



Crescenta Valley Water District

Annual Financial Report

For the Fiscal Years Ended June 30, 2014 and 2013



Mission Statement

The mission of the Crescenta Valley Water District is to provide dependable water service and wastewater collection to its constituents in La Crescenta, Montrose, and portions of Glendale, and La Canada Flintridge.

Board of Directors as of June 30, 2014

Name	Title	Elected/ Appointed	Current Term
James Bodnar	President	Elected	December 2017
Kathleen Ross	Vice President	Elected	December 2015
Judy Tejeda	Director	Elected	December 2015
Kenneth Putnam	Director	Elected	December 2017
Kerry Erickson	Director	Elected	December 2017

**Dennis A. Erdman, General Manager
Crescenta Valley Water District
2700 Foothill Boulevard
La Crescenta, California 91214
(818) 248-3925 – www.cvwd.com**

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For the Fiscal Years Ended June 30, 2014 and 2013

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Introductory Section



Crescenta Valley Water District

2700 Foothill Boulevard, La Crescenta, California 91214
Phone (818) 248-3925 Fax (818) 248-1659

Directors
Kathleen M. Ross
Judy L. Tejeda
James Bodnar
Kerry Erickson
Kenneth Putnam

Officers
Dennis Erdman P.E.
General Manager
Ron L. Mitchell
Secretary-Treasurer

November 1, 2014

Board of Directors
Crescenta Valley Water District

Introduction

It is our pleasure to submit the Annual Financial Report for the Crescenta Valley Water District (District) for the fiscal years ended June 30, 2014 and 2013, following guidelines set forth by the Governmental Accounting Standards Board. District staff prepared this financial report. The District is ultimately responsible for both the accuracy of the data and the completeness and the fairness of presentation, including all disclosures in this financial report. We believe that the data presented is accurate in all material respects. The report is designed in a manner that we believe necessary to enhance your understanding of the District's financial position and activities.

Generally Accepted Accounting Principles (GAAP) requires that management provide a narrative introduction, overview and analysis to accompany the financial statements in the form of the Management's Discussion and Analysis (MD&A) section. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The District's MD&A can be found immediately after the Independent Auditor's Report.

District Structure and Leadership

The Crescenta Valley Water District is an independent special district, which operates under the authority of Division 12 of the California Water Code. The Crescenta Valley Water District has been providing services to area residents since 1950. The District is governed by a five-member Board of Directors, elected at-large from within the District's service area. The District General Manager administers the day-to-day operations of the District in accordance with policies and procedures established by the Board of Directors. The Crescenta Valley Water District employs a full-time staff of 35 employees. The District's Board of Directors meets on the first and third Tuesday of each month. Meetings are publicly noticed and citizens are encouraged to attend.

The District is located in the Crescenta Valley area of Los Angeles County in the foothills of the San Gabriel Mountains, between the San Fernando and San Gabriel valleys. The District provides water distribution and sewage collection within its boundaries to the unincorporated communities of La Crescenta, Montrose, and Verdugo City as well as a small portion of the City of La Canada-Flintridge. The District also serves a portion of the City of Glendale in Montrose and La Crescenta outside District boundaries.

The District serves an area of approximately 4 square miles in relatively steep terrain ranging from 1,200 feet to almost 3,000 feet above sea level. The customer base is primarily residential with some light commercial along Foothill Boulevard in La Crescenta and Honolulu Avenue in Montrose. The District currently provides water to over 8,000 accounts representing a population of approximately 32,000.

Economic Condition and Outlook

The District's administrative office is located in the Community of La Crescenta, in Los Angeles County. The economic outlook for the area is steady although the Crescenta Valley area is nearly built-out. Residential growth is occurring through increased housing density in the multiple-unit zoned areas (primarily Montrose) as well as limited in-fill housing development on random parcels in La Crescenta.

California's water supply continues to be a concern due to current drought conditions and population increases. This concern, in addition to State mandated reductions, has increased interest in conservation and in irrigation methods and systems.

Major Initiatives

The activities of the Board and staff of the District are driven by its Mission Statement: "The mission of the Crescenta Valley Water District is to provide dependable water service and wastewater collection to its constituents in La Crescenta, Montrose, and portions of Glendale, and La Canada Flintridge."

The mission of the Crescenta Valley Water District is to provide a stable supply of high quality safe drinking water at a fair price to all customers of the District. In addition, the District has the mission to provide reliable sewer service through the City of Los Angeles Sanitation Department. The Board, the staff, and all employees of Crescenta Valley Water District are committed to providing its customers with high quality, cost-effective and environmentally sensitive customer service."

