

2014-15 FISCAL YEAR IN REVIEW

CONFIDENCE

ACTION

SUCCESS

**POPULAR ANNUAL
FINANCIAL REPORT**



Board of Directors for Fiscal Year 2014-15



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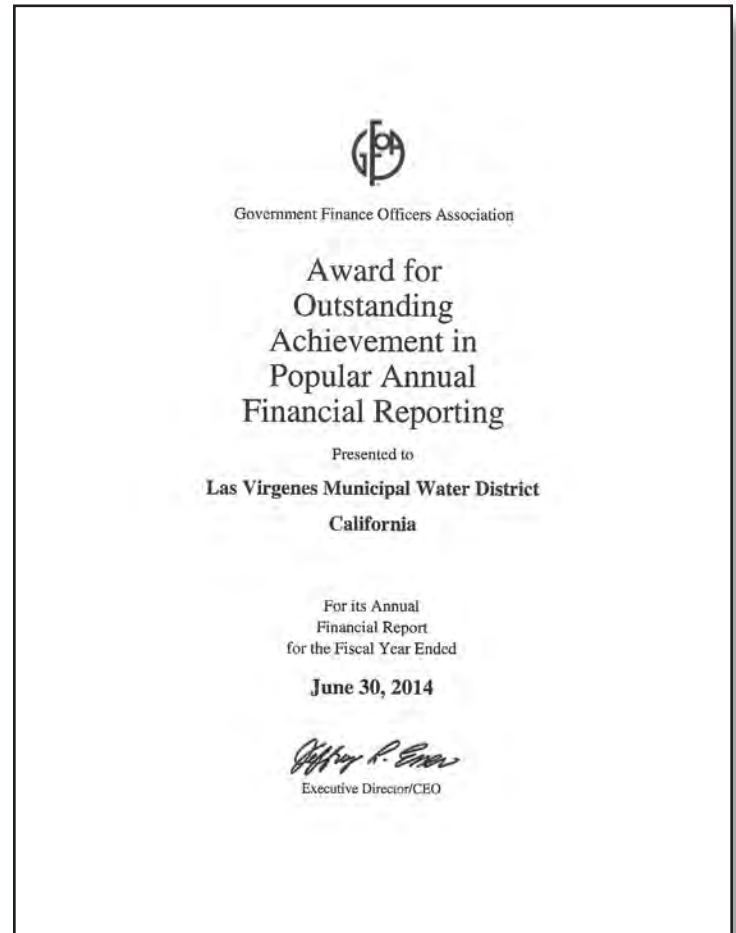


Jay Lewitt
Division 5

About the Popular Annual Financial Report (PAFR)

The Government Finance Officers Association (GFOA) established the Popular Annual Financial Reporting Program (PAFR) in 1991 to encourage and provide a framework for local governments to transmit important financial information to a broad audience. The PAFR complements the District's Comprehensive Financial Report (CAFR). The CAFR and all District financial reports can be found in the Finance section on the District's website at www.LVMWD.com/transparency.

The completion of the PAFR further demonstrates our commitment to transparency of District operations and dedication to making financial information easily accessible.



Award for 2014 PAFR from GFOA

A Letter from the General Manager

As seen on the cover, the theme for this year's annual financial report is "Confidence" because it is the basis for every service we provide to our customers.

Residents need to be confident the water delivered to their homes is safe, clean and reliable. Ratepayers should be assured the District's ongoing commitment to providing safe, environmentally protective wastewater treatment, recycled water and biosolids composting services is a bond with the communities we serve. They need to be confident each person associated with the District, from the Board of Directors through management and staff, is focused on fulfilling the District's missions. Customers must also be confident that the District's planning, finances, governance and communications are all conducted at the highest attainable level.

Achieving that level of confidence is not easy and, once attained, it must be sustained through continuing efforts. One dividend of confidence is the trust customers have in the District in times of adversity, such as California's persistent drought.

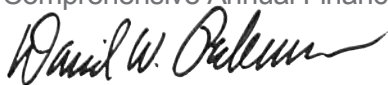
Las Virgenes Municipal Water District (LVMWD) relies entirely upon imported potable water resources. This report covers the period of July 1, 2014 to June 30, 2015, a time when LVMWD called upon its customers to conserve water, prepare for the future by achieving greater water-use efficiency and fund projects to assure reliable service.

LVMWD is one of 26 member agencies of the Metropolitan Water District of Southern California (MWD). Serving some 19 million people, Metropolitan has made substantial investments in water storage that have been instrumental in reducing the effects of drought. A portion of each customer's water bill financed these investments, helping Southern California fill the gaps between periods of reduced supplies and customer demands.

