

Looking Back

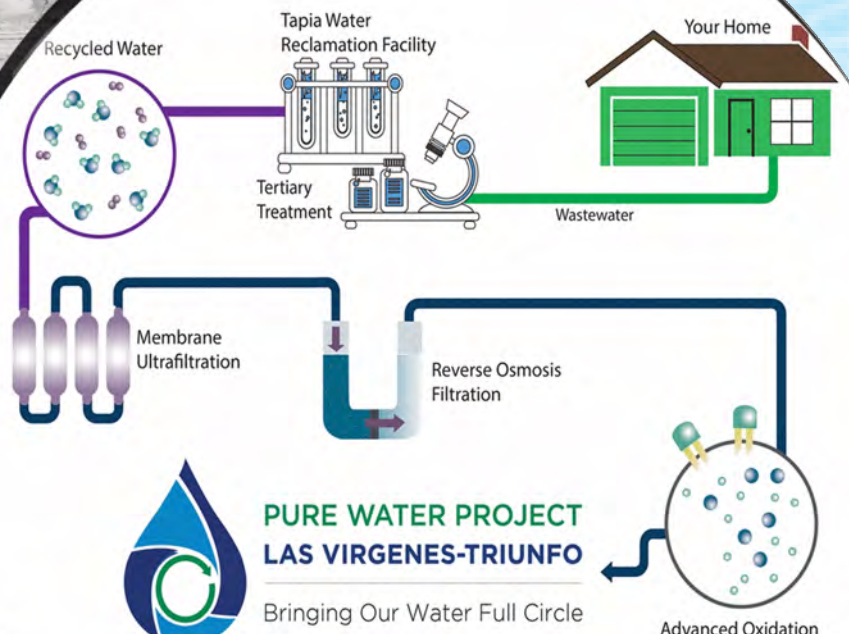


to Move Forward

Celebrating 60 Years of Service with Our Community

Popular Annual Financial Report

FY 2017-18



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Board of Directors Fiscal Year 2017-18

Charles P. Caspary, Division 1

Glen D. Peterson, Division 2

Lee Renger, Division 3

Leonard E. Polan, Division 4

Jay Lewitt, Division 5



Photo: The Directors of the new Las Virgenes Municipal Water District, meeting Monday, May 8, 1958. From left: Gordon Miner, Elizabeth Ossetynska, Arden Matthews, Paul Johnstone and Earle Brookings.

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 Reports (CAFR), planning documents and more can be found at LVMWD.com/Financial-Report. 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 2016-17 PAFR.



Dear Customers and Stakeholders,

In 1958, facing unreliable water sources and a lack of groundwater, the communities now served by Las Virgenes Municipal Water District (LVMWD) had to choose between annexation to the City of Los Angeles to gain access to additional water supplies or to form a new water District to secure water through other sources and maintain the region’s independence from Los Angeles. During that fateful year, voters overwhelmingly chose to form LVMWD. In 2018, the District celebrated its 60th anniversary by “Looking Back to Move Forward.”

Throughout Fiscal Year (FY) 2017-18, the District embraced the challenge of building on its past to move into the future. The most significant effort for the future was the continued focus on diversifying the District’s water supply portfolio through development of the Pure Water Project Las Virgenes – Triunfo. The Pure Water Project was the result of a collaborative effort between the District, its Joint Powers Authority partner Triunfo Sanitation District, and numerous stakeholders, from environmental groups to local cities, to identify the best long-term use of the excess recycled water produced by the Tapia Water Reclamation Facility. During FY 2017-18, the District focused on the development of a demonstration project to be housed in the former headquarters building at the District’s Las Virgenes Road campus. The demonstration project will assist in determining the best processing method for the water, providing training opportunities for staff, and, most importantly, creating an opportunity for customers to learn about potable reuse and the proposed Pure Water Project Las Virgenes – Triunfo.

During FY 2017-18, the District also undertook a concerted effort to ensure that its workforce continues to be well positioned to deliver reliable water and wastewater services. Faced with the reality that nearly 50% of the District’s workforce is or will soon be eligible for retirement, following sometimes decades of dedicated service to customers, a committee of District employees prepared a Succession Plan. The plan outlines various ways to attract, retain, and transfer knowledge among employees to ensure the District’s continued ability to deliver quality service. The goals of the Succession Plan will be considered with all of the District’s actions going forward, ensuring opportunities for years to come.

This report highlights the accomplishments of FY 2017-18 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 117 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,

A handwritten signature in black ink that reads "David W. Pedersen". The signature is fluid and cursive, written in a professional style.