1. To supply clean, wholesome water to the community and provide water for the future.
2. To plan, construct, operate, maintain, and upgrade the water and wastewater systems facilities to adequately serve customer needs.
3. To utilize the District's financial resources in an effective, responsible, and prudent manner.
4. To provide quality customer service for District customers.
5. To inform, educate, and communicate with the community on District and water issues.
6. To review and maintain a plan to be proactive in preventative maintenance of the District's water and sewer systems.

All programs and operations of the District are developed and performed to provide the highest level of services to its customers.

Internal Control Structure

District management is responsible for the establishment and maintenance of the internal control structure that is designed to ensure that the assets of the District are protected from loss, theft, or misuse. The internal control structure also ensures that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The District's internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management.

Budgetary Control

The District Board of Directors adopts an operating and capital budget every year. The budget authorizes and provides the basis for reporting and control of financial operations and accountability for the District's enterprise operations and capital projects. The budget and reporting treatment applied to the District is consistent with the accrual basis of accounting and the financial statement basis.

Investment Policy

The Board of Directors has adopted an investment policy that conforms to state law, District ordinance and resolutions, prudent money management, and the “prudent person” standards. The objective of the Investment Policy is safety, liquidity, and yield.

Water and Sewer Rates and District Revenues

District policy direction ensures that all revenues from user charges and surcharges generated from District customers must support all District operations including capital project funding. Accordingly, water and sewer rates are reviewed periodically. Water and wastewater rates are user charges imposed on customers for services and are the primary component of the District’s revenue. Water rates are composed of a commodity (usage) charge and a fixed (readiness-to-serve) charge. Wastewater rates are a flat charge to all residential dwelling units.

Water Conservation Programs

The District has implemented conservation management practices. District staff participates in community events and distribute materials to encourage water conservation. The District offers the following conservation programs:

- Voluntary Water Conservation Program
- Low-Flow Retrofit Program
- Hi-Efficiency Washers Program
- Turf Removal Rebate Program

Audit and Financial Reporting

State Law and Bond covenants require the District to obtain an annual audit of its financial statements by an independent certified public accountant. The accounting firm of Charles Z. Fedak & Company, CPAs, has conducted the audit of the District’s financial statements. Their unmodified Independent Auditor’s Report appears in the Financial Section.

Risk Management

The District participates in a joint powers agreement with the Association of California Water Agencies Joint Powers Insurance Authority (ACWA/JPA). The District participates in the Liability, Property and Workers’ Compensation programs. The Property program includes Fidelity Coverage and Boiler & Machinery Coverage.

Other References

More information is contained in the Management’s Discussion and Analysis and the Notes to the Basic Financial Statements found in the Financial Section of the report.

Acknowledgements

Preparation of this report was accomplished by the combined efforts of District staff. We appreciate the dedicated efforts and professionalism that these staff members contribute to the District. We would also like to thank the members of the Board of Directors and especially the Finance Committee members for their continued support in planning and implementation of the Crescenza Valley Water District’s fiscal policies.

Respectfully submitted,

Dennis A. Erdman
General Manager

Ron Mitchell
Director of Finance

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Financial Section



Charles Z. Fedak & Company

Certified Public Accountants
An Accountancy Corporation

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Independent Auditor's Report

Board of Directors
Crescenta Valley Water District
La Crescenta, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Crescenta Valley Water District (District) as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Controller's Minimum Audit Requirements for California Special Districts. 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 of the Crescenta Valley Water District, as of June 30, 2014 and 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report, continued

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information on pages 6 through 10 and 34 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 opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section on pages 1 through 3, and the supplemental information schedules on pages 35 through 40, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental information schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information schedules are fairly stated in all material respects in relation to the basic financial statements as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2014 on our consideration of the District'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 District's internal control over financial reporting and compliance.

Charles Z. Fedak: Company CPAs - An Accountancy Corporation

Charles Z. Fedak & Company, CPAs – An Accountancy Corporation

Cypress, California

November 1, 2014

Crescenta Valley Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2014 and 2013

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Crescenta Valley Water District (District) provides an introduction to the financial statements of the District for the fiscal years ended June 30, 2014 and 2013. We encourage readers to consider the information presented here in conjunction with the transmittal letter in the Introductory Section and with the basic financial statements and related notes, which follow this section.