Apart from drought management, LVMWD operates each of its three enterprises — Potable Water, Sanitation and Recycled Water — in a manner that is reliable and financially sound. Each enterprise operates as an independent financial entity; however, customers benefit through the use of shared personnel and administrative resources.

As an additional investment in building customer confidence, this report illustrates how LVMWD used its financial resources to provide services that make a high quality of life possible for the residents, businesses and educational institutions in its 122 square-mile service area. As a governmental entity, LVMWD does not have shareholders or investors who expect a monetary dividend on their investments. Instead, the District is operated for the benefit of its customers, who pay the costs for its operations.

Another way to build confidence is through transparency. We invite you to examine this document for an overview of how funds were used to fulfill the District's missions in FY 2014-15. Readers who seek more detail may also view our Comprehensive Annual Financial Report and the District's annual budget; both are available at www.LVMWD.com.



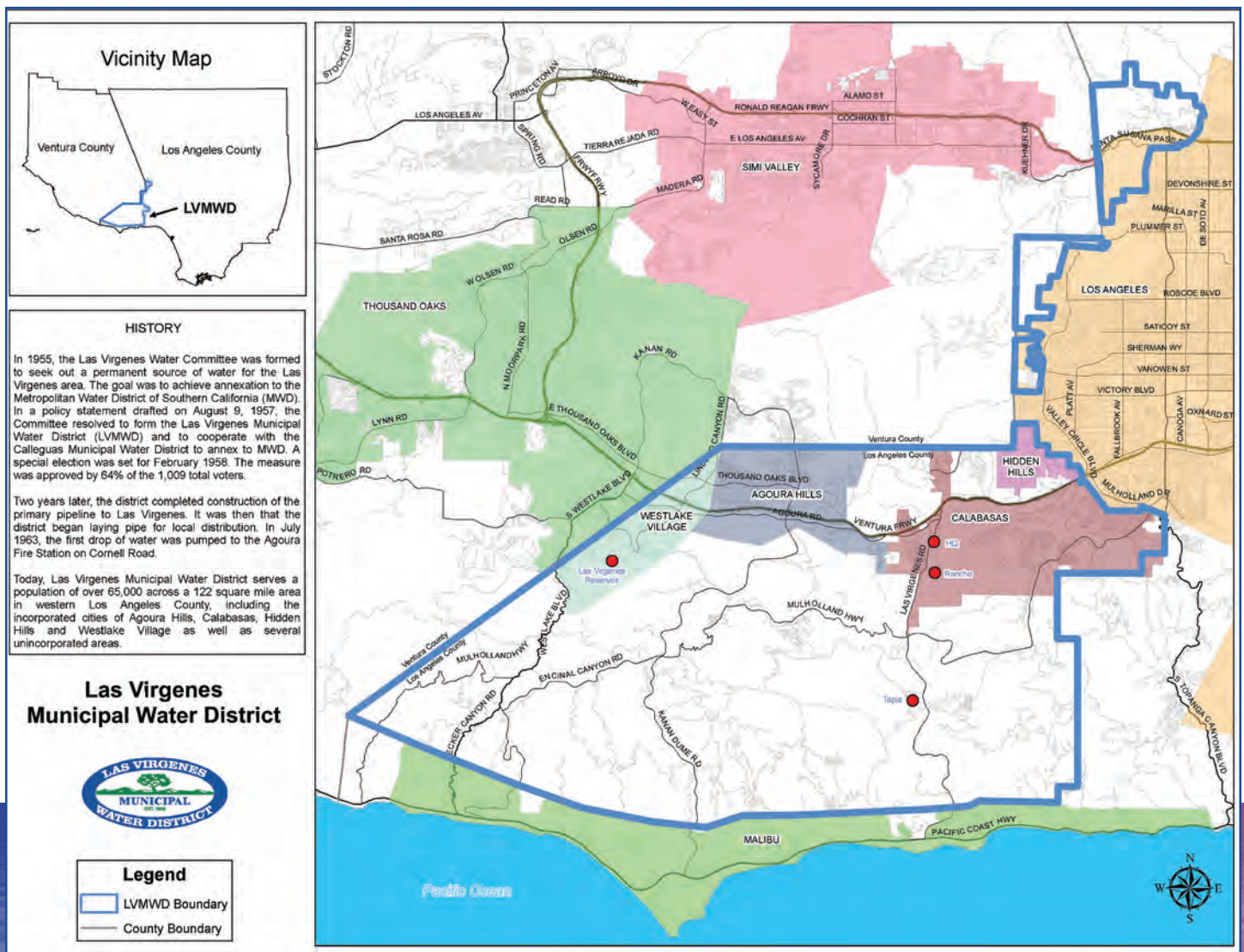
David W. Pedersen, P.E.
General Manager



About Las Virgenes Municipal Water District

Founded in 1958, Las Virgenes Municipal Water District (LVMWD) provides potable water, wastewater treatment and recycled water services for a 122 square-mile service area located in Western Los Angeles County. The District is bordered on the north and west by the Ventura County line, to the south by the City of Malibu and to the east by the City of Los Angeles. LVMWD serves a population of approximately 70,000 in the cities of Agoura Hills, Calabasas, Hidden Hills, Westlake Village and surrounding unincorporated areas of Los Angeles County, including Chatsworth and the Santa Monica Mountains.

LVMWD is organized under the Municipal Water District Law of 1911 (California Water Code 71000). A five-member Board of Directors governs the district, each representing one of five geographic divisions. The directors serve overlapping four-year terms. From among its members, the Board selects officers and a representative to the Board of Directors of Metropolitan Water District of Southern California. Board meetings are open to the public and held on the second and fourth Tuesday of each month at 5 p.m. at LVMWD headquarters. Board meetings are also recorded and can be viewed online through the District's website.



