agency

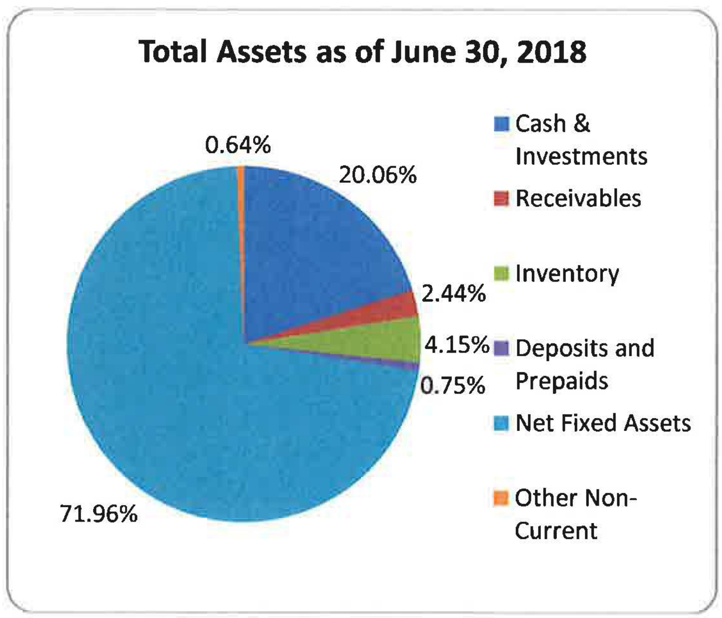
The main question asked about the Agency's finances is, "is the Agency better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the Agency in a way that helps answer this question. These statements are prepared using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. This accounting method reports all of the current year's revenues and expenses regardless of when the cash is received or paid.

These two statements report the Agency's net position and changes to it. The Agency's net position, the difference between assets and liabilities, is one way to measure its health and financial position. Over time, increases or decreases in the Agency's net position can be an indicator of whether its financial health is improving or deteriorating keeping in mind other factors such as economic conditions, population growth and changes in government regulations. Information presented in these statements follows in a condensed format.

Antelope Valley-East Kern Water Agency
Condensed Statements of Net Position
June 30, 2018 and 2017

	June 30, 2018	June 30, 2017	Change
Assets:			
Current Assets	$ 125,352,689	$ 126,837,759	$ (1,485,070)
Non-Current Assets	2,923,755	199,779	2,723,976
Capital Assets, Net of Accumulated Depreciation	329,277,937	323,596,497	5,681,440
Total Assets	$ 457,554,381	$ 450,634,035	$ 6,920,346
Liabilities:			
Current Liabilities	$ 11,742,000	$ 16,476,390	$ (4,734,390)
Long-Term Liabilities	146,079,543	147,717,926	(1,638,383)
Total Liabilities	$ 157,821,543	$ 164,194,316	$ (6,372,773)
Net Position:			
Invested in Capital Assets, Net of Related Debt	$ 192,167,575	$ 181,315,536	$ 10,852,039
Unrestricted	107,565,263	105,124,183	2,441,080
Total Net Position	$ 299,732,838	$ 286,439,719	$ 13,293,119
Total Liabilities and Net Position	$ 457,554,381	$ 450,634,035	$ 6,920,346

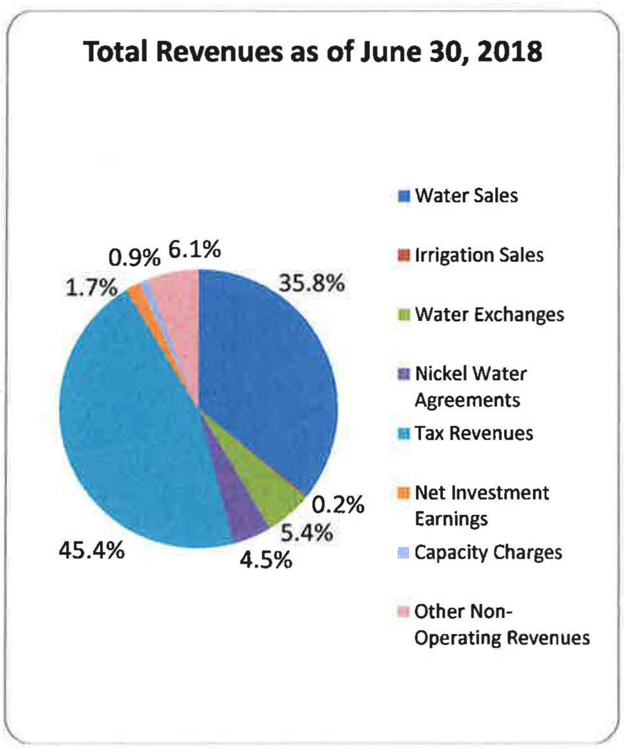
- Total Assets of the Agency exceeded Total Liabilities by $299,732,838 and $286,439,719 as of June 30, 2018 and 2017.
- The Agency remains highly liquid as Current Assets represented 27% and 28% of Total Assets as of June 30, 2018 and 2017. The chart to the right displays the nature of Agency Total Assets as of June 30, 2018.
- Total Liabilities decreased by $6,372,773 from $164,194,316 as of June 30, 2017 to $157,821,543 as of June 30, 2018.
- Total Net Position increased by $13,293,119 from $286,439,719 as of June 30, 2017 to $299,732,838 as of June 30, 2018.



Antelope Valley-East Kern Water Agency
Condensed Statements of Revenues and Expenses
June 30, 2018 and 2017

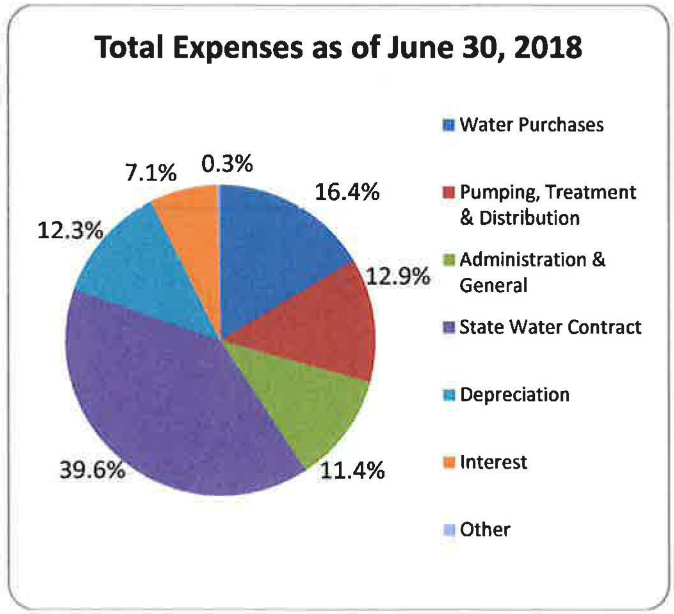
	June 30, 2018	June 30, 2017	Change
Operations:			
Operating Revenues	$ 29,410,275	$ 25,833,234	$ 3,577,041
Operating Expenses	20,661,972	20,886,356	(224,384)
Net Income from Operations	8,748,303	4,946,878	3,801,425
Depreciation Expense	6,194,410	5,987,592	206,818
Operating Income	$ 2,553,893	$ (1,040,714)	$ 3,594,607
Non-Operations:			
Tax Revenues	$ 29,084,090	$ 28,048,530	$ 1,035,560
Net Investment Earnings	1,103,874	731,036	372,838
Other Non-Operating Revenues	4,509,433	3,663,684	845,749
State Water Contract Expense	(19,926,356)	(20,183,959)	257,603
Interest Expense	(3,556,728)	(3,661,427)	104,699
Net Income from Non-Operations	11,214,313	8,597,864	2,616,449
Change In Net Position	13,768,206	7,557,150	6,211,056
Net Position, Beginning of Year	285,964,632 *	278,882,569	7,082,063
Net Position, End of Year	$ 299,732,838	$ 286,439,719 *	$ 13,293,119

* Difference in 6/30/17 ending Net Position and 6/30/18 beginning Net Position due to prior period adjustment of $475,087 for postemployment benefits liability per acturial report as required by GASB 74/75.