Financial Highlights

- The District's net position increased 13.00%, or \$5,897,576 to \$51,258,662, in fiscal year 2014. In 2013, the District's net position increased 13.24%, or \$5,305,298 to \$45,361,086.
- The District's operating revenues increased 7.76% or \$909,686, in fiscal year 2014. In 2013, the District's operating revenues increased 12.21% or \$1,275,482.
- The District's operating expenses increased 12.29%, or \$1,506,981, in fiscal year 2014. In 2013, the District's operating expenses increased 2.59%, or \$309,450, in fiscal year 2013.

Required Financial Statements

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

The District's statements consist of two funds, the Water Fund and the Sewer Fund. The District's records are maintained on an enterprise basis, as it is the intent of the Board of Directors that the costs of providing water and sewer to the customers of the District are financed primarily through user charges.

The Statement of Net Position includes all of the District's investments in resources (assets), deferred outflows of resources, the obligations to creditors (liabilities), and deferred inflows of resources. It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenue and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of the District's operations over the past year and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate sustainability and credit worthiness. The final required financial statement is the Statement of Cash Flows, which provides information about the District's cash receipts and cash payments during the reporting period. The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities, as well as providing answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Analysis of the District

One of the most important questions asked about the District's finances is, "Is the District 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 District in a way that helps answer this question. These statements include all assets, deferred outflow, liabilities, and deferred inflows using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

Crescenta Valley Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2014 and 2013

Financial Analysis of the District, continued

These two statements report the District's *net position* and changes in them. One can think of the District's net position (the difference between assets and deferred outflows, and liabilities and deferred inflows), as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net position is one indicator of whether its *financial health* is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, zoning and new or changed government legislation, such as changes in Federal and State water quality standards.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 15 through 33.

Statements of Net Position

Condensed Statements of Net Position			
	2014	2013	Change
Assets:			
Current assets	\$ 8,944,882	7,290,230	1,654,652
Non-current assets	12,393,137	7,257,400	5,135,737
Capital assets, net	<u>42,545,318</u>	<u>42,943,248</u>	<u>(397,930)</u>
Total assets	<u>63,883,337</u>	<u>57,490,878</u>	<u>6,392,459</u>
Liabilities:			
Current liabilities	1,418,468	1,235,272	183,196
Non-current liabilities	<u>11,206,207</u>	<u>10,894,520</u>	<u>311,687</u>
Total liabilities	<u>12,624,675</u>	<u>12,129,792</u>	<u>494,883</u>
Net position:			
Net investment in capital assets	33,912,088	34,093,945	(181,857)
Restricted	617,105	617,099	6
Unrestricted	<u>16,729,469</u>	<u>10,650,042</u>	<u>6,079,427</u>
Total net position	<u>\$ 51,258,662</u>	<u>45,361,086</u>	<u>5,897,576</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of the District exceeded liabilities by \$51,258,662 and \$45,361,086 as of June 30, 2014 and 2013, respectively.

By far the largest portion of the District's net position (66% and 75% as of June 30, 2014 and 2013, respectively) reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are not available for future spending. See Note 11 for further information.

Crescenta Valley Water District
Management's Discussion and Analysis
 For the Fiscal Years Ended June 30, 2014 and 2013

Statements of Net Position, continued

At the end of fiscal year 2014 and 2013, the District showed a positive balance in its unrestricted net position of \$16,729,469 and \$10,650,042, respectively. See Note 11 for the amount of spendable net position that may be utilized in future years.

Statements of Revenues, Expenses, and Changes in Net Position

Condensed Statements of Revenues, Expenses and Changes in Net Position

	2014	2013	Change
Revenues:			
Operating revenues	\$ 12,629,072	11,719,386	909,686
Non-operating revenues	<u>7,328,776</u>	<u>6,309,409</u>	<u>1,019,367</u>
Total revenues	<u>19,957,848</u>	<u>18,028,795</u>	<u>1,929,053</u>
Expenses:			
Operating expenses	13,770,683	12,263,702	1,506,981
Non-operating expenses	<u>395,813</u>	<u>519,709</u>	<u>(123,896)</u>
Total expenses	<u>14,166,496</u>	<u>12,783,411</u>	<u>1,383,085</u>
Net income before capital contributions	5,791,352	5,245,384	545,968
Capital contributions	<u>106,224</u>	<u>59,914</u>	<u>46,310</u>
Change in net position	<u>5,897,576</u>	<u>5,305,298</u>	<u>592,278</u>
Net position – beginning of year	<u>45,361,086</u>	<u>40,055,788</u>	<u>5,305,298</u>
Net position – end of year	<u>\$ 51,258,662</u>	<u>45,361,086</u>	<u>5,897,576</u>

The statements of revenues, expenses and changes of net position show how the District's net position changed during the fiscal years. In the case of the District, net position increased by \$5,897,576 and increased by \$5,305,298, for the fiscal years ended June 30, 2014 and 2013, respectively.