LVMWD provides potable water, recycled water, and sanitation services to its customers. Because of regulations passed over the last several decades, most notably Proposition 218 in 1996 and, more recently, Proposition 26 in 2011, 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, through its financial systems and processes ensures compliance with these requirements.

This 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 www.LVMWD.com.

In recent years, LVMWD 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.



*Tapia Water Reclamation Facility - effluent pond (top)
Las Virgenes Headquarters (bottom)*



The Las Virgenes – Triunfo Joint Powers Authority (JPA) provides sanitation services for its customers, treats the wastewater at the Tapia Water Reclamation Facility and produces recycled water used primarily for irrigation purposes. Biosolids removed during the wastewater treatment process are further treated to produce a “Class A, Exceptional Quality” compost at the Rancho Las Virgenes Composting Facility. Both of those facilities are jointly owned and operated by the Las Virgenes-Triunfo Joint Powers Authority that is comprised of LVMWD and the Triunfo Sanitation District, the latter of which serves adjacent areas of southeastern Ventura County. This partnership creates efficiencies in the delivery of sanitation services for both service areas. The sanitation enterprise charges in this report reflect the total cost and revenue to provide these services for LVMWD customers. Financial information about the JPA can be found at www.LVMWD.com/Financial-Reports.

The Potable Water Enterprise

In FY 2014-15, LVMWD provided potable water service to some 22,000 metered customers, most of which are residential. In addition to drinking water, the potable water system also provides fire protection for the District's service area.



Drought Response and Water Use Efficiency

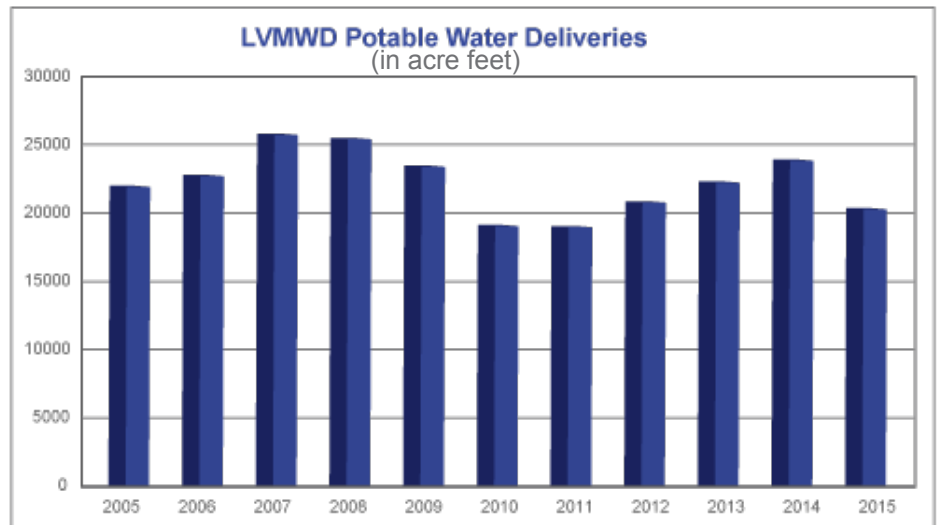
With the state in a fourth year of drought, in April 2015, the Governor issued an Executive Order to reduce statewide water use by 25 percent. The District responded with additional conservation messages to residential, business and institutional customers, which led to a decline in usage in potable water revenues.

