

PREPARING FOR THE FUTURE

POPULAR ANNUAL FINANCIAL REPORT FY 2016-17



4232 LAS VIRGENES ROAD, CALABASAS
LOS ANGELES COUNTY, CALIFORNIA



Board of Directors Fiscal Year 2016-17

Charles P. Caspary, Division 1
Glen D. Peterson, Division 2
Lee Renger, Division 3
Leonard E. Polan, Division 4
Jay Lewitt, Division 5

Mission Statement

Dedicated to providing high-quality water service in a cost-effective and environmentally sensitive manner.

Vision Statement

Valuing every drop - bringing water full circle

We are guided by these values in our interactions with others:

- Integrity
- Respect
- Commitment
- Responsibility
- Collaboration
- Leadership



Founded in 1958, Las Virgenes Municipal Water District (LVMWD) is a special district that provides potable water, wastewater treatment, biosolids composting and recycled water services for a 122-square-mile service area located in Western Los Angeles County. LVMWD is organized under the Municipal Water District Law of 1911 (California Water Code 71000).

What is a “Popular Annual Financial Report”?

This Popular Annual Financial Report (PAFR) represents LVMWD’s ongoing commitment to transparency in its operations and governance. Additional information, including the District’s annual budget, Comprehensive Annual Financial Report (CAFR), planning documents and more, can be found at LVMWD.com/Financial-Reports. The District was awarded the District Transparency Certificate of Excellence by the Special District Leadership Foundation and the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association (GFOA) of the United States and Canada for its CAFR and PAFR in Fiscal Year (FY) 2015-16.

Dear Customers and Stakeholders,

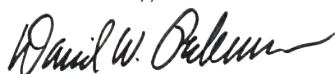
As we prepare this Popular Annual Financial Report highlighting the accomplishments of Fiscal Year (FY) 2016-17, the areas surrounding the District are affected by severe wildfires that continue to burn in what has been one of the most destructive fire seasons in California history. This comes on the heels of a record-setting wet 2015-16 water year that followed a five-year drought that started in 2011. These events highlight the challenging extremes that have always been part of managing water in California and have grown more pronounced over the past decade. Considering the implications of rising snow levels in the Sierra Nevada Mountains together with snowmelt occurring earlier in the season, the District needs to manage its water resources in new ways.

During FY 2016-17, the District addressed these challenges and others through its dedication to providing high-quality water service. The multi-year \$37.6 million Backbone Improvement Program continued to strengthen the potable water system with the completion of expansion of the Westlake Filtration Plant and modernization of the Westlake Pump Station. Looking forward, the District and Triunfo Sanitation District, through the Las Virgenes-Triunfo Joint Powers Authority (JPA), moved forward with plans for the Pure Water Project Las Virgenes-Triunfo. The project was the result of a collaborative effort between the two agencies and numerous stakeholders, from environmental groups to local cities, to identify the best long-term use of the JPA's excess recycled water produced by the Tapia Water Reclamation Facility. When completed, the project will provide up to 5,000 acre-feet of local, drought resilient water supplies to the JPA. As we move forward, it will continue to be important for the District to remain focused on the project, while also supporting regional, state and federal efforts to improve the reliability of imported water supplies.

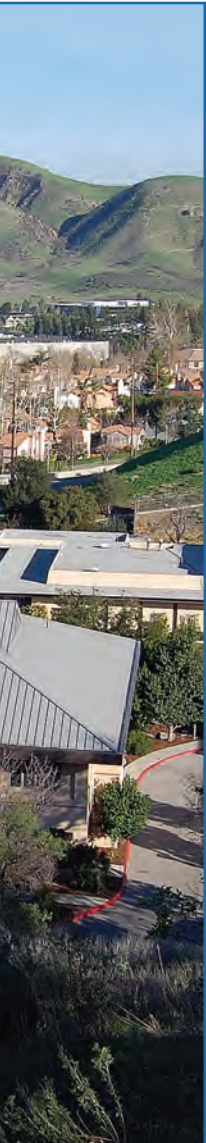
The District was able to accomplish its goals in FY 2016-17, while continuing to maintain some of the lowest rates for service in the region. The District's financial prudence allowed the Board of Directors to forgo a previously approved January 1, 2016 increase in sanitation rates, holding steady the rates established in 2015. Customer water budgets also continued to emphasize and reward efficient use of water by limiting the highest cost water to those who are inefficient and/or wasteful. The District's investments in the future and rate structure have positioned it well to maximize its resources and value every drop of water.