A closer examination of the sources of changes in net position reveals that:

In 2014, the District's total revenues increased by 10.70%, or \$1,929,053, primarily due to an increase in non-operating revenues of \$1,019,367, related to an increase in investment earnings of \$738,960, and payment on a legal settlement of \$6,872,846. Operating revenues increased by \$909,686 due an increase of \$597,077 in water operation consumption charges, and \$312,609 increase in wastewater user and standby charges.

In 2013, the District's total revenues increased by 71.22%, or \$7,499,274, primarily due to an increase in non-operating revenues of \$6,223,792, related to a legal settlement in the amount of \$6,595,563 which was offset by a decrease in investment earnings of \$316,154 that was related to a fair-market-value adjustment on investments held by the District. Operating revenues increased by \$1,275,482 primarily due to an increase in water operation consumption charges of \$825,815, and a \$198,230 increase in wastewater user and standby charges.

In 2014, the District's total expenses increased by 10.82%, or \$1,383,085. The District's operating expenses increased by \$1,506,981 as follows: a \$917,132 increase in source of supply expenses, a \$291,720 increase in distribution system expenses, a \$49,125 increase in costs associated with the discharge of treated water into the City of Los Angeles wastewater system, an \$112,355 increase in collection system expenses, and a \$128,361 increase in general and administrative expenses. Offsetting these increases were decreases in plant operating expenses of \$8,278.

Crescenta Valley Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2014 and 2013

Statements of Revenues, Expenses, and Changes in Net Position, continued

In 2014, non-operating expenses decreased by 23.84%, or \$123,896, primarily due to a \$76,351 decrease in other expenses and a \$40,786 decrease in interest expense.

In 2013, the District's total expenses increased by 2.68%, or \$333,354. The District's operating expenses increased by \$309,450 in the following operating expenses: a \$178,394 in source of supply expenses, an \$89,664 increase in plant operations expenses, \$53,081 increase in distribution system costs, and \$110,649 increase in costs associated with the discharge of treated water into the City of Los Angeles wastewater system. Offsetting these increases, were decreases in the following operating expenses: \$60,850 in collection system expenses and \$93,491 in general and administrative expenses. Non-operating expenses increased by 4.82%, or \$23,904, primarily due to a \$52,080 increase in other expenses which was offset by a \$34,935 decrease in interest expense.

In 2014 and 2013, capital contributions amounted to \$106,224 and \$59,914, respectively as the result of construction activity within the District's service area.

Capital Asset Administration

At the end of fiscal years 2014 and 2013, the District's investment in capital assets amounted to \$42,545,318 and \$42,943,248, respectively, (net of accumulated depreciation). This investment in capital assets includes land, transmission and distribution systems, collection systems, buildings and structures, equipment, and vehicles, etc. Major capital assets additions during the year included upgrades to the District's water operations production and transmission and distribution systems.

Changes in capital asset amounts for 2014 are as follows:

	Balance 2013	Additions	Transfers/ Deletions	Balance 2014
Capital assets:				
Non-depreciable assets	\$ 2,024,915	1,430,603	(235,539)	3,219,979
Depreciable assets	75,857,888	361,476	(64,213)	76,155,151
Accumulated depreciation	<u>(34,939,555)</u>	<u>(1,954,470)</u>	<u>64,213</u>	<u>(36,829,812)</u>
Total capital assets, net	\$ 42,943,248	<u>(162,391)</u>	<u>(235,539)</u>	<u>42,545,318</u>

Changes in capital asset amounts for 2013 are as follows:

	Balance 2012	Additions	Transfers/ Deletions	Balance 2013
Capital assets:				
Non-depreciable assets	\$ 1,386,415	1,092,070	(453,570)	2,024,915
Depreciable assets	76,749,987	751,659	(1,643,758)	75,857,888
Accumulated depreciation	<u>(34,628,383)</u>	<u>(1,938,404)</u>	<u>1,627,232</u>	<u>(34,939,555)</u>
Total capital assets, net	\$ 43,508,019	<u>(94,675)</u>	<u>(470,096)</u>	<u>42,943,248</u>

(See note 5 for further discussion)

Crescenta Valley Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2014 and 2013