LVMWD is entirely dependent upon imported potable water resources. There are no local supplies, such as groundwater aquifers or streams that can provide drinking water.

The previous drought of 2009 saw customers decrease water use by more than 20 percent. A significant number of customers made permanent changes in their usage patterns and achieved greater water use efficiency.

Impact on Revenues

Typically, when customers reduce usage, water utilities are pressed to cover operating expenses at a time when customer billings are decreasing. LVMWD adopted a three-year rate schedule in 2012, which has been instrumental in helping to recover a greater portion of the District's fixed costs (labor, maintenance and utility expenses).



Water Use Efficiency Measures

In response to the Governor's call for conservation, LVMWD increased its conservation messaging to customers through a number of methods, including customer billing statement mailings, rebate programs for water saving devices and lawn removal, newspaper advertising, the LVMWD website, cable TV channels of cities within the service area, social media, garden and landscape classes, school education programs and information booths at community events throughout the year. The main focus of the District's conservation efforts is reducing outdoor irrigation, which is the largest single category of usage.

While drought intensifies the focus on greater water use efficiency, in 2009 the state passed a comprehensive package of water legislation that requires urban water suppliers to achieve a 20 percent reduction in use by 2020. Failure to comply with the goal would make an agency ineligible for state grants or loans. While LVMWD has made significant progress toward the goal, more remains to be done in order to gain compliance. In its efforts to reach the goal, LVMWD intends to implement a "Water Budget" rate structure in FY 2015-16.

Supply and Demand

In contrast to drought periods prior to 2001, Southern California was better equipped to mitigate the impacts of drought through a number of measures that were put in place for the conditions experienced in FY 2014-15.

- ✓ The Metropolitan Water District of Southern California (MWD) had significant storage resources in place, including those in the large Diamond Valley Lake near Hemet and Central Valley groundwater basins.
- ✓ Significant investments in water conservation were made including \$450 million by MWD.
- ✓ Local projects were constructed to enhance supplies through water recycle, stormwater capture and groundwater treatment.

These investments and others assured MWD's member agencies reliable supplies through FY 2014-15.



*Mow-No-Mow (Turf Removal) Program (top)
Calabasas Golf Course - irrigated with recycled water (bottom)*

The Potable Water Supply System

LVMWD has no local potable water sources; all drinking water must be imported. As a member agency of the Metropolitan Water District of Southern California, the District typically receives water delivered through Metropolitan from the State Water Project, traveling nearly 500 miles to reach customers in the service area.

Reliable delivery to customers can only be achieved through a well-engineered and maintained distribution system. Medium and long-term needs are continually evaluated and the findings are published in the Infrastructure Investment Plan and the Potable Water Master Plan. These forward-looking documents are the foundations for projects that may be needed to address the District's needs. These documents are available for review on the District's website at www.LVMWD.com/Master-Plans.

In FY 2014-15, LVMWD engaged in a significant construction effort aimed at improving the flow of water along its "backbone" supply system.

5-Million Gallon Storage Tank at Las Virgenes Reservoir in Westlake Village is at the terminal end of the "backbone" and will provide a ready source of potable water to meet demands for daily usage, fire suppression and emergencies. The project was completed in July 2015.



Calabasas 8-Million Gallon Storage Tank is the largest potable water tank in the District's backbone system and, therefore, one of the District's most important storage facilities. Prior to its rehabilitation, the tank remained in service for over 50 years without interruption. The rehabilitation contract was awarded in May 2014, and the project was completed in June 2015. The scope of the project included removal and replacement of interior and exterior coatings, structural repairs of rafters and beam connections, and installation of a security fence and access road pavement replacement. The rehabilitation has significantly extended the service life of this valuable asset.



Rehabilitation of the 8-Million Gallon Tank in Calabasas (above)

Open House at the completion of 5-Million Gallon Tank at Las Virgenes Reservoir (left)

The Sanitation (Wastewater Treatment) Enterprise



Each day, the Tapia Water Reclamation Facility is prepared to treat some nine million gallons of wastewater to standards protective of public health and the environment. Under the terms of a National Pollutant Discharge Elimination System (NPDES) permit issued by the Los Angeles Regional Water Quality Control Board, the District must treat and recycle wastewater to stringent state standards. The facility's location within the sensitive environment of the Malibu Creek watershed brings additional challenges to its operation.