- Operating Revenues increased by $3,577,041 from $25,833,234 as of June 30, 2017 to $29,410,275 as of June 30, 2018. The increase was mainly a result of an increase in Water Sales of $3,368,426 from the prior year.
- Tax Revenue for the year ending June 30, 2018 increased from the previous year by 3.4%.
- Investment rates continue to slowly rise and as a result Net Investment Earnings for the year ending June 30, 2018 increased by 51% or $372,838 from the prior year.

- Total Expenses except for depreciation for the year ending June 30, 2018 decreased by 1.3% from the prior year. Total Expenses excluding depreciation were $44,145,056 for the year ending June 30, 2018 and $44,731,742 for the year ending June 30, 2017.
- Depreciation Expense for the year ending June 30, 2018 increased by 3.5% from the prior year. Depreciation Expense for the year ending June 30, 2018 was $6,194,410 and $5,987,592 for the prior year.
- The State Water Contract Expense decreased by $257,603 from a total of $20,183,959 for the year ending June 30, 2017 to $19,926,356 for the year ending June 30, 2018.



Budget Analysis

Total Operating Revenues for the Agency increased by $3,577,041 from the prior year. Water and irrigation sales increased by $3,391,327 for the year ending June 30, 2018 from the prior year. Operating Revenues were under budget for the year ending June 30, 2018 by $3,277,771 and Non-Operating Revenues were over budget by $2,874,097.

For the year ending June 30, 2018, Operating Expenses were under budget by $3,311,085, while Non-Operating Expenses were under budget by $4,035,849. This difference was mainly due to the Cost of Water expense on water purchased from the State Water Project being less than budgeted by $2,771,682 and the State Water Contract expense was actually billed less than budgeted by $4,110,644.

Capital Asset Administration

Total Agency Capital Assets as of June 30, 2018 were $423,965,437 before the consideration of depreciation. The Agency's additions to Capital Assets for the year ending June 30, 2018 were $11,921,153. Of these additions, new construction in progress for the year totaled $7,492,609, additions to building and improvements totaled $53,629, additions to furniture and equipment totaled $957,733 and new land acquisitions totaled $3,417,182. Several projects including the Westside Waterbank phase II project, SNIP pump station and the Tehachapi East after bay turn out were completed in the current year and transferred out of construction in progress. Total Capital Assets net of Accumulated Depreciation increased to $329,277,937 as of June 30, 2018 from $323,596,497 at June 30, 2017.

Debt Administration

Changes in long-term debt amounts for the fiscal year ended June 30, 2018 were as follows:

	Balance June 30, 2017	Additions/ (Deletions)	Principal Payments	Balance June 30, 2018
Long-Term Debt				
COP Series 2008 A-1	2,160,000	-	2,160,000	-
COP Series 2008 A-2	45,000,000	-	-	45,000,000
WR Refunding Bonds 2016	71,090,000	-	1,575,000	69,515,000
Premium WR Refunding Bonds 2016	8,735,961	-	830,599	7,905,362
CREBs Revenue Bonds 2017	15,295,000	-	605,000	14,690,000
Total Long-Term Debt	$ 142,280,961	$ -	$ 5,170,599	$ 137,110,362

Changes in long-term debt amounts for the fiscal year ended June 30, 2017 were as follows:

	Balance June 30, 2016	Additions/ (Deletions)	Principal Payments	Balance June 30, 2017
Long-Term Debt				
COP Series 2007 A-1	$ 1,840,000	$ -	$ 1,840,000	$ -
COP Series 2008 A-1	4,235,000	-	2,075,000	2,160,000
COP Series 2008 A-2	45,000,000	-	-	45,000,000
WR Refunding Bonds 2016	71,090,000	-	-	71,090,000
Premium WR Refunding Bonds 2016	9,566,561	-	830,600	8,735,961
CREBs Revenue Bonds 217	-	15,600,000	305,000	15,295,000
Total Long-Term Debt	$ 131,731,561	$ 15,600,000	$ 5,050,600	$ 142,280,961

In January 2017 the Agency issued $15,600,000 in Clean Renewable Energy Bonds (CREBs) based on the allocation the Agency received from the IRS for qualifying projects. The net interest cost the Agency expects to pay on these bonds is 1.23% based on the current IRS Qualified Tax Credit. Principal payments for the year ending June 30, 2018 decreased the Agency's Long-Term Debt by $5,170,600 and by $5,050,600 for the year ending June 30, 2017. In addition to the debt listed above, the Agency has also accrued Long-Term Debt to meet its Post-Employment Benefit Obligation. As of June 30, 2018, this amount was $7,793,328, which was an increase from June 30, 2017 of $947,929 when the balance was $6,845,399.

Conditions Affecting Current Financial Position

Management is unaware of any conditions that would have a significant impact on the Agency's financial position, net position, or operating results in future periods.

Requests for Information

This financial report is designed to provide the Agency's funding sources, customers, and other interested parties with an overview of the Agency's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the Agency's Finance Manager at 6500 W. Avenue N, Palmdale, California 93551.

MANAGEMENT'S DISCUSSION AND ANALYSIS

BASIC FINANCIAL STATEMENTS

ANTELOPE VALLEY-EAST KERN WATER AGENCY
STATEMENTS OF NET POSITION
AS OF JUNE 30, 2018

	ENTERPRISE FUND JUNE 30, 2018
ASSETS	
CURRENT ASSETS	
Cash and Cash Equivalents	$ 3,341,746
Investments	88,428,939
Receivables:	
Taxes	3,880,414
Interest	340,570
Services	6,607,768
Other	313,347
Inventory	18,991,791
Deposits and Prepaid Expenses	3,448,114
Total Current Assets	125,352,689
NON-CURRENT ASSETS	
Property, Plant and Equipment, Net of Accumulated Depreciation	329,277,937
OTHER NON-CURRENT ASSETS	
Investments - Restricted	2,923,755
Total Other Non-Current Assets	2,923,755
Total Non-Current Assets	332,201,692
Total Assets	457,554,381
LIABILITIES	
CURRENT LIABILITIES	
Accounts Payable	4,625,337
Accrued Liabilities	467,477
Current Portion of Long-Term Debt	5,310,288
Collections in Advance on Projects	174,856
Compensated Absences	1,121,887
Escheated Funds	42,155
Total Current Liabilities	11,742,000
LONG-TERM LIABILITIES	
Payable from Restricted Assets	2,923,755
Deferred Water Delivery	3,562,386
Post Employment Benefit Liability	7,793,328
Certificates of Participation, Series 2008A-2	45,000,000
Water Revenue Refunding Bonds, 2016	72,725,074
CREBs Revenue Bonds 2017	14,075,000
Total Long-Term Liabilities	146,079,543
Total Liabilities	157,821,543
NET POSITION	
Invested in Capital Assets, Net of Related Debt	192,167,575
Unrestricted	107,565,263
Total Net Position	$ 299,732,838

The accompanying notes are an integral part of these financial statements.

ANTELOPE VALLEY-EAST KERN WATER AGENCY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018

	ENTERPRISE FUND JUNE 30, 2018
OPERATING REVENUES	
Water Sales	$ 22,944,382
Water Exchanges and Transfers	3,450,000
Irrigation Sales	124,043
Nickel Water Agreements	2,891,850
Total Operating Revenues	29,410,275
OPERATING EXPENSES	
Water Purchases	8,263,917
Pumping	1,113,822
Water Treatment	4,871,599
Transmission and Distribution	513,474
Customer Accounts	5,418
Administration and General	5,731,477
Groundwater Survey and Sites Reservoir	152,265
Conservation	10,000
Depreciation	6,194,410
Total Operating Expenses	26,856,382
Operating Income (Loss)	2,553,893
NON-OPERATING REVENUES	
Tax Revenues	29,084,090
Net Investment Earnings	1,103,874
Other Revenues	3,904,303
Capacity Charges	605,130
Total Non-Operating Revenues	34,697,397
NON-OPERATING EXPENSES	
State Water Contract	19,926,356
Interest Expense	3,556,728
Total Non-Operating Expenses	23,483,084
Non-Operating Income	11,214,313
Increase (Decrease) in Net Position	13,768,206
NET POSITION - BEGINNING OF YEAR	286,439,719
Prior Period Adjustment	(475,087)
NET POSITION - END OF YEAR	$ 299,732,838

The accompanying notes are an integral part of these financial statements.