Debt Administration

Long-term debt at June 30, 2014, is summarized as follows:

	2013	Additions	Payments	2014
2007 Series COP	\$ 9,060,000	-	(225,000)	8,835,000
Less: current portion	(225,000)			(235,000)
Discount on debt	<u>(210,697)</u>			<u>(201,770)</u>
Long-term portion	<u>\$ 8,624,303</u>			<u>8,398,230</u>

Long-term debt at June 30, 2013, is summarized as follows:

	2012	Additions	Payments	2013
2007 Series COP	\$ 9,280,000	-	(220,000)	9,060,000
Less: current portion	(220,000)			(225,000)
Discount on debt	<u>(219,624)</u>			<u>(210,697)</u>
Long-term portion	<u>\$ 8,840,376</u>			<u>8,624,303</u>

(See note 7 for further discussion)

Conditions Affecting Current Financial Position

Management is unaware of any conditions at June 30, 2014, that would have a significant impact on the District's financial position, net position, or operating results in terms of past, present and future.

Requests for Information

This financial report is designed to provide the District's funding sources, customers, stakeholders and other interested parties with an overview of the District'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 Dennis A. Erdman, General Manager of Crescenta Valley Water District, 2700 Foothill Blvd., La Crescenta, California, 91214.

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Basic Financial Statements

Crescenta Valley Water District
Statements of Net Position
June 30, 2014 and 2013

	2014	2013
Current assets:		
Cash and cash equivalents (note 2)	\$ 6,350,755	4,854,754
Accrued interest receivable	47,810	27,106
Accounts receivable – water and wastewater, net (note 3)	2,240,323	2,055,857
Accounts receivable – other	5,492	13,510
Materials and supplies inventory	258,300	298,135
Prepaid expenses and other deposits	42,202	40,868
Total current assets	<u>8,944,882</u>	<u>7,290,230</u>
Non-current assets:		
Investments (note 2)	11,776,032	6,640,301
Investments – restricted (note 2)	617,105	617,099
Capital assets – not being depreciated (note 5)	3,219,979	2,024,915
Depreciable capital assets (note 5)	<u>39,325,339</u>	<u>40,918,333</u>
Total non-current assets	<u>54,938,455</u>	<u>50,200,648</u>
Total assets	<u>63,883,337</u>	<u>57,490,878</u>
Current liabilities:		
Accounts payable and accrued expenses	840,241	670,497
Accrued wages and related payables	23,215	19,167
Customer deposits	204,728	179,947
Accrued interest expense	31,520	32,270
Long-term liabilities – due within one year:		
Compensated absences (note 6)	83,764	108,391
Certificates of participation (note 7)	<u>235,000</u>	<u>225,000</u>
Total current liabilities	<u>1,418,468</u>	<u>1,235,272</u>
Non-current liabilities:		
Long-term liabilities – due in more than one year:		
Compensated absences (note 6)	251,292	325,172
Other post employment benefits payable (note 10)	2,556,685	1,945,045
Certificates of participation, net (note 7)	<u>8,398,230</u>	<u>8,624,303</u>
Total non-current liabilities	<u>11,206,207</u>	<u>10,894,520</u>
Total liabilities	<u>12,624,675</u>	<u>12,129,792</u>
Net position: (note 11)		
Net Investment in capital assets	33,912,088	34,093,945
Restricted for debt service	617,105	617,099
Unrestricted	<u>16,729,469</u>	<u>10,650,042</u>
Total net position	<u>\$ 51,258,662</u>	<u>45,361,086</u>

See accompanying notes to the basic financial statements

Crescenta Valley Water District
Statements of Revenues, Expenses, and Changes in Net Position
For the Fiscal Years Ended June 30, 2014 and 2013