As with many agencies across the country, aging infrastructure built in the 1960s and 70s presents a cost driver that saw the District invest in rehabilitating the following at the Tapia Water Reclamation Facility:

- ✓ Primary Clarifier No. 1
- ✓ Channel Air Mixing

The drought has also had cost impacts on operations for the wastewater treatment enterprise. Under "normal" operating conditions, excess treated effluent may not be discharged to Malibu Creek from April 15 to November 15 each year. One exception to this rule is when the flows measured at the L.A. County gauging station fall below 2.5 cubic feet per second for a sustained period. In this case, the District must discharge in order to provide aquatic habitat for threatened species such as the steelhead trout and the tidewater gobi downstream. In the past, this requirement has resulted in temporary discharges until creek flow levels increased beyond the threshold. In FY 2014-15, the creek augmentation discharge of recycled water began in June 2014 and was sustained through the remainder of the "prohibition" period in mid-November.

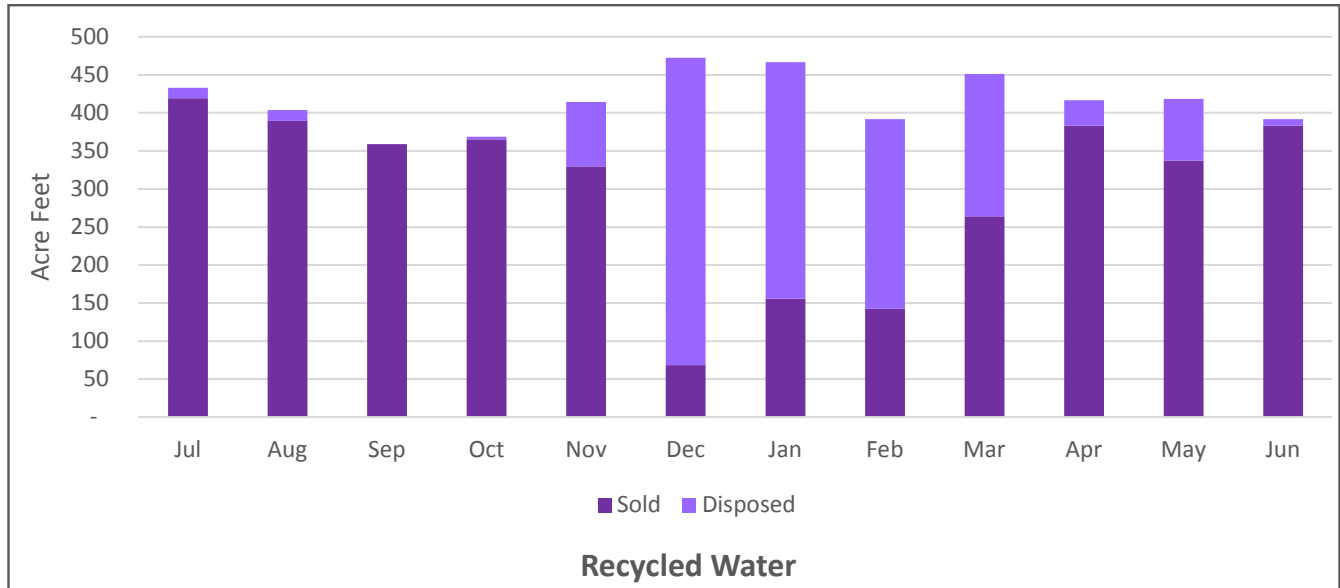
During times of peak demand (July, August, September), the District normally sells its entire supply of recycled water to customers. However, with the required discharge to the creek, that water had to be supplemented with potable water in order to provide reliable service to recycled water customers. This required activity represented an unanticipated additional operating cost.

Tapia Primary Clarifier No.1 rehabilitation began in April 2014. The project included repairing cracks and soft concrete inside the clarifier, recoating the concrete interior and aluminum beams, and removing and replacing effluent launders and support brackets for the spray piping. The project was completed in November 2014.

Tapia Channel Air Mixing Project was awarded in March 2015 and completed in November 2015. This rehab project replaced aging and failed air piping and diffusers with new piping and diffusers which increased the efficiency of mixing in the inter basin channels. Efficient mixing helps to keep solids in suspension so that they do not settle where they are not supposed to and results in energy savings because less air is used to mix the channels.

The Recycled Water Enterprise

LVMWD was a pioneer in developing recycled water (RW) as a resource that makes use of tertiary-treated, Title-22 compliant water processed at the Tapia Water Reclamation Facility. In FY 2014-15, nearly 20 percent of all the water delivered by LVMWD was RW, reducing the demand for potable water on a gallon-for-gallon basis. In the LVMWD service area, RW is used to irrigate golf courses, highway landscapes, parks, school grounds, commercial properties and common areas of multi-family housing developments.