David W. Pedersen, P.E.
General Manager

4 *What We Do*

Sanitation



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

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

Recycled Water



Biosolids



Treated biosolids, a by-product of the wastewater treatment process, is transformed into EPA Class A compost at the Rancho Las Virgenes Composting Facility. This excellent soil amendment is available free of charge every Saturday.

We reliably deliver high quality drinking water to over 70,000 residents and businesses throughout western Los Angeles County.

Potable Water





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. Financial statements of the JPA can be found at LVMWD.com/Financial-Reports.

Did You Know?

The Tapia Water Reclamation Facility currently treats an average of 7 million gallons of wastewater per day.



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Facts & Figures



Established
1958



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



*Customer
connections*

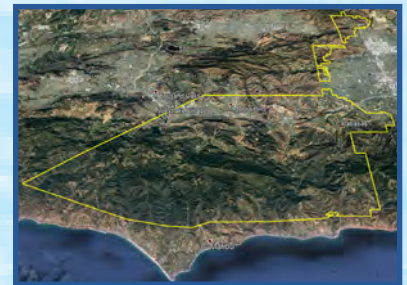
Potable Water	
Residential	18,334
Commercial	838
Recycled Water	654



Water served 2017-18
Potable 17,364 acre-feet
Recycled 3,346 acre-feet



Budget 2017-2018
\$65.3 million



Service area
122 square miles

Population Served

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



60 Years of Service to the Community

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 2017-18, 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 (Pure Water Project). Other steps included implementation of customized water budgets to encourage efficient water use and continuing to invest in the District's infrastructure.

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 better quality 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.

Water is just as precious now as it was 60 years ago. Today, we have a much better appreciation for the significance of the resource to our daily lives because we are looking back to yesterday's challenges to remember what we did to make it work. Today, applying those lessons learned, we will be implementing innovative technology allowing us to locally source water for the first time with the Pure Water Project.

As your water district, we are excited about the future and are looking forward to continuing to serve you safe, healthy, high-quality water for generations to come.



Hidden Hills - 1950s



Las Virgenes Reservoir - 2017



Filling Las Virgenes Reservoir - 1970s

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. Adequate investments are made to maintain a reliable system to address emergencies and unplanned service interruptions.

In Fiscal Years 2018-19/19-20, the District will be spending \$2.8 million, its share of the Las Virgenes – Triunfo Joint Powers Authority project, on the design and the construction of a demonstration facility to be built at the District’s headquarters campus. Tours of the facility are intended to educate and promote public confidence in the treatment technology.

Several technical studies including an advanced water treatment plant siting study, a hydrodynamic modeling of Las Virgenes Reservoir and a Title XVI Feasibility Study have been completed for the Pure Water Project. These studies will be used in the next step of preliminary design and environmental analysis.

In Fiscal Year 2017-18, the District continued the expansion of the Westlake Filtration Plant. The District spent \$4.6 million to install 2 additional filters to increase filtration capacity from 8,400 gpm to 12,000 gallons per minute (18 million gallons per day) as well as various other improvements.

Major Capital Improvement Projects

(in thousands of dollars)