	2014	2013
Operating revenues:		
Water operations – consumption sales	\$ 7,026,866	6,530,258
Water operations – service charge	1,731,323	1,633,352
Water operations – other charges	628,393	625,895
Wastewater operations – user and standby charges	3,241,490	2,928,381
Wastewater operations – other charges	1,000	1,500
Total operating revenues	12,629,072	11,719,386
Operating expenses:		
Source of supply – water purchases	3,150,800	2,233,668
Plant operations	2,069,724	2,078,002
Distribution system	1,363,315	1,071,595
City of Los Angeles wastewater system	914,177	865,052
Collection system	303,112	190,757
General and administrative expenses	4,015,085	3,886,224
Total operating expenses before depreciation	11,816,213	10,325,298
Operating income before depreciation	812,859	1,394,088
Depreciation expense	(1,954,470)	(1,938,404)
Operating loss	(1,141,611)	(544,316)
Non-operating revenues (expenses):		
Investment earnings	422,806	(316,154)
Gain(loss) on sale of capital assets	4,360	(6,759)
Interest expense	(386,488)	(427,274)
Rental income	28,764	30,000
MTBE settlement, net (note 12)	6,872,846	6,595,563
Other income (expense), net	(9,325)	(85,676)
Total non-operating expenses, net	6,932,963	5,789,700
Net income before capital contributions	5,791,352	5,245,384
Capital contributions		
Capital grants – State	76,409	-
Assessments	29,815	59,914
Total capital contributions	106,224	59,914
Changes in net position	5,897,576	5,305,298
Net position – beginning of year	45,361,086	40,055,788
Net position – end of year	\$ 51,258,662	45,361,086

See accompanying notes to the basic financial statements

Crescenta Valley Water District
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Cash receipts from customers for water sales and services	\$ 12,452,624	11,574,520
Cash paid to employees for salaries and wages	(2,662,165)	(2,516,547)
Cash paid to vendors and suppliers for materials and services	<u>(8,382,918)</u>	<u>(7,373,769)</u>
Net cash provided by operating activities	<u>1,407,541</u>	<u>1,684,204</u>
Cash flows from non-capital financing activities:		
Proceeds from settlement	6,872,846	6,595,563
Principal paid on pension-related debt	<u>-</u>	<u>(720,992)</u>
Net cash provided by non-capital financing activities	<u>6,872,846</u>	<u>5,874,571</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(1,537,457)	(1,364,017)
Proceeds from property owner assessments	29,815	59,914
Principal paid on long-term debt	(225,000)	(220,000)
Interest paid on long-term debt	<u>(354,968)</u>	<u>(395,004)</u>
Net cash used in capital and related financing activities	<u>(2,087,610)</u>	<u>(1,919,107)</u>
Cash flows from investing activities:		
Purchases of investments	(48,056,164)	(16,975,000)
Proceeds from sale of investments	43,159,932	14,939,454
Interest earnings	<u>199,456</u>	<u>158,088</u>
Net cash used in investing activities	<u>(4,696,776)</u>	<u>(1,877,458)</u>
Net decrease in cash and cash equivalents	1,496,001	3,762,210
Cash and cash equivalents, beginning of year	<u>4,854,754</u>	<u>1,092,544</u>
Cash and cash equivalents, end of year	<u>\$ 6,350,755</u>	<u>4,854,754</u>

Continued on next page

See accompanying notes to the basic financial statements

Crescenta Valley Water District
Statements of Cash Flows, continued
For the Fiscal Years Ended June 30, 2014 and 2013

	2014	2013
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (1,141,611)	<u>(544,316)</u>
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Deprecation	1,954,470	1,938,404
Non-operating, net	20,923	(62,444)
Changes in assets and liabilities:		
(Increase)Decrease in assets:		
Accounts receivable – water and wastewater, net	(184,466)	(158,888)
Accounts receivable – other	8,018	14,022
Materials and supplies inventory	39,835	(80,017)
Prepaid expenses and other deposits	(1,334)	(591)
Increase(Decrease) in liabilities:		
Accounts payable and accrued expenses	169,744	13,414
Accrued wages and related payables	4,048	(6,836)
Customer deposits	24,781	(10,597)
Compensated absences	(98,507)	9,797
Other post employment benefits payable	611,640	572,256
Total adjustments	<u>2,549,152</u>	<u>2,228,520</u>
Net cash provided by operating activities	<u>\$ 1,407,541</u>	<u>1,684,204</u>
Non-cash investing, capital and financing transactions:		
Change in fair-market value of funds deposited with LAIF	<u>\$ (204)</u>	<u>(32)</u>

See accompanying notes to the basic financial statements

Crescenta Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2014 and 2013

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The Crescenta Valley Water District is an independent special district, which operates under the authority of Division 12 of the California Water Code. The Crescenta Valley Water District has been providing water and sewer service to the residents of the La Crescenta/Montrose area since 1950. The District is governed by a five-member Board of Directors who serves overlapping four-year terms.

B. Basis of Accounting and Measurement Focus

The District 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 District is that the costs of providing water and sewer services to its customers on a continuing basis be financed or recovered primarily through user charges (water and sewer service fees). 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 related cash flows take place.

Operating revenues and expenses, such as water sales and water purchases, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Management, administration and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses.