During FY 2014-15, discussions were completed with the City of Los Angeles regarding the supply of RW to the Woodland Hills Country Club at the west end of the San Fernando Valley. The location is far from the City’s RW supply system, yet the facility uses a significant amount of potable water. Negotiations with Los Angeles identified LVMWD as a potential supplier of RW to that location. However, it will be necessary for LVMWD to extend its RW supply line in order to reach Woodland Hills. Terms with Los Angeles include an allowance for construction costs and helps LVMWD place more RW in the community while assisting the District’s Malibu Creek avoidance efforts during the creek prohibition period. It is also possible a pipeline extension could open RW service to additional potential customers within the LVMWD service area.



Recycled Water Reservoir No. 2 is the only open location where recycled water is exposed to the elements, leading to water quality issues from algae, dust, run-off sediment and bird droppings. During the months recycled water demands are low and effluent discharges to Malibu Creek are not allowed, the District releases excess recycled water to the Los Angeles River. The discharged recycled water requires water quality monitoring to meet the permitted water quality limits. In an effort to improve water quality, the District's rehabilitation of the reservoir included removal of debris from within the reservoir, installing a membrane liner, and adding shade balls on the water's surface to prevent algae growth with the overall goal of reducing turbidity within the reservoir. The rehabilitation began in October 2014 and was completed in July 2015. Since then, the effluent monitoring station has shown consistent turbidity levels compliant with the EPA's National Pollutant Discharge Elimination System (NPDES) permit requirements.



Reservoir No. 2 before rehabilitation and after with the lining and shade balls

A solar power generating facility is now in place adjacent to District Headquarters in Calabasas. The power generated is used to help pump RW in the LVMWD service area. Installed by Solar City, the solar panels occupy approximately six acres. At peak, one megawatt of power is generated. Solar City owns and maintains the solar installation; LVMWD has entered a fixed-cost power purchase agreement covering a span of 20 years. The projected savings in power costs are expected to exceed \$1 million over the term of the power purchase agreement.



Solar power reduces the need for commercial power demand.

Financial Summary



The District’s Board has retained the services of Pun & McGeedy, LLP to complete a comprehensive audit of the District’s finances and to ensure that it complies with Generally Accepted Accounting Standards (GAAP) and the Governmental Accounting Standards Board (GASB) requirements. For the audit of Fiscal Year 2014-15, the firm presented an “unmodified opinion” that the:

- ✓ Financial Statements are fairly presented in all material respects.
- ✓ Significant accounting policies have been consistently applied.
- ✓ Estimates are reasonable.
- ✓ Disclosures are properly reflected in the financial statements.

A copy of the auditor’s presentation to the Board can be found at www.LVMWD.com/Financial-Reports

FY 2014-15 Budget 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 compares the Districts Fiscal Year 2014-15 revenues and expenses with Fiscal Year 2013-14. Comparison of revenues and expenses illustrates financial trends over the two fiscal years. The table shows the effect of the drought on the District’s financials through the reduction in revenue. Expenses were also reduced but not at the same level due to the District’s fixed costs and capital expenditures.

FY 2014-15 Condensed Statement of Operating Revenues and Expenses:

Operating Revenues (in thousands of dollars)

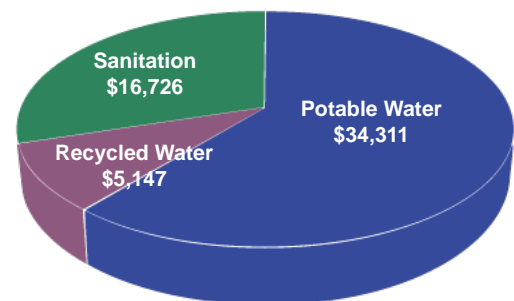
	FY 13-14 Actual	FY 14-15 Actual
Potable Water	\$35,402	\$34,311
Recycled Water	\$6,663	\$5,147
Sanitation	\$16,552	\$16,726
Total Operating Revenue	\$58,617	\$56,184

Operating Expenses (in thousands of dollars)

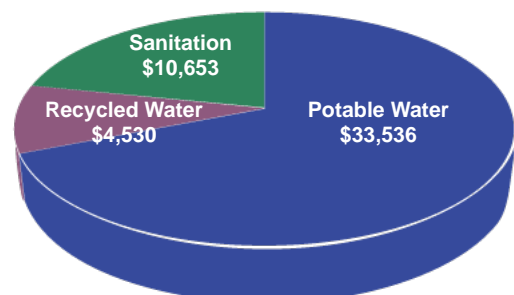
	FY 13-14 Actual	FY 14-15 Actual
Potable Water	\$34,966	\$33,536
Recycled Water	\$3,119	\$4,530
Sanitation*	\$10,692	\$10,653
Total Operating Expense	\$48,777	\$48,719