This report highlights the accomplishments of FY 2016-17 and provides a summary of the District's use of resources to provide high-quality service in a cost-effective and environmentally sensitive manner. It also reflects the leadership of the Board of Directors and the dedication of the 118 men and women of the Las Virgenes Municipal Water District. I encourage you to review this document, along with the more detailed information found in the District's Comprehensive Annual Financial Report and Annual Budget, both of which are available at LVMWD.com/Financial-Reports.

Sincerely,



David W. Pedersen, P.E.
General Manager



DO

WE

WHAT

Sanitation

We take all the water that flows from homes, schools and businesses and treat it to a water quality standard suitable for irrigation or discharge to the ocean via Malibu Creek.



Recycled Water

Treated wastewater, or recycled water, is distributed through 68 miles of pipe to 11 parks, 17 schools, 52 common areas for homeowners associations, 3 golf courses, and many street medians and parkways throughout the District.



Biosolids

Treated biosolids, a by-product of the wastewater treatment process, are transformed into compost that has achieved a Class A – Exceptional Quality rating from the Environmental Protection Agency (EPA), the agency's highest designation.



Potable Water

We reliably deliver high-quality drinking water to over 75,000 residents and businesses throughout western Los Angeles County.





The Las Virgenes–Triunfo Joint Powers Authority (JPA)

The JPA provides sanitation services for about 100,000 customers in western Los Angeles County and eastern Ventura County. Wastewater is treated at the Tapia Water Reclamation Facility, and the biosolids generated during this treatment are processed at the Rancho Las Virgenes Composting Facility. Both

facilities are jointly owned and operated by the JPA. This partnership creates an efficient means to serve residents within the Malibu Creek watershed.

The sanitation enterprise charges in this report reflect the total cost and revenue to provide these services for LVMWD customers.

DID YOU KNOW?

Water travels more than 400 miles from the High Sierra Mountains to reach your faucet.