The District recognizes revenue from water and sewer service charges based on cycle billings preformed bi-monthly. The District accrues revenues with respect to water and sewer service sold but not billed at the end of a fiscal period.

C. Financial Reporting

The District's basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applied to enterprise funds. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District solely operates as a special-purpose government which means it is only engaged in business-type activities; accordingly, activities are reported in the District's proprietary fund.

Crescenta Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2014 and 2013

(1) Reporting Entity and Summary of Significant Accounting Policies

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position

1. Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in net position during the reporting period.

2. Cash and Cash Equivalents

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

3. Investments and Investment Policy

The District has adopted an investment policy directing the Director of Finance to deposit funds in financial institutions. Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

4. Accounts Receivable

The District extends credit to customers in the normal course of operations. When Management deems a customer account uncollectable, the District uses the allowance method for the reservation and write-off of those accounts.

5. Prepaid Expenses

Certain payments to vendors reflects costs or deposits applicable to future accounting periods and are recorded as prepaid items in the basic financial statements.

6. Inventory

Inventory consists primarily of materials used in construction and maintenance of the water and sewer system and is stated at cost using the average-cost method.

7. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at \$5,000. Contributed assets are recorded at estimated fair market value at the date of contribution. 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:

• Sewer facilities	40 to 50 years
• Water facilities	50 years
• Buildings	5 to 10 years
• Joint-use-facilities	40 to 50 years
• Meters	5 to 15 years
• Office equipment	3 to 15 years
• Maintenance facilities	5 to 15 years

Crescenta Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2014 and 2013

(1) Reporting Entity and Summary of Significant Accounting Policies, continued
D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position, continued

8. Compensated Absences

The District's policy is to permit employees to accumulate earned vacation and sick leave according to the number of years of service with the District. The liability for vested vacation and sick leave is recorded as an expense when earned and become vested, in accordance with District policy.

9. Net Position

The District follows the financial reporting requirements of the GASB and reports net position under the following classifications:

- *Net Investment in Capital Assets Component of Net Position*– 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. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt is included in this component of net position
- *Restricted Component of Net Position* – This component of net position consists of assets that have restrictions placed upon their use by external constraints imposed either by creditors (debt covenants), grantors, contributors, or laws and regulations of other governments or constraints imposed by law through enabling legislation.
- *Unrestricted Component of Net Position* – This component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the net investment in capital assets or restricted component of net position.

10. Deposit Connection Fees

Connection fees are collected by the District to cover the cost of service connections within the District.

11. Water and Sewer Service Charges

The District recognizes water and sewer services charges based on cycle billings rendered to the customers on a bi-monthly basis.

12. Capital Contributions

Capital contributions represent cash and capital asset additions contributed to the District by property owners or real estate developers desiring services that require capital expenditures or capacity commitment.

13. Budgetary Policies

The District adopts a one year non-appropriated budget for planning, control, and evaluation purposes. Budgetary control and evaluation are affected by comparisons of actual revenues and expenses with planned revenues and expenses for the period. Encumbrance accounting is not used to account for commitments related to unperformed contracts for construction and services.

Crescenta Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2014 and 2013

(2) Cash and Investments

Cash and investments as of June 30, are classified in the Statement of Net Assets as follows:

	2014	2013
Cash and cash equivalents	\$ 6,350,755	4,854,754
Investments	11,776,032	6,640,301
Investments – restricted	<u>617,105</u>	<u>617,099</u>
Total cash and investments	<u><u>\$ 18,743,892</u></u>	<u><u>12,112,154</u></u>

Cash and investments as of June 30, consist of the following:

	2014	2013
Cash on hand	\$ 800	800
Deposits with financial institutions	3,719,597	1,244,657
Investments	<u>15,023,495</u>	<u>10,866,697</u>
Total cash and investments	<u><u>\$ 18,743,892</u></u>	<u><u>12,112,154</u></u>

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 LAIF).

The California Government Code and the District'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 District 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 District's name.