*Includes LVMWD share of JPA operations

Operating Revenue Sources FY 2014-15 (in thousands of dollars)



Operating Expense Sources FY 2014-15 (in thousands of dollars)



Financial Analysis of the District

The Statement of Net Position is a useful indicator of financial position. The largest portion of LVMWD's net assets reflects its investment in capital assets (land, buildings, machinery, equipment, vehicles). The District's net position decreased by \$0.3 million to \$214.3 million in Fiscal Year 2014-15, which represents an insignificant 0.1% change.

Definitions

Capital Assets: Includes land, buildings, 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: Payments due on LVMWD's 2009 Sanitation Refunding Bond that are more than 12 months in the future.

Other Liabilities: Payments 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.

Condensed Statements of Net Position (In thousands of dollars)

	FY 2015	FY 2014 (as restated)
Current and Other Assets	\$ 77,658	\$ 87,770
Capital Assets	120,949	113,119
Investment in JPA	66,721	68,788
Total Assets	\$ 265,328	\$ 269,677
Deferred Outflow of Resources	\$ 3,045	\$ 3,283
Long-Term Debt Outstanding	20,177	22,281
Net Pension Liability	15,870	21,405
Other Liabilities	13,114	14,647
Total Liabilities	\$ 49,161	\$ 58,333
Net Position:		
Net Investment in Capital Assets,	\$ 100,170	\$ 90,476
Restricted	2,652	4,106
Unrestricted	111,498	120,046
Total Net Position	\$ 214,320	\$ 214,627

The table above shows that Fiscal Year 2013-14 was "restated" due to adjustments caused by the new reporting of Net Pension Liability on the Financial Statements in Fiscal Year 2014-15. Details of the District's pension liability can be found in Note 10 of the Comprehensive Financial Report on the District's website.

Capital Assets

At the end of FY 2014-15, the District had invested \$222.4 million in a broad range of infrastructure, including water and sewer lines, wastewater facilities, reservoirs, tanks, distribution facilities, a compost facility, maintenance and administration facilities, vehicles and equipment, and has an investment of \$66.7 million in its Joint Powers Authority.

Capital Assets (In thousands of dollars)

	FY 2015	FY 2014	Dollar Change	Total Percent Change
Land	\$ 6,915	\$ 6,915	\$ 0	0.00%
Buildings and Improvements	22,018	21,797	221	1.01%
Machinery and Equipment	10,889	10,802	87	0.81%
Infrastructure	165,861	159,138	6,723	4.22%
Construction in Progress	16,737	11,527	5,210	45.20%
Subtotal	\$222,420	\$210,179	\$12,241	5.82%
Less Accumulated Depreciation	101,472	97,060	4,412	4.55%
Net Property, Plant and Equipment	\$120,949	\$113,119	\$7,829	6.92%
Investment in Joint Venture	66,721	68,788	-2,067	-3.00%
Total Capital Assets	\$187,669	\$181,907	\$ 5,762	3.17%

The Condensed Statement of Revenues, Expenses and Net Position summarizes LVMWD's operating and non-operating revenues and expenses. The largest source of revenue is water sales to customers. Total revenues decreased by 4.5% in FY 2014-15, while expenses increased 0.7% during the same period, primarily as a result of reduced water sales caused by mandatory water restrictions imposed during the later portion of the fiscal year.

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.

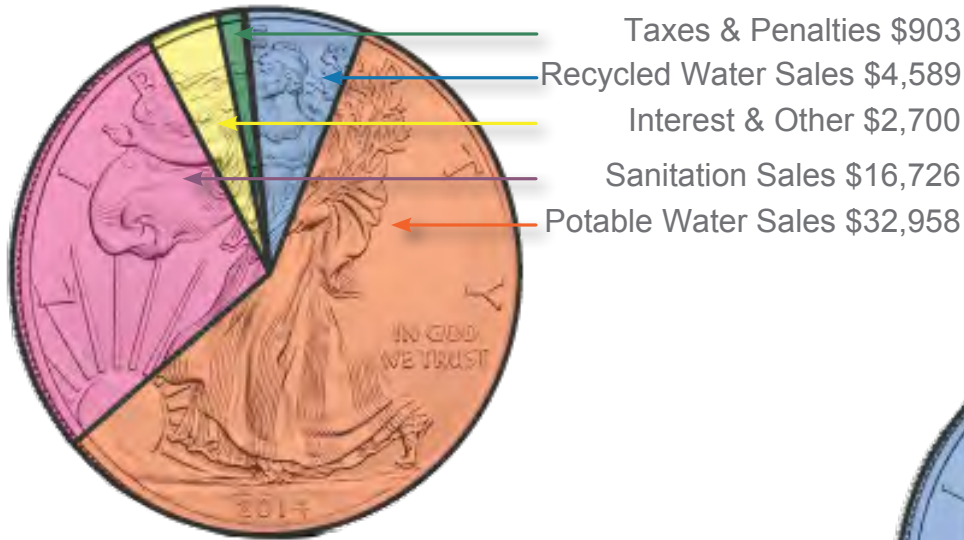
Operating Revenues: Revenues received for the sale of water to customers, services, inspections and programs provided by LVMWD.