Facts & Figures



Established
1958



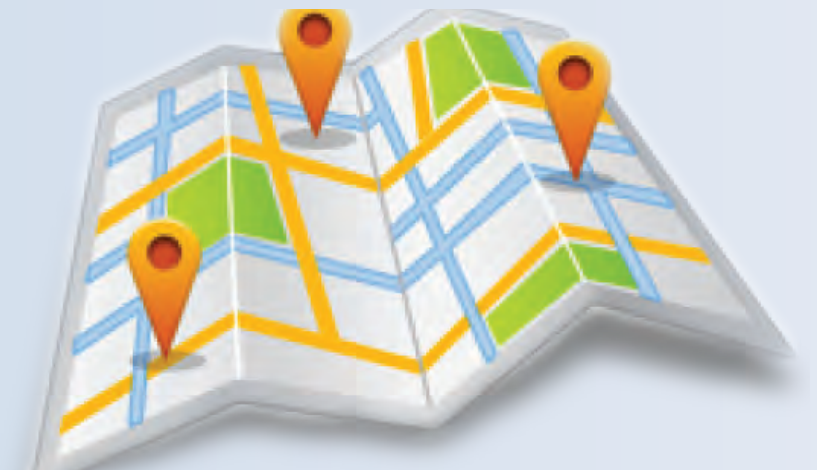
Governance

Five-member board of directors, publicly elected by geographic division



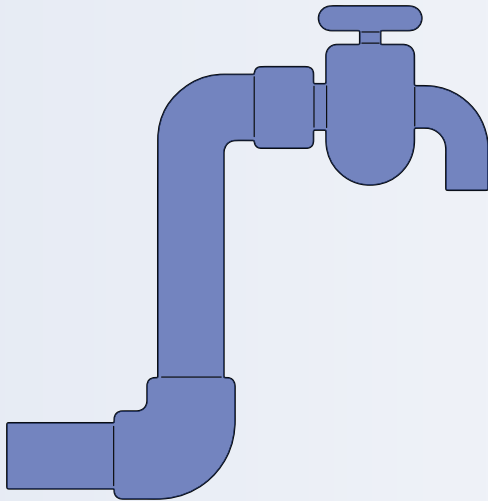
Budget 2017-2018

\$65.3 million



Service area

122 square miles



Customer connections

Potable Water	
Residential	18,334
Commercial	838
Recycled Water	654



Water served 2016-17

Potable	17,364 acre feet
Recycled	3,346 acre feet



Population Served

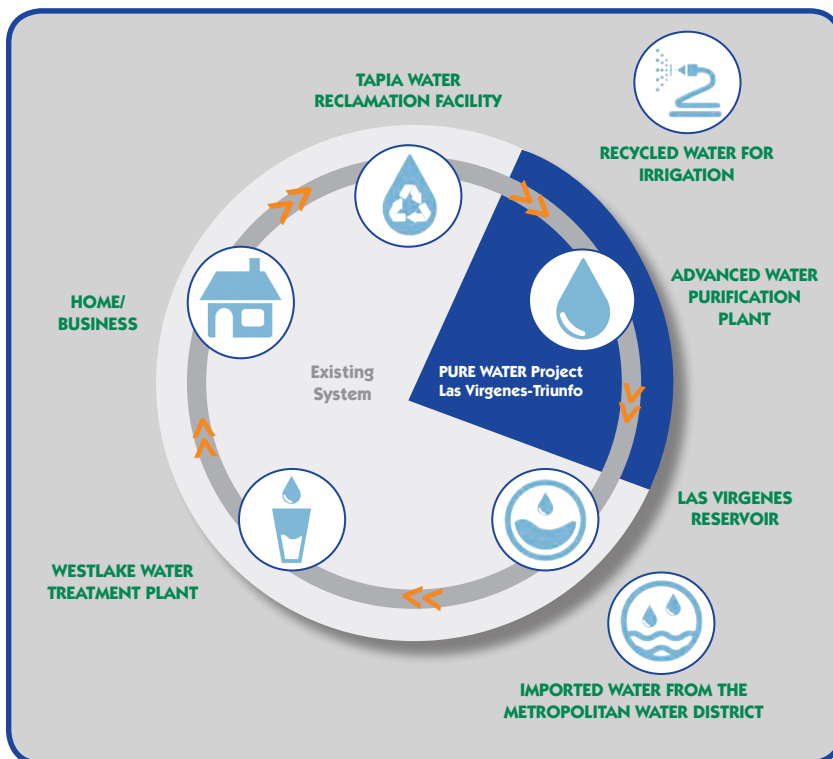
LVMWD serves 70,000 residents in Agoura Hills, Calabasas, Westlake Village, and parts of incorporated Los Angeles County. Triunfo Sanitation District, its Joint Powers Authority partner, provides sanitation services to 30,000 residents in Ventura County.

Preparing for the Future

As the recent drought demonstrated, water supplies in California are a resource that must be carefully managed to ensure continued availability of clean, safe, reliable drinking water. During FY 2016-17, Las Virgenes Municipal Water District took several actions to increase the District's water supply resiliency. The most significant step was to invest in the Pure Water Project Las Virgenes-Triunfo. Other steps include implementation of customized water budgets to encourage efficient water use and continuing to invest in the District's infrastructure.



Pure Water Project



As a result of an extensive stakeholder-driven process, the Pure Water Project emerged as the preferred solution to comply with discharge requirements of recycled water to Malibu Creek. The project addresses long-standing concerns with these discharges and creates a reliable local water supply for the region. The project will take surplus recycled water from the Tapia Water Reclamation Facility and treat it to a quality better than drinking water standards. The purified water will be mixed with imported water stored in Las Virgenes Reservoir to augment the District's drinking water supply.