ANTELOPE VALLEY-EAST KERN WATER AGENCY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018

	ENTERPRISE FUND JUNE 30, 2018
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Customers	$ 28,018,183
Cash Paid for Supplies to Suppliers	(27,471,762)
Cash Paid to Employees	(4,726,785)
Net Cash Provided (Used) by Operating Activities	(4,180,364)
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES	
Receipt of Property Taxes	29,219,400
Receipt of Capacity Charges and Other Revenue	4,373,323
Payment of State Water Contract	(19,926,356)
Net Cash Provided (Used) by Non-Capital and Related Financing Activities	13,666,367
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of Property and Equipment	(11,921,153)
Proceeds from Disposal of Property and Equipment	181,413
Principal Repayment of Bonds Payable	(5,170,599)
Issuance of Bonds Payable	-
Borrowings of Restricted Debt and Projects	2,723,976
Net Cash Provided (Used) by Capital and Related Financing Activities	(14,186,363)
CASH FLOWS FROM INVESTING ACTIVITIES	
Receipt of Interest and Investment Income	1,015,007
Payment of Interest Expense	(3,556,728)
Disposition of Investments	8,580,489
Net Cash Provided (Used) by Investing Activities	6,038,768
Net Change in Cash and Cash Equivalents	1,338,408
Cash and Cash Equivalents - Beginning	4,927,093
Cash and Cash Equivalents - Ending	$ 6,265,501
COMPONENTS OF CASH AND CASH EQUIVALENTS	
Cash and Cash Equivalents - Unrestricted	$ 3,341,746
Cash and Cash Equivalents - Restricted	2,923,755
Total Cash	$ 6,265,501

The accompanying notes are an integral part of these financial statements.

ANTELOPE VALLEY-EAST KERN WATER AGENCY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018

		ENTERPRISE FUND JUNE 30, 2018
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss)	$	2,078,806
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Depreciation		6,194,410
Changes in Assets - (Increase)/Decrease in:		
Services Receivable		(1,365,005)
Other Receivables		(27,087)
Inventory		(7,125,470)
Deposits and Prepaid Expenses		(9,868)
Changes in Liabilities - Increase/(Decrease) in:		
Accounts Payable		(2,486,777)
Accrued Liabilities		(2,518,647)
Collections in Advance on Projects		275
Compensated Absences		131,070
Other Postemployment Benefit Obligations		947,929
Net Cash Provided (Used) by Operating Activities	$	(4,180,364)

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Antelope Valley-East Kern Water Agency's (the Agency) financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body of establishing governmental accounting and financial reporting principles. The more significant of the Agency's accounting policies are described below.

A. Description of the Reporting Entity

The Antelope Valley-East Kern Water Agency was formed by the California Legislature in 1959 to supply local water users, as a wholesaler, with water from the State Water Project. The Agency derives its powers from the Antelope Valley-East Kern Water Agency Law, as set forth in Section 49-96 inclusive of Act 9095 of Water-Uncodified Acts of the State of California. The Agency serves portions of Los Angeles, Kern and Ventura Counties.

In evaluating how to define the Agency, 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 GAAP. The basic – but not the only – criterion for including a potential component unit within the reporting entity 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, 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 Agency is able to exercise oversight responsibilities. Based upon the application of these criteria the Agency has no potential component units.

The Antelope Valley-East Kern Water Agency, for financial purposes, includes all funds relevant to the operations of the Agency. The Board of Directors has governance responsibilities over all activities related to the Agency. The Agency receives funding from local, county, state and federal government sources and must comply with the requirements of these funding source entities. However, the Agency 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, the responsibility to significantly influence operations and primary accountability for fiscal matters.

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

The Agency reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the Agency is that the costs of providing water to its customers on a continuing basis be financed or recovered primarily through user charges from water sales and services. Revenues and expenses are recognized on the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the cash flows take place.

Operating revenues, such as water sales and service fees, result from exchange transactions associated with the principal activities of the Agency. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as grant funds and investment income, result from non-exchange transactions, in which, the Agency gives or receives value without directly receiving or giving value in exchange.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Fund Accounting

The accounts of the Agency are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances or net position, revenues and expenditures or expenses, as appropriate. Agency resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The Agency's accounts are organized into major and fiduciary funds as follows:

- Proprietary fund - reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows. Proprietary funds are classified as enterprise or internal service. The Agency has only one enterprise fund which accounts for all of the activity.

D. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all government funds. By state law the Agency's Governing Board must adopt a final budget no later than September 1. A public hearing must be conducted to receive comments prior to adoption. The Agency's Governing Board satisfied these requirements.

These budgets are subject to revisions by the Agency's Governing Board during the year to give consideration to unanticipated income and expenditures. It is the final/revised final budget that is presented in the financial statements.

E. Cash and Cash Equivalents

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

F. Deposits and Investments

All deposits of the Agency are made in board-designated official depositories and are secured as required by State Law. The Agency may designate as an official depository any bank or savings and loan association. Also, the Agency may establish time deposit accounts such as money market accounts and certificates of deposits.

Investment purchases and sales are recorded as of the trade date. Dividend income is recognized on the ex-dividend date. Other investment income is recognized when earned.

The Agency recognizes the fair value measurement of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Net appreciation (depreciation) is determined by calculating the change in the fair value of investments between the beginning of the year and the end of the year, less purchases of investments at cost, plus sales of investments at fair value. Investment expenses consist of external expenses directly related to the Agency's investment operations, as well as the internal administrative expenses associated with the Agency's investment program.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Accounts Receivable

The Agency extends credit to customers in the normal course of operations. No allowance for doubtful accounts has been established since management believes that substantially all amounts are collectible.

H. Inventories

The Agency maintains an inventory of banked water. Inventory is stated at the lower of cost or net realizable value.

I. 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.

J. Capital Assets

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

Description	Estimated Useful Lives
Utility Plant	30 - 60 years
Site Improvements	20 - 30 years
Building and Improvements	25 -50 years
Furniture and Equipment	5 - 15 years
Vehicles	5 years

K. Compensated Absences

The Agency's personnel policies provide for accumulation of vacation and sick leave. Liabilities for vacation and portions of sick leave are recorded when benefits are earned. Cash payment of unused vacation and sick leave is available to those qualified employees when retired or terminated. The dollar value of such accumulations was determined to be $1,121,887 as of June 30, 2018.

L. Water Sales

Most water sales are billed on a monthly cyclical basis. Estimated unbilled water revenue through year-end has not been accrued as it was determined by management to have an insignificant impact on the financial statements as a whole.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Special Assessment District

The Agency maintains a Community Facilities District (CFD 90-1) assessment district. This Community Facilities District was established under the Mello-Roos Community Facilities Act of 1982 and financed with Mello-Roos Community Facilities Act bonds. Accounting for CFD 90-1 follows the Governmental Accounting Standards for Accounting and Financial Reporting for Special Assessments, which states that Enterprise Funds such as that of the Agency are to account for special assessment financing debt on the books of the Agency only if one of the following conditions exists:

1) The Agency is not directly liable for the special assessment debt, but the debt is expected to be repaid from revenues of the Agency.
2) The Agency is directly liable for the special assessment debt.

Since the Agency is not directly liable for the CFD 90-1 debt and it is expected all such debt will be repaid from landowner assessments and not Agency revenues, the CFD 90-1 debt is not included in the Agency's financial statements. The Agency acts solely as an agent for the bondholders in collecting and forwarding the special assessments. Community Facilities District 90-1 Bonds outstanding at June 30, 2018 totaled $1,760,000.

N. Net Position

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

- Net Investment in Capital Assets – This component of net position consists of capital assets, net of accumulated depreciation and reduced by any debt outstanding 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, grantors, 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 does not meet the definition of *restricted* or *net investment in capital assets*.