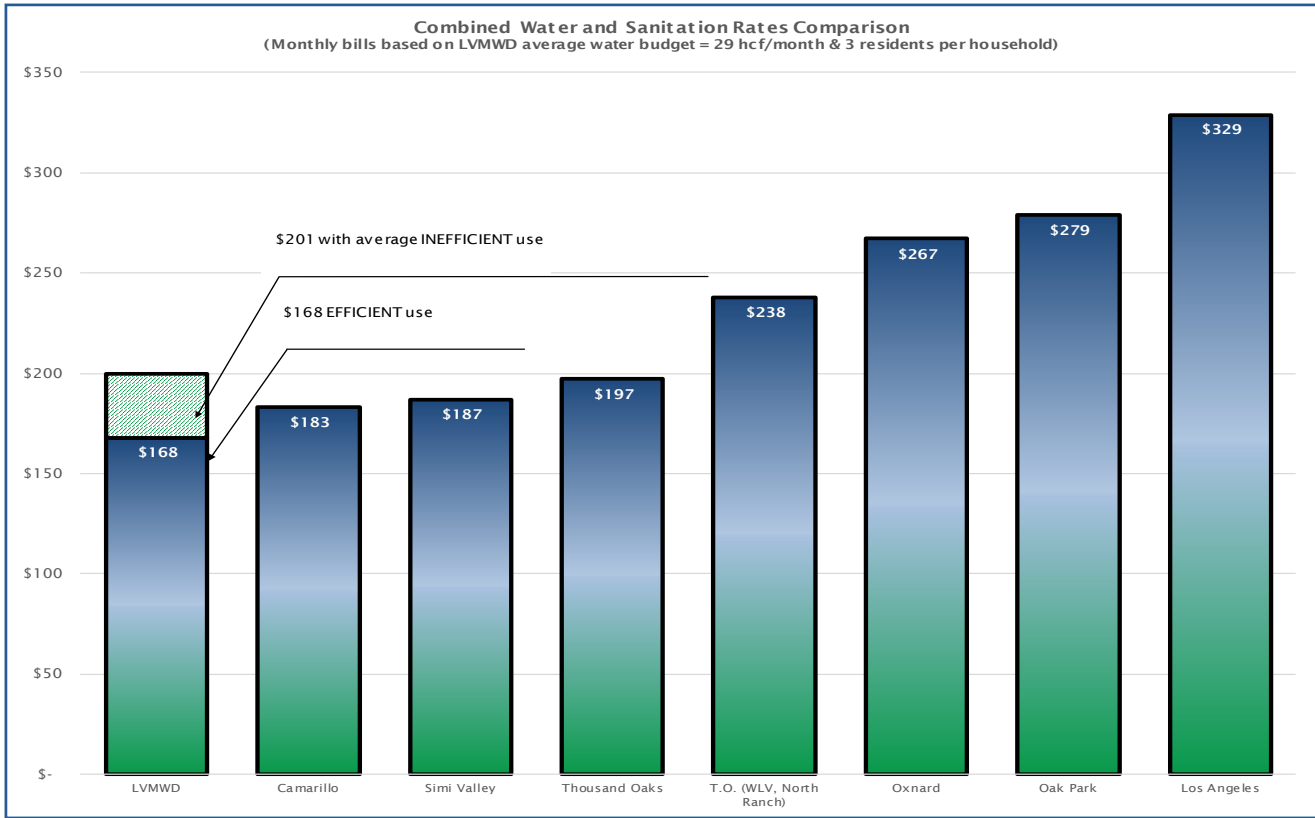
Keeping Service Rates Competitive

Through its strong financial management and long-term planning, the District has continuously been able to provide services to its customers for among the lowest rates in the region.

In 2015, the Board adopted a five-year rate plan that, through modest increases, will provide the resources necessary to enable the District to continue to provide high quality water and sanitation services to our customers. That rate plan expires in 2020. In 2019, the District will be completing a study to determine rates for the next five-year period.

Because of 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 enterprise, 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 enterprise. The District, through its rate structure, financial systems and processes ensures compliance with these requirements.



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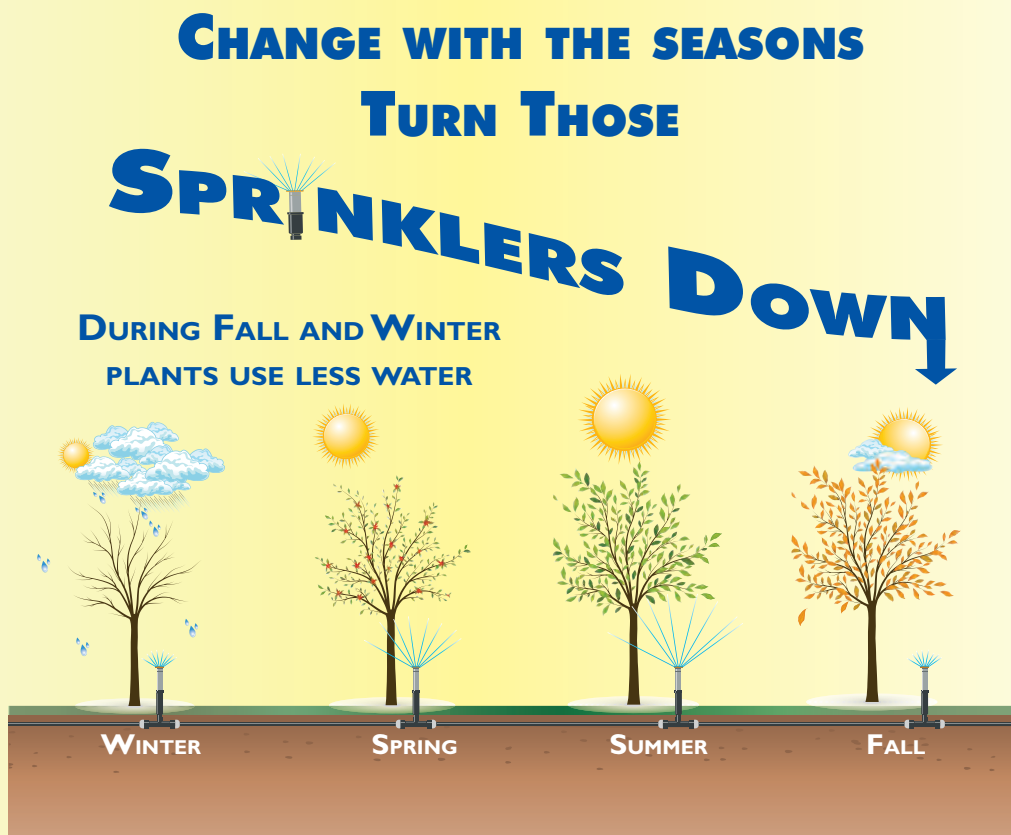
Saving Water