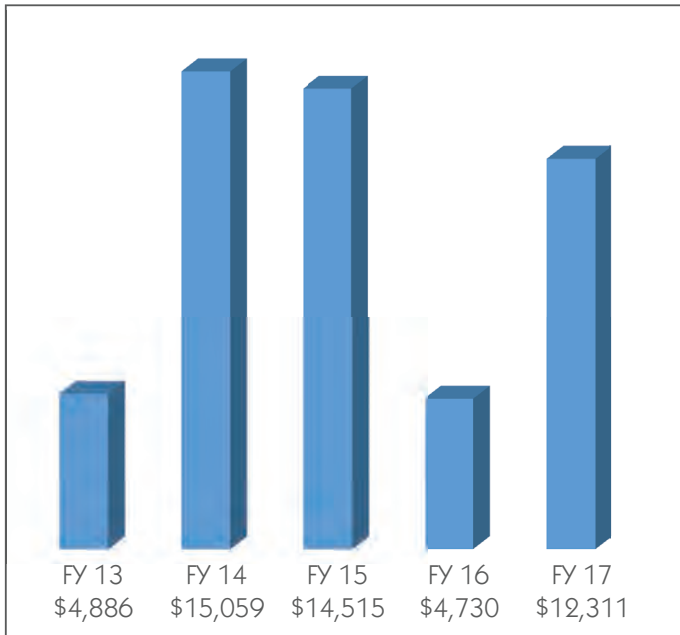
Investing for the Future

The District takes great pride in ensuring delivery of water and sanitation services to our customers through a comprehensive capital improvement program (CIP). Adequate investments are made to maintain a reliable system to address emergencies and unplanned service interruptions.

During FY 2016-17, the District continued its work on the multi-year, \$37.6 million Backbone Improvement Program. This program included completion of transmission mains in Agoura Hills and Calabasas, a five-million gallon storage tank in Westlake Village, expansion of the Westlake Filtration Plant, and modernization of the Westlake Pump Station. These projects will improve system reliability by modernizing and expanding facilities to meet current and future demands.

Major Capital Improvement Projects

(in thousands of dollars)



The photos at the right show Las Virgenes Reservoir, before and after the construction of the five-million gallon storage tank.

Did You Know?

One of the first projects to recycle wastewater into drinking water has been in operation since 1968 in Windhoek, Namibia. Locally, the Orange County Water District has operated an advanced water purification facility since 2008.