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

O. Use of Estimates

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Recent Governmental Accounting Standards Board Pronouncements

In June 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions." The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. This Statement is effective for fiscal years beginning after June 15, 2017. The Agency has adopted this standard for the fiscal year ended June 30, 2018.

In May 2017, the GASB issued Statement No. 86, "Certain Debt Extinguishment Issues". The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. The Agency has adopted this standard for the fiscal year ended June 30, 2018.

In June 2017, the GASB issued Statement No 87, "Leases". The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The Agency is evaluating the impact of this standard on the financial statements.

In April 2018, the GASB issued Statement No. 88, "Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements". The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Recent Governmental Accounting Standards Board Pronouncements (Continued)

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged. The Agency is evaluating the impact of this standard on the financial statements.

In June 2018, the GASB issued Statement No. 89, "Accounting for Interest Cost Incurred Before the End of a Construction Period". The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively. The Agency is evaluating the impact of this standard on the financial statements.

NOTE 2 – CASH AND INVESTMENTS

Cash and investments as of June 30, 2018, are classified in the accompanying financial statements as follows:

	June 30, 2018
Cash and Investments	$ 3,341,746
Investments	88,428,939
Restricted Cash and Investments	2,923,755
Total Cash and Investments	$ 94,694,440

NOTE 2 – CASH AND INVESTMENTS (Continued)

The restricted and unrestricted cash and investments consisted of the following at June 30, 2018:

	Unrestricted	Restricted	Totals
Cash on Hand	$ 500	$ -	$ 500
Cash in Banks	3,341,246	-	3,341,246
Investments	88,428,939	2,923,755	91,352,694
Total Cash and Investments	$ 91,770,685	$ 2,923,755	$ 94,694,440

The Agency categorizes its fair value measurement within the fair value hierarchy established by generally accepted accounting principles. The Agency has the following recurring fair value measurements as of June 30, 2018:

INVESTMENTS MEASURED AT FAIR VALUE

Investments by Fair Value Level	6/30/2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt Securities				
U.S. Treasury Notes	$ 4,669,420	$ -	$ 4,669,420	$ -
U.S. Government Agency Bonds	34,763,118	-	34,763,118	-
Certificates of Deposits	15,776,185	-	15,776,185	-
Commercial Paper	3,565,619	-	3,565,619	-
Corporate Bonds	26,623,128	-	26,623,128	-
Total Debt Securities	85,397,470	-	85,397,470	-
Total Investments by Fair Value Level	$ 85,397,470	$ -	$ 85,397,470	$ -

Investments Measured at the Net Asset Value (NAV)

California Local Agency Investment Fund (LAIF)	$ 5,955,224
Total Investments Measured at the NAV	5,955,224
Total Investments Measured at Fair Value	$ 91,352,694

Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

NOTE 2 – CASH AND INVESTMENTS (Continued)

The valuation method for investments measured at the net asset value (NAV) per share (or its equivalent) is presented in the following table:

INVESTMENTS MEASURED AT NET ASSET VALUE

	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
California Local Agency Investment Fund (LAIF) (1)	$ 5,955,224	-	Daily	1 Day
Total Investments Measured at the NAV	$ 5,955,224			

(1)The Agency is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the State of California. The fair value of the Agency's investment in this pool is reported in the accompanying financial statements at amounts based upon the Agency's pro-rata share of the fair value provided by the State of California for the entire portfolio (in relation to the amortized cost of that portfolio). There are no limitations or restrictions on withdrawals and the fund's Authority does not impose liquidity fees or redemption gates.

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

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

NOTE 2 – CASH AND INVESTMENTS (Continued)

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Minimum Quality Requirements
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
State Obligations - CA And Others	5 years	None	None
CA Local Agency Obligations	5 years	None	None
U.S Agency Obligations	5 years	None	None
Bankers' Acceptances	180 days	40%	None
Commercial Paper — Pooled Funds	270 days	40% of the agency's money	Highest letter and number rating by an NRSRO
Commercial Paper— Non-Pooled Funds	270 days	25% of the agency's money	Highest letter and number rating by an NRSRO
Negotiable Certificates of Deposit	5 years	30% (combined with placement service CDs)	None
Non-negotiable Certificates of Deposit	5 years	None	None
Placement Service Deposits	5 years	30% (inclusive of placement service CDs)	None
Placement Service Certificates of Deposit	5 years	30% (combined with negotiable CDs)	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements and Securities Lending Agreements	92 days	20% of the base value of the portfolio	None
Medium-Term Notes	10 years	30%	"A" rating category or its equivalent or better
Mutual Funds And Money Market Mutual Funds	N/A	20%	Multiple
Collateralized Bank Deposits	5 years	None	None
Mortgage Pass–Through Securities	5 years	20%	"AA" rating category or its equivalent or better
County Pooled Investment Funds	N/A	None	None
Joint Powers Authority Pool	N/A	None	Multiple
Local Agency Investment Fund (LAIF)	N/A	None	None
Voluntary Investment Program Fund	N/A	None	None
Supranational Obligations	5 years	30%	"AA" rating category or its equivalent or better

NOTE 2 – CASH AND INVESTMENTS (Continued)

Custodial Credit Risk

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

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

Interest Rate Risk

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

Investments at June 30, 2018, consisted of the following:

		Remaining Maturity (in Months)		
Investment Type	**Amount**	**12 months or less**	**13 to 36 months**	**37 to 60 months**
Cash on Hand and in Banks	$ 3,341,746	$ 3,341,746	$ -	$ -
U.S. Treasury Notes	4,669,420	3,487,233	1,182,187	-
U.S. Government Agency Bonds	34,763,118	19,372,585	15,390,533	-
Certificates of Deposits	15,776,185	9,530,814	6,245,371	-
Commercial Paper	3,565,619	3,565,619	-	-
Corporate Bonds	26,623,128	12,578,267	14,044,861	-
Pooled Investments - LAIF	3,031,469	3,031,469	-	-
Pooled Investments - LAIF - Restricted	2,923,755	2,923,755	-	-
Total	$ 94,694,440	$ 57,831,488	$ 36,862,952	$ -

NOTE 2 – CASH AND INVESTMENTS (Continued)

Interest Rate Risk **(Continued)**

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

Concentration of Credit Risk

The investment policy of the Agency contains limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of *total Agency investments* are as follows:

Issuer	Investment Type	Amount
Federal Home Loan Bank Bond	U.S. Government Mortgage - Backed Securities	$ 18,357,453
Federal Farm Credit Bank Bond	U.S. Government Mortgage - Backed Securities	$ 15,411,503

ANTELOPE VALLEY-EAST KERN WATER AGENCY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2 – CASH AND INVESTMENTS (Continued)

Credit Risk

Credit ratings as of June 30, 2018, consisted of the following:

		Minimum Legal	Exempt from	Ratings													
Investment Type	Amount	Rating	Disclosure	AAA	AA+	AA	AA-	A-1+	A-1	A-2	A+	A	A-	BBB+	B	Not Rated
Cash on Hand and in Banks	$ 3,341,746	N/A	$ 3,341,746	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
U.S. Treasury Notes	4,669,420	N/A	-	-	4,669,420	-	-	-	-	-	-	-	-	-	-	-
U.S. Government Agency Bonds	34,763,118	N/A	-	-	34,763,118	-	-	-	-	-	-	-	-	-	-	-
Certificates of Deposits	15,776,185	N/A	-	-	-	-	497,363	597,394	1,245,386	741,125	1,524,734	747,767	-	-	-	10,422,415
Commercial Paper	3,565,619	N/A	-	-	-	-	-	-	3,565,619	-	-	-	-	-	-	-
Corporate Bonds	26,623,128	N/A	-	-	2,482,483	118,770	492,972	-	-	-	2,217,073	7,872,178	12,445,109	994,542	-	-
Pooled Investments - LAIF	5,955,224	N/A	5,955,224	-	-	-	-	-	-	-	-	-	-	-	-	-
Totals	$ 94,694,440		$ 9,296,970	$ -	$ 41,915,021	$ 118,770	$ 990,335	$ 597,394	$ 4,811,005	$ 741,125	$ 3,741,807	$ 8,619,946	$ 12,445,109	$ 994,542	$ -	$ 10,422,415