Using water efficiently is not only required by law with the passage of AB 1668 and SB606, but it can also keep costs down and benefits the environment by importing less water from Northern California. Approximately 70% of the water served in the District is used for outdoors on landscaping, the goal is to reduce outdoor water usage by changing your irrigation controller with the changing seasons.

Did you know that during the fall and winter months, even though it might be warm, your landscape does not need the same amount of water it does during the summer months?

Here are a few ideas to help you save water, money and still have beautiful landscaping:

- ✓ Let nature do its part. Do not irrigate 24 hours before and 48 hours after a rain event.
- ✓ Let technology work for you. Install a weather-based irrigation controller.
- ✓ Keep things running smoothly. Perform a sprinkler system tune-up by adjusting nozzles and checking for leaks.
- ✓ Talk with your landscaper about reducing irrigation.
- ✓ Change with the times. Remember to adjust your manual irrigation controller system seasonally.
- ✓ Keep up the good work. We are here to help.
- ✓ Call or email the District if you have questions about your water budget or would like additional assistance: (818) 251-2200 ~ StopTheWaste@LVMWD.com



Financial Summary

FY 2017-18 Financial Performance

Las Virgenes Municipal Water District (LVMWD) uses the accrual method of accounting in accordance with generally accepted accounting principles (GAAP) to produce its financial statements. The following table illustrates how the District uses the adopted budget to monitor and compare actual financial performance. The District's Fiscal Year 2017-18 financial results are gradually improving since the mandatory water restrictions were lifted in April 2017. Potable water sales increased 14.55% during Fiscal Year 2017-18. Recycled

water sales increased 19.31% due to decreased rainfall. 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 Independent Auditors' Reports and Financial Statements on the District's website at LVMWD.com/Financial-Reports.

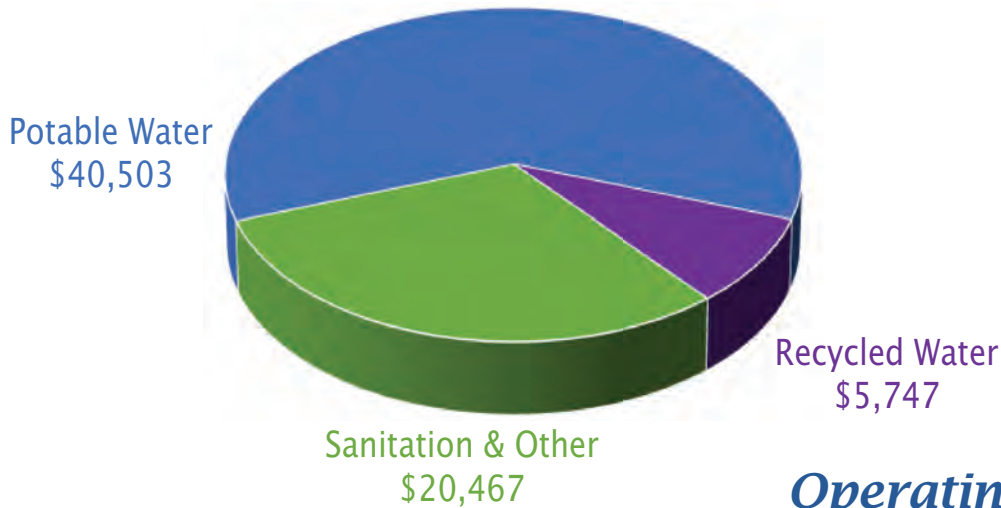
Financial Highlights

- The District's net position increased by \$13.9 million to \$218.3 million
- During the year, the District's revenues increased by 12.22% to \$68.9 million and expenses increased by 5.43% to \$57.5 million.
- Capital contributions to the District increased to \$2.6 million or 313.8% more than last year.