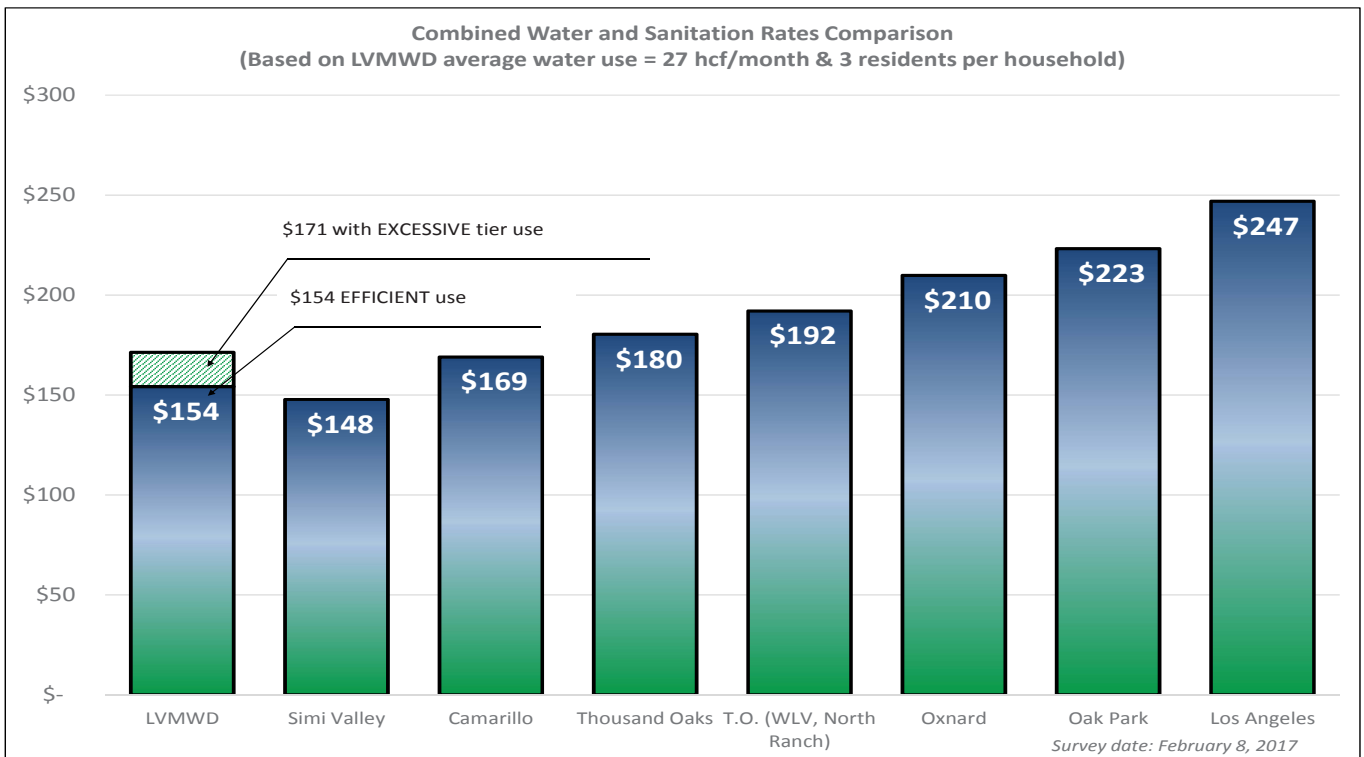
Keeping Service Rates Low

As a result of the District's strong financial management and long-term planning, customers have continuously paid some of the lowest rates in the region for water and wastewater services.

In 2015, the Board of Directors adopted a five-year rate plan that, through modest increases, will supply the District with the resources necessary to continue providing high-quality water and sanitation services to customers. That rate plan, expires in 2020; and, in 2018, the District will begin a study to determine rates for the next five-year period.

Due to regulations passed over the last several decades, most notably Proposition 218 in 1996

and, more recently, Proposition 26 in 2011 and the 2015 San Juan Capistrano decision (Capistrano Taxpayers Association Inc. v City of San Juan Capistrano), the rates and fees the District charges must have a direct link to each service it provides. In other words, potable water revenue must be used to manage and operate the potable water system, recycled water revenue must be used to manage and operate the recycled water system, and sanitation revenue must be used to manage and operate the sanitation system. The District's rate structure, financial systems and processes ensure compliance with these requirements.



Notes:

1. Many factors affect the cost of providing services because conditions differ from one area to another.
2. City of Oxnard sanitation based on "large lot" with 60% wastewater return flow.
3. LA DWP water cost based on efficient use at Tiers 1 and 2 only. Sanitation cost is based on a winter water use of 45% less flow and a DWCF = 0.90.

Water Budgets

Water is a valuable resource, and the District implemented water budget-based rates to encourage efficient water use. Water budgets for residential customers are calculated based on the number of people living in the home, the square feet of irrigated area, and evapotranspiration or plant water demand based on local weather.

Water budgets for commercial customers are calculated based on historical usage. Water budgets consist of four tiers: Efficient Indoor, Efficient Outdoor, Inefficient, and Excessive. The tiers are designed so that efficient water use results in the lowest cost to the customer.

More information on water budgets is available at [LVMWD.com/WaterBudgets](https://www.lvmwd.com/WaterBudgets)



D ID YOU KNOW?

LVMWD provides FREE water surveys to help customers achieve efficient water use.

FINANCIAL SUMMARY

FY 2016-17 Financial Performance

Las Virgenes Municipal Water District (LVMWD) uses the accrual method of accounting in accordance with generally accepted accounting principles to produce its financial statements. The following table illustrates how the District uses the adopted budget to monitor and compare actual financial performance. Generally Accepted Accounting Principles (GAAP) and auditing standards do not require the adopted budget to be included in the audited financial statements.

The District's FY 2016-17 financial results are gradually improving since the mandatory water restrictions were lifted in April 2017. Potable water sales increased 9.46% during FY 2016-17. Recycled water sales experienced a reduction by 28.33% due to record rainfall; however, the overall financial position of the District is stable.

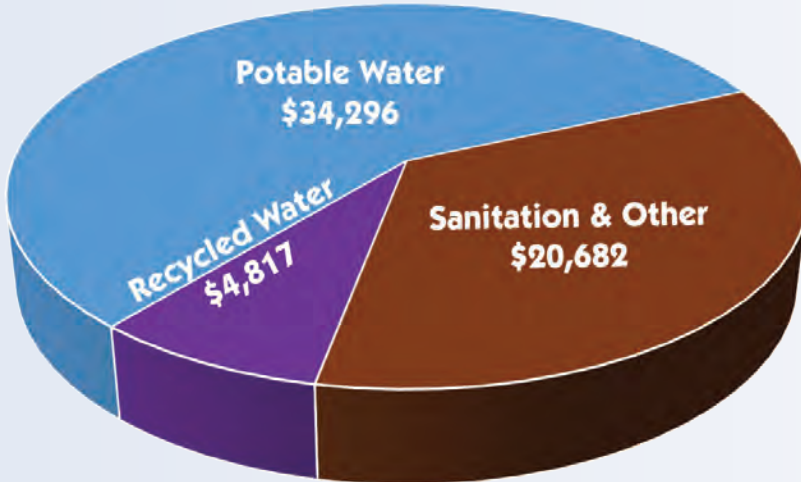
LVMWD operates a Joint Powers Authority (JPA) with Triunfo Sanitation District for the transmission and treatment of sanitation. Additional information about the JPA can be found in both the District's Comprehensive Annual Financial Report (CAFR) and the JPA Audited Financial Statements on the District's website at LVMWD.com/Financial-Reports.