NOTE 3 – ACCOUNTS RECEIVABLE

As of June 30, 2018, the Agency had the following receivables:

Taxes Receivable	$	3,880,414
Interest Receivable		340,570
Accounts Receivables - Services		6,607,768
Accounts Receivable - Other		313,347
Total	$	11,142,099

NOTE 4 – CAPITAL ASSETS

Changes in capital assets for the year were as follows:

Proprietary Fund	Balance July 01, 2017	Additions	Transfers	Deletions	Balance June 30, 2018
Capital Assets Not Being Depreciated:					
Land	$ 31,531,402	$ 3,417,182	$ -	$ -	$ 34,948,584
Water Rights	3,522,879	-	-	-	3,522,879
Intangible Plant	269,983	-	-	-	269,983
Construction in Progress	56,290,366	7,492,609	(18,672,201)	(43,312)	45,067,462
Total Capital Assets Not Being Depreciated:	91,614,630	10,909,791	(18,672,201)	(43,312)	83,808,908
Capital Assets Being Depreciated:					
Utility Plant	314,067,560	53,629	18,416,222	-	332,537,411
Furniture and Equipment	6,496,688	957,733	255,979	(91,282)	7,619,118
Total Capital Assets Being Depreciated:	320,564,248	1,011,362	18,672,201	(91,282)	340,156,529
Less: Accumulated Depreciation	(88,582,381)	(6,194,410)	-	89,291	(94,687,500)
Capital Assets Being Depreciated, Net	231,981,867	(5,183,048)	18,672,201	(1,991)	245,469,029
Governmental Activities Capital Assets - Net	$ 323,596,497	$ 5,726,743	$ -	$ (45,303)	$ 329,277,937

NOTE 5 – SCHEDULE OF LONG-TERM DEBT

A summary of changes in long-term debt for the year ended June 30, 2018 is presented below:

	Balance July 01, 2017	Borrowings	Payments	Balance June 30, 2018	Current Portion
COP Series 2008 A-1	$ 2,160,000	$ -	$ (2,160,000)	$ -	$ -
COP Series 2008 A-2	45,000,000	-	-	45,000,000	-
WR Refunding Bonds 2016	71,090,000	-	(1,575,000)	69,515,000	3,880,000
Premium WR Refunding Bonds 2016	8,735,961	-	(830,599)	7,905,362	815,288
CREBs Revenue Bonds 2017	15,295,000	-	(605,000)	14,690,000	615,000
Sub-total of Long-Term Debt	142,280,961	-	(5,170,599)	137,110,362	5,310,288
Post Employment Benefits	6,845,399	947,929	-	7,793,328	-
Totals of Long-Term Debt	$ 149,126,360	$ 947,929	$ (5,170,599)	$ 144,903,690	$ 5,310,288

The current and long-term portions of debt (excluding post-employment benefits) for the year ended June 30, 2018 is presented below:

	Current Portion	Long-Term Portion	Total Amount
Certificates of Participation			
Original issue of $45,000,000 Certificates of Participation 2008 A-2 bearing interest at a rate of 5.0%.	$ -	$ 45,000,000	$ 45,000,000
Original issue of $71,090,000 Water Refunding Bonds WR Reveneue Refunding 2016 bearing interest at rate of 4.0% to 5.0%.	3,880,000	65,635,000	69,515,000
Original issue of $9,675,000 Water Refunding Premium WR Reveneue Refunding 2016 bearing interest at rate of 5.0%	815,288	7,090,074	7,905,362
Original issue of $15,600,000 Clean Renewable Energy Bonds CREBs 2017 bearing interest at rate of 1.199% to 4.326%	615,000	14,075,000	14,690,000
Totals	$ 5,310,288	$ 131,800,074	$ 137,110,362

NOTE 5 – SCHEDULE OF LONG-TERM DEBT (Continued)

Annual requirements to amortize long-term debt (excluding post-employment benefits) including premium and interest are as follows:

Year Ending June 30,	Principal	Premium	Subtotal	Interest	Total
2019	$ 4,495,000	$ 815,288	$ 5,310,288	$ 4,126,363	$ 9,436,651
2020	4,665,000	777,569	5,442,569	3,959,360	9,401,929
2021	4,835,000	738,294	5,573,294	3,782,702	9,355,996
2022	5,020,000	697,513	5,717,513	3,598,390	9,315,903
2023	5,260,000	644,470	5,904,470	3,362,520	9,266,990
2024 - 2028	30,310,000	2,374,582	32,684,582	12,961,564	45,646,146
2029 - 2033	38,200,000	1,411,917	39,611,917	7,861,408	47,473,325
2034 - 2038	36,420,000	445,729	36,865,729	2,330,920	39,196,649
	$ 129,205,000	$ 7,905,362	$ 137,110,362	$ 41,983,228	$ 179,093,590

Certificates of Participation Series 2008 A-1

In May of 2008, Antelope Valley-East Kern Water Agency issued Certificates of Participation in the amount of $39,150,000 with an interest rate of 4.0 percent. At June 30, 2018, the principal balance was paid off in full.

Certificates of Participation Series 2008 A-2

In May of 2008 Antelope Valley-East Kern Water Agency issued Certificates of Participation in the amount of $45,000,000 with the interest rate initially calculated using a weekly rate (variable rate). At June 30, 2018, the principal balance outstanding of the Certificates of Participation was $45,000,000. The schedule below assumes an interest rate ranging from 4.0 percent to 5.0 percent.

The annual requirements to amortize the Certificates of Participation Series 2008 A-2 outstanding as of June 30, 2018 are as follows:

Year Ending June 30,	Principal	Interest	Total
2019	$ -	$ 215,046	$ 215,046
2020	-	215,635	215,635
2021	-	215,046	215,046
2022	-	215,046	215,046
2023	-	215,635	215,635
2024 - 2028	6,855,000	1,059,642	7,914,642
2029 - 2033	19,275,000	748,917	20,023,917
2034 - 2038	18,870,000	214,000	19,084,000
	$ 45,000,000	$ 3,098,969	$ 48,098,969

NOTE 5 – SCHEDULE OF LONG-TERM DEBT (Continued)

Water Revenue Refunding Bond 2016

In April of 2016 Antelope Valley-East Kern Water Agency issued Refunding Bonds in the amount of $71,090,000 with the interest rate of 4.0 percent to 5.0 percent, depending on maturity, as part of the Agency's advance refunding. At June 30, 2018, the principal balance outstanding of the Refunding Bonds was $69,515,000.

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

Year Ending June 30,	Principal	Interest	Total
2019	$ 3,880,000	$ 3,354,600	$ 7,234,600
2020	4,040,000	3,199,400	7,239,400
2021	4,195,000	3,037,800	7,232,800
2022	4,365,000	2,870,000	7,235,000
2023	4,585,000	2,651,750	7,236,750
2024 - 2028	19,740,000	9,770,500	29,510,500
2029 - 2033	14,385,000	5,809,500	20,194,500
2034 - 2038	14,325,000	1,834,000	16,159,000
	$ 69,515,000	$ 32,527,550	$ 102,042,550

As part of the debt refunding, the Water Revenue Bonds were issued with a Premium. At June 30, 2018, the premium balance outstanding of the Refunding Bonds was $7,905,362. The annual requirements to amortize the premium outstanding, as of June 30, 2018, are as follows:

Year Ending June 30,	Premium	Total
2019	$ 815,288	$ 815,288
2020	777,569	777,569
2021	738,294	738,294
2022	697,513	697,513
2023	644,470	644,470
2024 - 2028	2,374,582	2,374,582
2029 - 2033	1,411,917	1,411,917
2034 - 2038	445,729	445,729
	$ 7,905,362	$ 7,905,362

NOTE 5 – SCHEDULE OF LONG-TERM DEBT (Continued)

CREBs 2017

In January of 2017 Antelope Valley-East Kern Water Agency issued Clean Renewable Energy Bonds in the amount of $15,600,000. At June 30, 2018, the principal balance outstanding of the CREBs was $14,690,000. The schedule below uses the term bond interest rates ranging from 1.199 percent to 4.326 percent.