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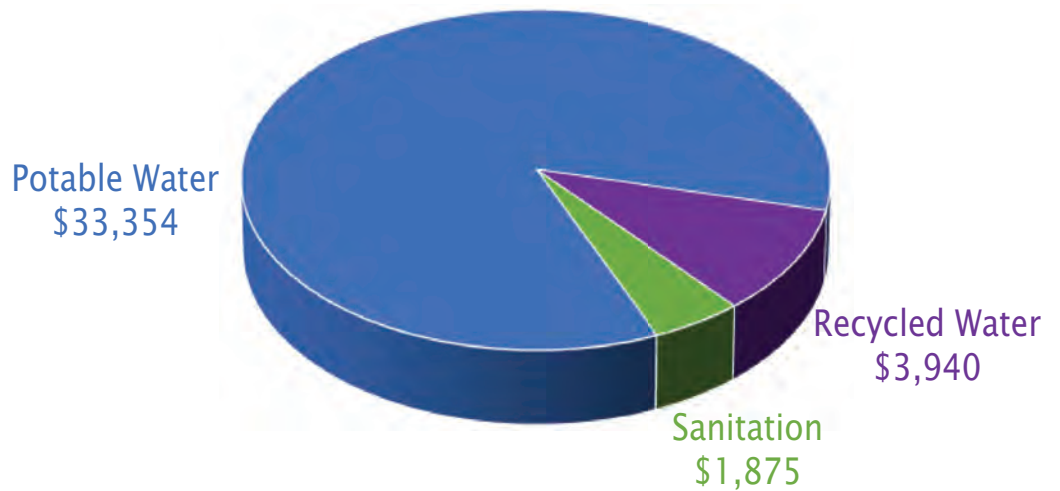
Operating Revenue

FY 2017-18 (in thousands of dollars)



Operating Expenses*

FY 2017-18 (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 2017-18 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.

	FY 2018	FY 2017 (restated)
Current and Other Assets	\$ 99,546	\$ 82,884
Capital Assets	124,526	125,810
Investment in JPA	62,521	62,556
Total Assets	\$ 286,593	\$ 271,250
Deferred Outflow of Resources	\$ 9,065	\$ 9,158
Long-Term Debt Outstanding	12,460	14,670
Net Pension Liability	20,493	19,563
Net OPEB Liability	19,183	18,064
Other Liabilities	20,097	18,956
Total Liabilities	\$ 72,233	\$ 71,253
Deferred Inflows of Resources	2,274	4,707
Net Position:		
Net Investment in Capital Assets	\$ 109,794	\$ 108,930
Restricted	2,683	2,654
Unrestricted	105,866	92,864
Total Net Position	\$ 218,343	\$ 204,448

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.

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The Condensed Statements of Revenues, Expenses, and Net Position

This table summarizes LVMWD's operating and non-operating revenues and expenses. The largest source of revenue is water sales to customers. Total revenues increased 12.22% in Fiscal Year 2017-18, while expenses increased by 5.43%. The increase in revenues was due to increased water sales and a rate increase from January 2016. Expenses were stable with increases predominantly due to a high number of vacant positions in previous year.

	FY 2018	FY 2017 (restated)
Condensed Statement of Revenues, Expenses and Changes in Net Position		
Operating Revenues:		
Water Sales	\$ 46,250	\$ 39,963
Sanitation and Other	20,467	19,832
Non-Operating Revenues:		
Taxes and Penalties	946	953
Interest Income and Other	1,212	625
Total Revenues	\$ 68,875	\$ 61,373
Depreciation Expense	3,943	4,076
Other Operating Expenses	39,169	36,500
Share of JPA Net Expenses	13,718	13,139
Non-Operating Expenses	716	867
Total Expenses	\$ 57,546	\$ 54,582
Income (Loss) Before Capital Contributions	11,329	6,791
Capital Contributions	2,566	620
Change in Net Position	13,895	7,411
Net Position - Beginning of Year	204,448	215,101
Net Position - End of Year	\$ 218,343	\$ 204,448

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

Over the years and by 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 JPA of \$62.6 million.