Financial Highlights

- The District's net position increased by \$7.4 million to \$222.5 million.
- During the year the District's revenues increased by 11.03% to \$61.4 million, while expenses decreased by 0.6% to \$54.6 million.
- Capital contributions to the District increased to \$0.62 million or 64% more than last year.

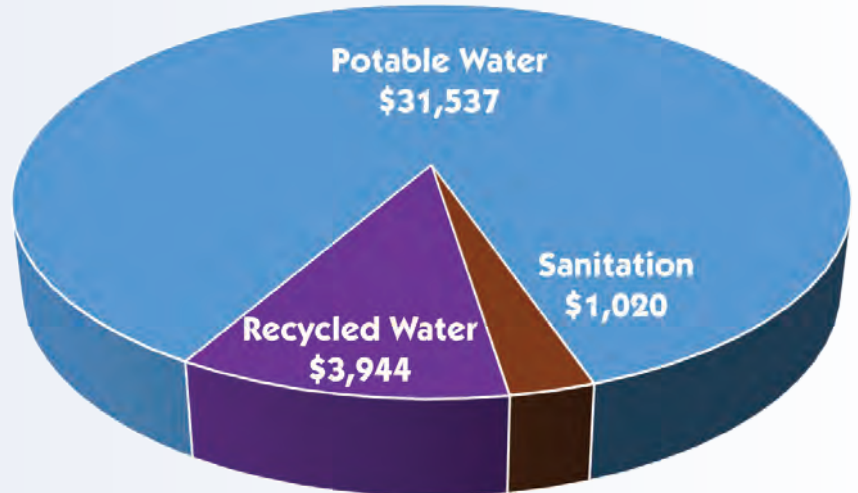
Operating Revenue

FY 2016-17
(in thousands of dollars)



Operating Expenses*

FY 2016-17
(in thousands of dollars)



*Excludes LVMWD share of JPA operations

Audit of District's Financial Statements by Independent Auditor

State statute requires an annual audit by independent certified public accountants. The District's FY 2016-17 financial statements were audited by the District's auditor, The Pun Group LLP, Irvine, CA, in accordance with GAAP auditing standards, and the statements met the State Controller's Minimum Audit Requirements for California Special Districts. The District's Audited Financial Statements and accompanying Independent Auditor's Report can be found in the District's Comprehensive Annual Financial Report (CAFR), available online at LVMWD.com/Financial-Reports.

Financial Analysis of the District

The analysis of the District is focused on the financial statements. The statements provide information on whether the District, as a whole, is in a stronger or weaker financial position compared to the last year. The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position provide a means to measure the District's financial health or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. However, you will need to consider other non-financial factors such as changes in economic conditions, population growth, zoning, and new or changed government legislation.

Condensed Statement of Net Position (in thousands of dollars)	FY 2017	FY 2016	FY 2015
Current and Other Assets	\$ 82,884	\$ 80,676	\$ 77,658
Capital Assets	\$ 125,810	\$ 120,197	\$ 120,949
Investment in JPA	\$ 62,556	\$ 63,943	\$ 66,721
Total Assets	\$ 271,250	\$ 264,816	\$ 265,328
Deferred Outflow of Resources	\$ 9,158	\$ 3,072	\$ 3,045
Long-Term Debt Outstanding	\$ 14,670	\$ 18,060	\$ 20,177
Net Pension Liability	\$ 19,563	\$ 15,171	\$ 15,870
Other Liabilities	\$ 18,956	\$ 15,646	\$ 13,114
Total Liabilities	\$ 53,189	\$ 48,877	\$ 49,161
Deferred Inflows of Resources	\$ 4,707	\$ 3,909	\$ 4,892
Net Position:			
Net Investment in Capital Assets	\$ 108,930	\$ 101,274	\$ 100,170
Restricted	\$ 2,654	\$ 2,635	\$ 2,652
Unrestricted	\$ 110,928	\$ 111,192	\$ 111,498
Total Net Position	\$ 222,512	\$ 215,101	\$ 214,320