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

Year Ending June 30,	Principal	Interest	Total
2019	$ 615,000	$ 556,717	$ 1,171,717
2020	625,000	544,325	1,169,325
2021	640,000	529,856	1,169,856
2022	655,000	513,344	1,168,344
2023	675,000	495,135	1,170,135
2024 - 2028	3,715,000	2,131,422	5,846,422
2029 - 2033	4,540,000	1,302,991	5,842,991
2034 - 2038	3,225,000	282,920	3,507,920
	$ 14,690,000	$ 6,356,710	$ 21,046,710

Prior Year Defeasance of Debt

In prior years, the Agency defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Agency's financial statements. At June 30, 2018, the Certificates of Participation Series 2007 A-1 and 2008 A-1 were paid off.

NOTE 6 – CONTRIBUTED CAPITAL

Donated Utility Plant

The Agency has consistently maintained a policy which requires the user to contribute (dedicate) plant/ equipment to the Agency. Under this policy an individual or developer bears the cost of installing all lines needed to service the individual or developer facility with water. The individual or developer then dedicates the plant/equipment to the Agency and from that time on, it is the Agency's responsibility to maintain this plant/equipment. The total contributed plant/equipment during the 2018 fiscal year was $0.

The Agency recognizes capital contributions to proprietary funds as revenues and not contributed capital.

NOTE 7 – LIABILITIES PAYABLE FROM RESTRICTED ASSETS

Certain assets of the Agency have been restricted for customer deposits and CFD debt which is not considered an obligation of the Agency. The earnings from the assets are credited respectively to the customer deposits, deferred compensation, and the CFD accounts. These assets consist of cash and investment in State Treasurer's Investment Pool (See Note 2) restricted as of June 30, 2018, as follows:

Condemnation Fund Payable	$	2,762,836
CFD Funds Held for Debt Repayment		160,919
Total	$	2,923,755

NOTE 8 – COMMITMENTS/LEASES

The Agency has entered into operating leases for equipment as of June 30, 2018 that require payments extending for a period longer than twelve months. The lease expense for these leases for the year ended June 30, 2018, was $8,328. Future payments as of June 30, 2018 are as follows:

Year Ending June 30,	Amount
2019	$ 8,686
2020	8,340
2021	6,544
2022	1,722
2023	0
Total	$ 25,292

The Agency has not entered into any capital leases which provide for title to pass to the Agency upon expiration of the lease term.

NOTE 9 – COMMUNITY FACILITIES DISTRICT BOND ISSUES (CFD 90-1)

	Original Issue	Outstanding June 30, 2018
Special Tax Bonds		
Community Facilities District No. 90-1	$ 13,800,000	$ 1,760,000

There are two outstanding Community Facilities District bond issues – Special Tax Bonds – 1990 Series A and 1991 Series A. The Special Tax Bonds were issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, to finance the acquisition and construction of certain public waterworks improvements, together with appurtenant work, to serve property located within the Community Facilities District No. 90-1 (Acton area). The bonds are payable from the proceeds of an annual special tax to be levied and collected from property within the District. Under terms of the Community Facilities District bonds, the Agency has custody of certain property tax funds, to be used for district interest and principal bond payments. The Agency is only acting as agent for the

NOTE 9 – COMMUNITY FACILITIES DISTRICT BOND ISSUES (CFD 90-1) (Continued)

property owners in collecting special tax assessments, forwarding the collections to bondholders and initiating foreclosure proceedings, if appropriate.

As discussed in Note 1, the Agency has no obligation beyond the balances in the designated agency fund for any delinquent assessment district bond payments. If delinquencies occur beyond the amounts held in the reserve funds created from bond proceeds, the Agency has no duty to pay the delinquency out of any available funds of the Agency. Neither the faith, credit, nor taxing power of the Agency is pledged to the payment of the bonds: and, therefore, the bonded indebtedness is not shown in the financial statements of the Agency.

Because the Agency is not obligated in any manner on the outstanding bonds and because the Agency is not benefiting from any of the new construction, the tax funds have been accounted for on a trust accounting basis.

CFD 90-1 Special Tax Bond – 1990 Series A

On January 1, 1991, the Agency issued $8,340,000 of Community Facilities District 90-1 Special Tax Bonds. The principal balance matures annually each September 1 through 2021 and bears interest at variable rates which range from 6.85% to 8.60%. As of June 30, 2018, (i) $1,090,000 of the bonds remained outstanding of which $595,000 is delinquent and (ii) $1,930,000 of the bonds remaining outstanding is subject to an annual moratorium agreement (see note 14).

CFD 90-1 Special Tax Bond – 1991 Series A

On April 1, 1991, the Agency issued an additional $5,460,000 of Community Facilities District 90-1 Special Tax Bonds. The principal balance matures annually each September 1 through 2021 and bears interest at variable rates which range from 6.10% to 8.60%. As of June 30, 2018, (i) $670,000 of the bonds remained outstanding of which $380,000 is delinquent and (ii) $1,255,000 of the bonds have been tendered (see note 14).

NOTE 10 – RETIREMENT PLANS

Profit Sharing / 401(K) Pension Plan

The Agency provides pension benefits for all its full-time employees by sponsoring a 401(K) and Thrift Defined Contribution Plan maintained by the trustee, Fidelity Management Trust Company. The employees may elect to have a portion of their compensation, not to exceed 50%, contributed to the Plan on a before-tax basis pursuant to Internal Revenue Code Section 401(K). The Agency's contribution rate is fixed at 10% of the employee's base compensation.

Current Year Information

The Agency's total payroll in the 2017/2018 fiscal year was $4,382,768. The total contribution to the plan was based on a compensation of $4,251,775 for the year ended June 30, 2018. Total contributions made by the Agency to the plan and reflected as expense for the year ended June 30, 2018 was $388,064. Elective employee contributions for the year ended June 30, 2018 was $340,927.

NOTE 11 –CHANGES IN ACCOUNTING PRINCIPLE

In November 2017, the GASB issued Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions", which is effective for fiscal years beginning after June 15, 2017. The Agency has implemented the provisions of this Statement for the fiscal year ended June 30, 2018.

The Statement requires numerous new pension disclosures in the notes to the financial statements and a new 10-year schedules as required supplementary information. Also, the Agency will recognize a full liability equal to the net OPEB obligation, the annual expense now includes the normal cost plus change in the liability, and deferred outflows balance reported separately from deferred inflows balances. The reporting of these new amounts on the financial statements, along with the effect of the restatement of the beginning net position will also affect the Agency's net position.

Net position as of June 30, 2017, has been restated as follows for the implementation of GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions:

Net Position - Beginning	$	286,439,719
Restatement of total OPEB liability due to "roll-back" of beginning balance in accordance with GASB 75		(475,087)
Net Position - Beginning, as Restated	$	285,964,632

NOTE 12 – POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

Plan Description

In addition to the pension benefits described in Note 10, the Agency provides postretirement health care benefits, in accordance with Agency policy, to all employees who retire from the Agency and meet certain eligibility requirements.

Plan Membership

As of June 30, 2018, the plan membership is as follows:

	Number of Participants
Inactive Employees Receiving Benefits	15
Participating Active Employees	44
Total Number of Participants	59

Eligibility for Agency-paid Benefits

To be eligible for retiree health benefits, an employee must retire from the Agency on or after the age 55 and who have completed at least 10 years of service; employees who complete 10 or more years of service and separate from the Agency due to permanent disability; former directors who served in office after January 1, 1981, who were first elected prior to January 1, 1995, and who have completed at least 12 years of service. Currently fifteen retirees meet these eligibility requirements. Expenditures for post-retirement health care benefits are expensed as paid, and during the fiscal year ended June 30, 2018, a total of $129,958 was paid on behalf of eleven retired employees and $59,179 was paid on behalf of four former directors for these benefits.

NOTE 12 – POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (Continued)

Actuarial Method and Assumptions

Valuation and Measurement Date: The valuation date and measurement date is June 30, 2018.

Actuarial Cost Method: as required by GASB 74 and 75, Entry Age Normal method must be used. The allocation of OPEB cost is based on years of service. The level percentage of payroll method is used to allocate OPEB cost over years of service.