Capital Assets (In thousands of dollars)				
	FY 2018	FY 2017	Dollar Change	Total Percent Change
Land	\$ 6,915	\$ 6,915	\$ 0	0.00%
Buildings and Improvements	22,094	22,023	71	0.32%
Machinery and Equipment	11,416	11,173	243	2.13%
Infrastructure	195,570	188,638	6,932	3.54%
Construction in Progress	1,290	6,108	-4,818	-373.49%
Subtotal	237,285	234,857	2,428	1.02%
Less Accumulated Depreciation	112,760	109,048	3,712	3.29%
Net Property, Plant and Equipment	124,525	125,809	-1,284	-1.03%
Investment in JPA	62,521	62,556	-35	-4.34%
Total Capital Assets	\$ 187,046	\$ 188,365	\$ -1,319	-0.71%

Major Capital Improvement Projects (In thousands of dollars)	
	<u>FY 2018</u>
Westlake Filtration Plant Expansion	\$4,636
Jed Smith Pipeline Replacement	714
Raise Air Vacuum Valves	536
Building 7 & 8 Lighting Efficiency Upgrades	200
Total	<u>\$6,086</u>

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Long Term Debt

LVMWD maintains an “AA” rating from Standard & Poor’s for the refunding of 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 2018 was 2.69.

Debt Coverage Ratio (In thousands of dollars)			
	FY 2018	FY 2017	Total Percent Change
Total Operating Revenues	\$ 18,818	\$ 18,613	1.10%
Total Operating Expenses (less depreciation)	11,421	10,614	7.60%
Net Earnings	7,397	7,999	-7.53%
Maximum Annual Debt Service	2,752	2,756	-0.15%
Debt Coverage Ratio	2.69	2.9	-7.39%

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

Did You Know?

Each year, LVMWD’s Rancho Las Virgenes Composting Facility saves enough landfill space to fill a football field to a height of one story.





Government Finance Officers Association

**Award for
Outstanding
Achievement in
Popular Annual
Financial Reporting**

Presented to

**Las Virgenes Municipal
Water District, California**

For its Annual
Financial Report
for the Fiscal Year Ended

June 30, 2017

Christopher P. Morrill

Executive Director/CEO

**District Transparency
Certificate of Excellence**

September 2017 – September 2019

This 30th day of September 2017

The Special District Leadership Foundation is proud to present this
District Transparency Certificate of Excellence to

Las Virgenes Municipal Water District

In recognition of the district's completion of all transparency program requirements
designed to promote transparency in their operations and governance
to the public and other stakeholders.

David Aranda

David Aranda, SDLF Board President



Neil McCormick

Neil McCormick, SDLF Chief Executive Officer

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Mission Statement

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

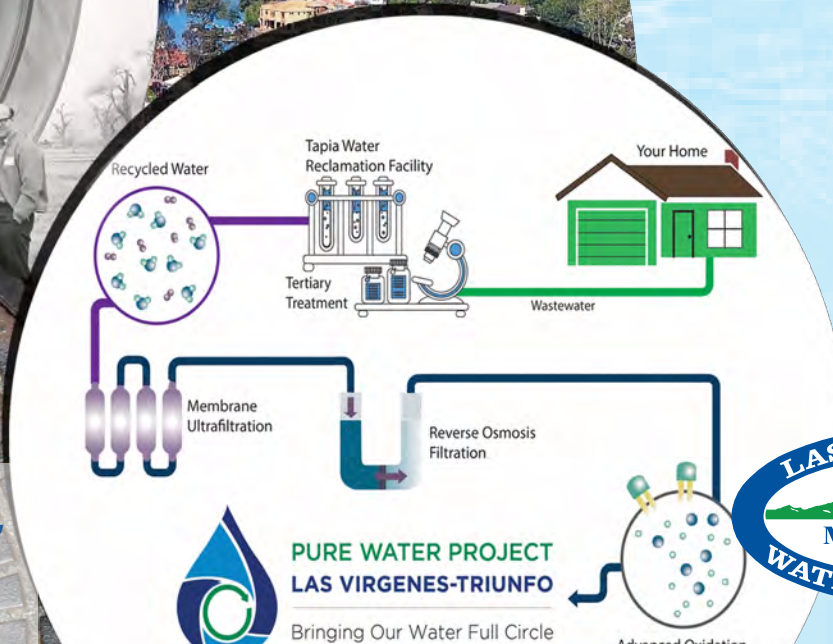
Vision Statement

Valuing every drop - bringing water full circle

Behavioral Values

We are guided in our daily decisions and activities by these values:

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



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LVMWD.com