Definitions

Capital Assets: Includes land, buildings, including water and sewer lines, wastewater facilities, reservoirs, tanks, distribution facilities, compost facility, maintenance and administration facilities, vehicles, and equipment net of depreciation.

Currents and Other Assets: Assets easily converted to cash or consumed within one year: cash, investments, receivables, and prepaid expenses.

Deferred Outflow of Resources: Represents outflow of resources that apply to future periods and that, therefore, will not be recognized as an expense until that time.

Long-Term Debt Outstanding: Payment due on LVMWD's 2009 Sanitation Refunding Bond that are more than 12 months in the future.

Other Liabilities: Payment due on obligations owed by LVMWD within the next 12 months.

Restricted Assets: Cash and investments set aside for a specific purpose.

Total Net Position: Equity associated with general government assets and liabilities.

Unrestricted Assets: Agency-owned assets that can be used for any purpose.

D ID YOU KNOW?

Of the District's FY 2016-17 \$36.5MM in operating expenses, 43.07% was for staff cost.



Condensed Statement of Revenues, Expenses and Changes in Net Position	FY 2017	FY 2016	FY 2015
Operating Revenues:			
Water Sales	\$ 39,963	\$ 32,949	\$ 37,547
Sanitation and Other	\$ 19,832	\$ 20,080	\$ 18,636
Non-operating Revenues:			
Taxes and Penalties	\$ 953	\$ 926	\$ 904
Interest Income and Other	\$ 625	\$ 1,360	\$ 833
Total Revenues	\$ 61,373	\$ 55,315	\$ 57,920
Depreciation Expense	\$ 4,076	\$ 4,712	\$ 4,579
Other Operating Expenses	\$ 36,500	\$ 36,419	\$ 39,540
Share of JPA Net Expenses	\$ 13,139	\$ 12,955	\$ 13,828
Non-Operating Expenses	\$ 867	\$ 825	\$ 1,270
Total Expenses	\$ 54,582	\$ 54,911	\$ 59,217
Income (Loss) Before Capital Contributions	\$ 6,791	\$ 404	\$ -1,297
Capital Contributions	\$ 620	\$ 377	\$ 990
Change in Net Position	\$ 7,411	\$ 781	\$ -307
Net Position - Beginning of Year	\$ 215,101	\$ 214,320	\$ 214,627
Net Position - End of Year	\$ 222,512	\$ 215,101	\$ 214,320

Definitions

Capital Contributions: Funds that are used for capital and expansion projects.

Change in Net Position: The total of net income (loss) plus capital contributions.

Depreciation Expense: If an asset is expected to produce a benefit in future periods, some of these costs must be deferred rather than treated as a current expense. LVMWD records depreciation expense in its financial reporting as the current period's allocation of such costs.

Income (Loss) Before Capital Contributions: The difference between total revenue less total expenses.

Net Position: The sum of total net position at the beginning of the fiscal year plus the change in net position resulting in ending net position at the end of the fiscal year.

Non-Operating Revenues and Expenses: Revenues and expenses that are incidental to LVMWD's main purpose and derived from activities not directly related to LVMWD's operations: taxes and penalties, interest earnings and rental income, and costs associated with debt.

Operating Expenses: Expenses incurred in the provision of potable water,

sanitation, and recycled water services.

Operating Revenues: Revenues received for the sale of water to customers, services, inspections, and programs provided by LVMWD.

JPA Expense: LVMWD and Triunfo Sanitation District established a Joint Powers Authority (JPA) to construct, operate, maintain and provide for the replacement of joint sewerage system. The share of JPA net expenses is LVMWD's allocation of combined net revenue and expenditure activity within the JPA.

Capital Assets

At the end of FY 2016-17, the District had invested \$234.9 million in a broad range of infrastructure including water and sewer lines, wastewater facilities, reservoirs, tanks, distribution facilities, compost facility, maintenance and administration facilities, vehicles and equipment and an investment in Joint Venture of \$62.6 million.