Entry age is based on the average age at hire for eligible employees. The attribution period is determined as the difference between the average retirement age and the average age at hire. The present value of future benefits and present value of future normal costs are determined on an employee by employee basis and then aggregated.

To the extent that different benefit formulas apply to different employees of the same class, the normal cost is based on the benefit plan applicable to the most recently hired employees (including future hires if a new benefit formula has been agreed to and communicated to employees).

Substantive Plan: as required under GASB 74 and 75, the valuation is based on the substantive plan. The formulation of the substantive plan was based on a review of written plan documents as well as historical information provided by AVEK Water Agency regarding practices with respect to employer and employee contributions and other relevant factors as described below:

Economic assumptions are set under the guidance of Actuarial Standard of Practice 27 (ASOP 27). Among other things, ASOP 27 provides that economic assumptions should reflect a consistent underlying rate of general inflation. For that reason, we show our assumed long-term inflation rate below.

Inflation: Assumed 2.75% per year. Actuarial standards require using the same rate for OPEB that is used for pensions.

Investment Return/Discount Rate: Assumed 3.8% per year. This is based on the Bond Buyer 20 Bond Index.

Trend: Assumed 4% per year. The long-term trend assumption is based on the conclusion that, while medical trend will continue to be cyclical, the average increase over time cannot continue to outstrip general inflation by a wide margin. Trend increases in excess of general inflation result in dramatic increases in unemployment, the number of uninsured and the number of underinsured. These effects are nearing a tipping point which will inevitably result in fundamental changes in health care finance and/or delivery which will bring increases in health care costs more closely in line with general inflation. It is not reasonable to project historical trend vs. inflation differences several decades into the future.

Payroll Increase: Assumed 2.75% per year. Since benefits do not depend on salary (as they do for pensions), using an aggregate payroll assumption for the purpose of calculating the service cost results in a negligible error.

Fiduciary Net Position (FNP): To the extent that benefits are funded through a qualify trust, the FNP is subtracted to get to the NOL. As the plan is unfunded, the Fiduciary Net Position for the fiscal year ended June 30, 2018, is $0. The FNP is the value of assets adjusted for any applicable payables and receivables.

Actuarial Asset Valuation: There were no plan assets on the valuation date.

NOTE 12 – POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (Continued)

Non-economic assumptions are set under the guidance of Actuarial Standard of Practice 35 (ASOP 35).

Mortality Assumption: Mortality assumption are based upon the 2009 CalPERS Mortality for Active Miscellaneous Employees Table and the 2009 CalPERS Mortality for Retired Miscellaneous Employees Table. CalPERS periodically studies mortality for participating agencies and establishes mortality tables that are modified versions of commonly used tables. These table incorporate mortality projection as deemed appropriate based on CalPERS analysis.

Experiences Studies: Following are the tables that the retirement and turnover assumptions are based upon:

Retirement Rates: Retirement Rates are based upon the 2009 CalPERS 2.0%@55 Rates Active Miscellaneous Employees Table and the 2009 CalPERS 2.0%@60 Rates Retired Miscellaneous Employees Table. CalPERS periodically studies the experience for participating agencies and establishes tables that are appropriate for each pool.

Turnover Rates: Turnover Rates are based upon the 2009 CalPERS Turnover for Miscellaneous Employees Table. CalPERS periodically studies the experience for participating agencies and establishes tables that are appropriate for each pool.

Changes in the Total OPEB Liability

The Agency's total OPEB liability of $7,793,328 was measured as of June 30, 2018, and determined by an actuarial valuation as of that date. The changes in the total OPEB liability is as follows:

Roll back balance at June 30, 2017	$ 7,320,486
Service Cost	415,620
Interest on TOL	281,595
Employer Contributions	-
Employee Contributions	-
Actual Investment Income	-
Administrative Expense	-
Benefit Payments	(224,373)
Other	-
Net Change during 2017-18	472,842
Balance at June 30, 2018	$ 7,793,328

Sensitivity of the Net OPEB Liability

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

The following table shows the Net OPEB Liability with a discount rate that is 1% higher and 1% lower than assumed in the valuation.

	Discount Rate 1% Lower (2.8%)	Valuation Discount Rate (3.8%)	Discount Rate 1% Higher (4.8%)
Net OPEB Liability	$ 9,025,410	$ 7,793,328	$6,798,112

NOTE 12 – POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (Continued)

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

The following table shows the Net OPEB Liability with a healthcare cost trend rate that is 1% higher and 1% lower than assumed in the valuation.

	Trend 1% Lower (3%)	Valuation Trend Rate (4%)	Trend 1% Higher (5%)
Net OPEB Liability	$ 6,830,895	$ 7,793,328	$ 8,923,429

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

For the year ended June 30, 2018, the Agency recognized an OPEB expense of $697,215 (the sum of the Service Cost and Interest noted above). At June 30, 2018, the Agency reported $0 deferred outflows of resources and $0 deferred inflows of resources related to the OPEB. Certain types of Total OPEB Liabilities are subject to deferral, as are investment gains/losses. Since the Agency's prior valuation was performed in accordance with GASB 43/45, it is not possible to calculate compliant gains and losses. Therefore, the valuation-based deferred items will not begin until the next valuation.

NOTE 13 – STATE WATER SUPPLY CONTRACT

On August 3, 1962, the Agency entered into a water supply contract with the State of California Department of Water Resources (DWR) to pay for a share of the State's construction, operation, and maintenance of facilities for the storage and conveyance of water (facilities commonly referred to as the California Aqueduct). This agreement provides for yearly payments to the DWR for 75 years. Cumulative payments made pursuant to the contract through June 30, 2018 are as follows:

Total amounts paid on State water supply contract through June 30, 2017	$	481,338,281
Amount paid during the fiscal year ended June 30, 2018		19,926,356
Total amounts paid on State water supply contract through June 30, 2018	$	501,264,637

NOTE 14 – COMMITMENTS AND CONTINGENT LIABILITIES

There are various claims and legal actions pending against the Agency for which no provision has been made in the financial statements. In the opinion of the Agency attorneys and other Agency officials, liabilities arising from these claims and legal actions, if any, will not be significant.

The Agency has entered into various construction commitments. Such contracts include contracts for additions and improvements to facilities. Several of these contracts were in progress but not completed as of June 30, 2018. The total contractual commitments outstanding as of June 30, 2018 aggregated approximately $4,701,739. The Agency has sufficient funds available to cover these commitments.

Self-Insurance

The Agency's insurance coverage consists of both self-insured programs and policies maintained with the ACWA/Joint Powers Insurance Authority (see Note 15).

NOTE 14 – COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

Mello-Roos Negotiations / Litigation

As discussed in Note 9, the Agency maintains Community Facilities District 90-1, which was financed with Mello-Roos Bonds. Since the Agency is not directly liable for the CFD 90-1 debt and it is expected all such debt will be repaid from landowner assessments and not Agency revenues, the CFD 90-1 debt is not included in the Agency's financial statements. The Agency acts solely as an agent for the bondholders in collecting and forwarding the special assessments.

Economic conditions surrounding the Agency's service area have changed significantly since the issue of the Mello-Roos Bonds in 1990-91. Appraised property values have declined and residential and commercial construction are substantially below levels originally projected. These factors have contributed to a condition where the CFD negotiated an agreement in fiscal year 2001 with the bondholders (three separate bondholders hold 100% of the total outstanding bonds) to defease $390,000 of the September 1, 2000 and September 1, 2001 outstanding bonds. In addition, the bondholders agreed to waive principal and interest payments due to them in exchange for the CFD not to levy a tax on a portion of the parcels until September 1, 2003. Waiver of principal and interest payments due in exchange for the CFD not levying a special tax on a portion of the parcels has occurred in each subsequent year by agreement of the affected bondholders and the CFD. The total outstanding bonds subject to this agreement is $3,185,000. On July 1, 2016, an agreement was made and entered into by the Agency and the affected bondholders to discontinue the moratorium extension and cancel any future levy of special taxes for the tender of associated bonds in the amount of $3,185,000.