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

Condensed Statements of Revenues, Expenses and Changes in Net Position		
(In thousands of dollars)		
	FY 2015	FY 2014 (as restated)
	<hr/>	<hr/>
Operating Revenues:		
Water Sales	\$ 37,547	\$ 41,177
Sanitation and Other	18,637	17,503
Non-operating Revenues:		
Taxes and Penalties	903	892
Interest Income and Other	789	1,013
Total Revenues	\$ 57,876	\$ 60,585
Depreciation Expense	\$ 4,579	\$ 4,617
Other Operating Expenses	39,540	39,532
Share of JPA Net Expenses	13,828	13,602
Non-Operating Expenses	1,226	994
Total Expenses	\$ 59,173	\$ 58,745
Income (Loss) Before Capital Contributions	\$ (1,297)	1,841
Capital Contributions	990	1,540
Change in Net Position	\$ (307)	\$ 3,381
Net Position - Beginning of Year	\$214,627	\$211,246
Net Position - End of Year	\$214,320	\$214,627

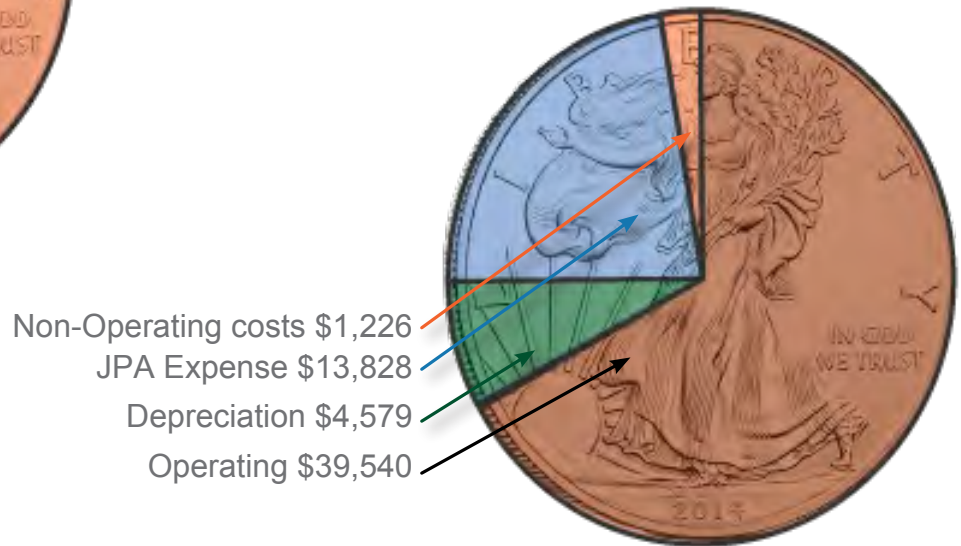
Total Revenues

(in thousands of dollars)



Total Expenses

(in thousands of dollars)



Long Term Debt (Sanitation Enterprise)

LVMWD maintains an “AA” rating from Standard & Poor’s for the refunding of revenue bonds issued for the Sanitation Enterprise. 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 2014-15 was 2.47%.

Debt Coverage Ratio - Sanitation Enterprise (In thousands of dollars)

	FY 2015	FY 2014	Total Percent Change
Revenues:			
Revenues from Operations	\$ 16,726	\$ 16,552	0.20%
Interest Income and Other	234	472	-50.50%
Capacity Fees	462	1,125	-56.00%
Total Revenues	\$ 17,422	\$ 18,149	-4.10%
Total Operating Expenses (less depreciation)	\$ 10,653	\$ 10,692	-0.40%
Net Earnings	\$ 6,769	\$ 7,457	-9.30%
Maximum Annual Debt Service	\$ 2,743	\$ 2,756	-0.50%
Debt Coverage Ratio	2.47	2.71	-7.20%



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