Capital Assets (In thousands of dollars)	FY 2017	FY 2016	Dollar Change
Land	\$ 6,915	\$ 6,915	\$ 0
Buildings and Improvements	\$ 22,023	\$ 22,023	\$ 0
Machinery and Equipment	\$ 11,173	\$ 10,933	\$ 240
Infrastructure	\$ 188,638	\$ 182,026	\$ 6,612
Construction in Progress	\$ 6,108	\$ 3,867	\$ 2,241
Subtotal	\$ 234,857	\$ 225,764	\$ 9,093
Less Accumulated Depreciation	\$ 109,048	\$ 105,567	\$ 3,481
Net Property, Plant and Equipment	\$ 125,809	\$ 120,197	\$ 5,612
Investment in Joint Venture	\$ 62,556	\$ 63,943	\$ -1,387
Total Capital Assets	\$ 188,365	\$ 184,140	\$ 4,225

Major Capital Improvement Projects (In thousands of dollars)	FY 2017
Westlake Pump Station Upgrade	\$ 4,236
Westlake Filtration Plant Expansion	\$ 3,838
Centrate Equalization Tank	\$ 1,785
Tapia Primary Tanks No. 2-5 Rehabilitation	\$ 874
Jed Smith Pipeline Replacement	\$ 643
Tapia Sluice Gates and Drives Replacement	\$ 437
Twin Lakes Tank Site Drainage Project	\$ 274
Recycled Water Seasonal Storage Study	\$ 224
Total	\$ 12,311

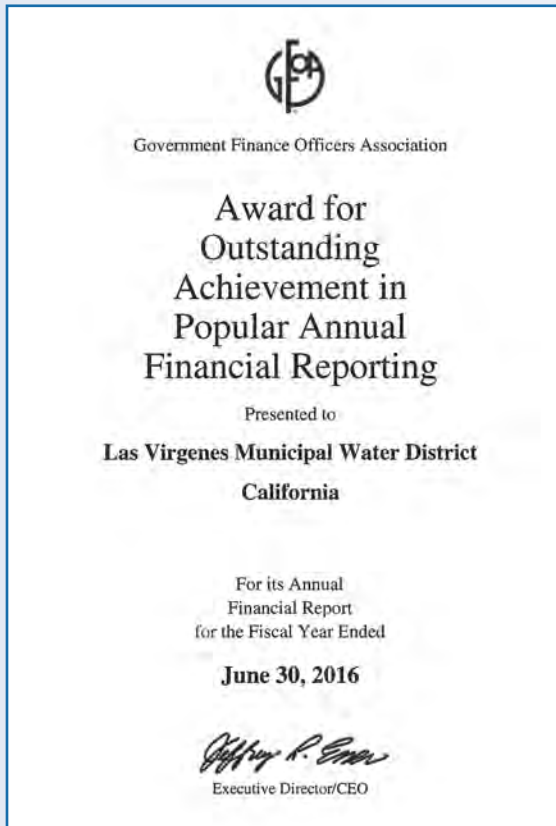


Long Term Debt

LVMWD maintains an “AA” rating from Standard & Poor’s for the refunding revenue bonds. One area that demonstrates the District’s financial strength and future borrowing capability is seen in its debt coverage ratio. Current bond covenants require that the debt coverage ratio must be greater than 1.10. The debt coverage ratio for FY 2016-17 was 2.90%.

Debt Coverage Ratio (In thousands of dollars)	FY 2017	FY 2016	Total Percent Change
Total Operating Revenues	\$ 18,613	\$ 17,398	6.98%
Total Operating Expenses (less depreciation)	\$ 10,614	\$ 10,260	3.45%
Net Earnings	\$ 7,999	\$ 7,138	12.06%
Maximum Annual Debt Service	\$ 2,756	\$ 2,739	0.62%
Debt Coverage Ratio*	2.9	2.61	11.37%

*Debt Coverage Ratio is calculated by dividing Net Earnings by Maximum Annual Debt Service.



In recent years, the District has been awarded the District Transparency Certificate of Excellence by the Special District Leadership Foundation and the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association (GFOA) of the United States and Canada for its CAFR and for its FY 2015-16 PAFR.

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