While, as discussed above, the Agency is not directly liable for the Mello-Roos Bonds, the nonpayment of this debt and the potential foreclosure by the bondholders on the landowners will have a detrimental impact on the CFD finances. In addition, resolution of this situation could draw the Agency into significant litigation. Any potential adverse impact on the Agency's future financial statements as a result of these conditions cannot be estimated at this time.

NOTE 15 – JOINT POWERS AGREEMENT (ACWA/JPIA)

The Agency participates in a Joint Powers Agreement (JPA): the Association of California Water Agencies Joint Powers Insurance Authority (ACWA/JPIA). The relationship between the Agency and the JPA is such that the JPA is not a component unit of the Agency for financial reporting purposes.

The JPA is governed by a board, consisting of a representative from each district. The JPA Board controls the operations, including selection of management and approval of operating budgets, independent of any influence by the member districts beyond their representation on the governing board. The insurance group arranges for and provides property and liability insurance for its members. The Agency pays a premium commensurate with the level of coverage requested.

Members of the JPA share surpluses and deficits proportionately to their participation in the JPA.

The JPA is independently accountable for its fiscal matters. The insurance group maintains its own accounting records. Budgets are not subject to any approval other than that of the governing board.

NOTE 15 – JOINT POWERS AGREEMENT (ACWA/JPIA) (Continued)

Below is the condensed financial information of the JPA for the years ended September 30:

	ACWA/JPIA						
	2017	2016	2015	2014	2013	2012	2011
Total Assets	$ 199,365,344	$ 189,566,761	$ 194,775,717	$ 195,584,006	$ 194,823,604	$ 188,033,750	$ 126,769,966
Deferred Outflows	$ 1,404,974	$ 1,065,779	$ 625,033	$ -	$ -	$ -	$ -
Total Liabilities	$ 123,871,469	$ 121,474,323	$ 113,620,777	$ 107,626,833	$ 100,307,836	$ 100,670,416	$ 79,457,922
Deferred Inflows	$ 1,576,175	$ 454,600	$ 846,155	$ -	$ -	$ -	$ -
Net Position	$ 75,322,674	$ 68,703,617	$ 80,933,818	$ 87,957,173	$ 94,515,768	$ 87,363,334	$ 47,312,044
Total Revenues	$ 170,789,597	$ 149,371,770	$ 160,400,697	$ 143,125,594	$ 140,452,408	$ 95,122,401	$ 29,596,400
Total Expenses	164,170,540	161,601,971	164,195,428	149,684,189	133,299,974	55,071,111	26,286,230
Change in Net Position	$ 6,619,057	$ (12,230,201)	$ (3,794,731)	$ (6,558,595)	$ 7,152,434	$ 40,051,290	$ 3,310,170

The Agency's share of year-end assets, liabilities or fund equity has not been calculated. Complete separate financial statements for the ACWA/JPIA may be obtained at 2100 Professional Drive, Roseville, California 95661.

NOTE 16 – ECONOMIC DEPENDENCY

As discussed in Note 12, the Agency has a water supply contract with the State of California Department of Water Resources. The Agency purchases the majority of its water supplies pursuant to this contract.

NOTE 17 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Excess of expenditures over appropriations as of June 30, 2018 were as follows:

Distribution and Transmission	263,249
Administration and General	555,135
Groundwater Survey	37,265
Interest Expense	74,796

REQUIRED SUPPLEMENTARY INFORMATION

ANTELOPE VALLEY-EAST KERN WATER AGENCY
OTHER POST EMPLOYMENT BENEFIT PLAN
SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY
JUNE 30, 2018

Total OPEB Liability	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
OPEB Expense	$ 697,215	$ $953,604	$ $256,543	$ $953,604	$ $256,543	$ $195,825	$ $195,825	$ $195,825	$ 143,810	$ 143,810
Benefit Payments	224,373	$156,731	$128,033	$124,703	$70,631	$72,660	$63,201	$63,733	$59,158	49,928
Changes of assumptions or other inputs	475,087	-	-	(697,061)	1,770,598	-	-	-	-	-
Net Change in total OPEB Liability	947,929	796,873	128,510	131,840	1,956,510	123,165	132,624	132,092	84,652	93,882
Total OPEB liability - beginning	6,845,399	6,048,526	5,920,016	5,788,176	3,831,666	3,708,501	3,575,877	3,443,785	3,359,133	3,265,251
Total OPEB liability - ending	$ 7,793,328	6,845,399	$ 6,048,526	$ 5,920,016	$ 5,788,176	$ 3,831,666	$ 3,708,501	$ 3,575,877	$ 3,443,785	$ 3,359,133

OTHER SUPPLEMENTARY INFORMATION

ANTELOPE VALLEY-EAST KERN WATER AGENCY
SCHEDULE OF REVENUES AND EXPENSES - PROPRIETARY FUND TYPE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2018

	ORIGINAL BUDGET	FINAL BUDGET	2017-2018 ACTUAL	OVER/(UNDER) BUDGET
OPERATING REVENUES				
Water Sales	$ 27,055,000	$ 27,055,000	$ 22,944,382	$ (4,110,618)
Water Exchanges and Transfers	-	-	3,450,000	3,450,000
Irrigation Sales	-	-	124,043	124,043
Nickel Water Agreements	2,183,046	2,183,046	2,891,850	708,804
Total Operating Revenues	29,238,046	29,238,046	29,410,275	172,229
OPERATING EXPENSES				
Water Purchases	11,035,600	11,035,600	8,263,917	(2,771,683)
Pumping	1,226,000	1,226,000	1,113,822	(112,178)
Water Treatment	5,196,300	5,196,300	4,871,599	(324,701)
Distribution and Transmission	250,225	250,225	513,474	263,249
Customer Accounts	7,000	7,000	5,418	(1,582)
Administration and General	5,176,342	5,176,342	5,731,477	555,135
Groundwater Survey and Site Reservoir	115,000	115,000	152,265	37,265
Solar Array Maintenance	61,000	61,000	-	(61,000)
Conservation	100,000	100,000	10,000	(90,000)
Depreciation	7,000,000	7,000,000	6,194,410	(805,590)
Total Operating Expenses	30,167,467	30,167,467	26,856,382	(3,311,085)
Operating Income (Loss)	(929,421)	(929,421)	2,553,893	3,483,314
NON-OPERATING REVENUES				
Tax Revenues	27,290,300	27,290,300	29,084,090	1,793,790
Net Investment Earnings	1,414,000	1,414,000	1,103,874	(310,126)
Other Revenues	6,569,000	6,569,000	3,904,303	(2,664,697)
Capacity Charges	-	-	605,130	605,130
Total Non-Operating Revenues	35,273,300	35,273,300	34,697,397	(575,903)
NON-OPERATING EXPENSES				
State Water Contract	24,037,000	24,037,000	19,926,356	(4,110,644)
Interest Expense	3,481,932	3,481,932	3,556,728	74,796
Total Non-Operating Expenses	27,518,932	27,518,932	23,483,084	(4,035,848)
Non-Operating Income (Loss)	7,754,368	7,754,368	11,214,313	3,459,945
Increase (Decrease) in Net Position	$ 6,824,947	$ 6,824,947	$ 13,768,206	$ 6,943,259

See independent auditors' report.

OTHER INDEPENDENT AUDITORS' REPORT

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October 19, 2018

Antelope Valley East-Kern Water Agency
6500 West Avenue N
Palmdale, California 93551

Dear Board of Directors:

We have audited the financial statements of the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Antelope Valley East-Kern Water Agency (the Agency) for the year ended June 30, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standard* in the United States of America as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 28, 2018. Professional standards also require that we communicate to you the following information related to our audit.

<u>Significant Audit Findings</u>

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Agency are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the current fiscal year. We noted no transactions entered into by the Agency during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no significant estimates used by management during the current fiscal year.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no significant disclosures used by management during the current fiscal year.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 19, 2018.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Agency's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Agency's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to Management's Discussion and Analysis and Other Post Employment Benefit Plan – Schedule of Funding Progress, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the Schedule of Revenues and Expenses – Budget and Actual, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the use of the Board of Directors and management of the Antelope Valley-East Kern Water Agency and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Burkey Cox Evans & Bradford

BURKEY COX EVANS & BRADFORD
Accountancy Corporation