Investment in State Investment Pool

The District is a voluntary participant in the Local District Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

Crescenta Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2014 and 2013

(2) Cash and Investments, continued

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 that the District 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 District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity date:

Maturities of investments at June 30, 2014 were as follows:

Investment Type	Total	Remaining Maturity (in Months)			
		12 Months Or Less	13 to 24 Months	25-60 Months	61-120 Months
U.S Treasury Notes	\$ 3,887,970	-	-	995,000	2,892,970
Federal Farm Credit Bank Bonds	7,887,661	-	-	1,988,180	5,899,481
Local Agency Investment Fund	2,568,046	2,568,046	-	-	-
Money Market Funds	679,818	679,818	-	-	-
Total	\$ 15,023,495	3,247,864	-	2,983,180	8,792,451

Maturities of investments at June 30, 2013 were as follows:

Investment Type	Total	Remaining Maturity (in Months)			
		12 Months Or Less	13 to 24 Months	25-60 Months	61-120 Months
U.S Treasury Notes	\$ 1,873,120	-	-	1,873,120	-
Federal Farm Credit Bank Bonds	4,767,180	-	-	4,767,180	-
Local Agency Investment Fund	3,558,139	3,558,139	-	-	-
Money Market Funds	668,258	668,258	-	-	-
Total	\$ 10,866,697	4,226,397	-	6,640,300	-

Credit Risk

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 District's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

Credit ratings of investments as of June 30, 2014, were as follows:

Investment Types	Total	Minimum Legal Rating	Rating as of Year End		
		AAA	AA+	Not Rated	
U.S Treasury Notes	\$ 3,887,970	A	\$ -	3,887,970	-
Federal Farm Credit Bank Bonds	7,887,661	A	-	7,887,661	-
Local Agency Investment Fund	2,568,046	N/A	-	-	2,568,046
Money Market Funds	679,818	AAA	679,818	-	-
Total	\$ 15,023,495		\$ 679,818	11,775,631	2,568,046

Crescenta Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2014 and 2013

(2) Cash and Investments, continued

Credit Risk, continued

Credit ratings of investments as of June 30, 2013, were as follows:

Investment Types	Total	Minimum Legal Rating	Rating as of Year End		
			AAA	AA+	Not Rated
U.S Treasury Notes	\$ 1,873,120	A	\$ -	1,873,120	-
Federal Farm Credit Bank Bonds	4,767,180	A	-	4,767,180	-
Local Agency Investment Fund	3,558,139	N/A	-	-	3,558,139
Money Market Funds	668,258	AAA	668,258	-	-
Total	\$ <u>10,866,697</u>		\$ <u>668,258</u>	<u>6,640,300</u>	<u>3,558,139</u>

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code.

(3) Accounts Receivable – Water and Wastewater, net

Accounts receivable – water and wastewater, net as of June 30, are as follows:

	2014	2013
Accounts receivable – water and wastewater	\$ 2,245,836	2,059,517
Allowance for doubtful accounts	<u>(5,513)</u>	<u>(3,660)</u>
Accounts receivable – water and wastewater, net	<u>\$ 2,240,323</u>	<u>2,055,857</u>

(4) Deferred Charges

On December 1, 2006, upon the issuance of the 2007 Certificates of Participation the District incurred costs amounting to \$115,187, which have been capitalized and amortized over the term of the bonds using the straight-line method. In fiscal year 2013, the District implemented GASB No. 65 fully amortizing the remaining balance in full.

(5) Capital Assets

Capital assets at June 30, 2014, are summarized as follows:

	Balance 2013	Additions/ Transfers	Deletions/ Transfers	Balance 2014
Non-depreciable assets:				
Water operations	\$ 2,012,203	1,411,521	(209,907)	3,213,817
Wastewater operations	<u>12,712</u>	<u>19,082</u>	<u>(25,632)</u>	<u>6,162</u>
Total non-depreciable assets	<u>2,024,915</u>	<u>1,430,603</u>	<u>(235,539)</u>	<u>3,219,979</u>
Depreciable assets, net:				
Water operations	20,308,484	(841,316)	-	19,467,168
Wastewater operations	<u>20,609,849</u>	<u>(751,678)</u>	<u>-</u>	<u>19,858,171</u>
Total depreciable capital assets, net	<u>40,918,333</u>	<u>(1,592,994)</u>	<u>-</u>	<u>39,325,339</u>
Total capital assets, net	<u>\$ 42,943,248</u>			<u>42,545,318</u>

Crescenta Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2014 and 2013

(5) Capital Assets, continued

Changes for water operations capital assets in 2014, were as follows:

	Balance 2013	Additions/ Transfers	Deletions/ Transfers	Balance 2014
Non-depreciable assets:				
Land	\$ 1,158,526	-	-	1,158,526
Construction-in progress	<u>853,677</u>	1,411,521	(209,907)	<u>2,055,291</u>
Total non-depreciable assets	<u>2,012,203</u>	1,411,521	(209,907)	<u>3,213,817</u>
Depreciable assets:				
Production equipment	7,006,012	129,535	-	7,135,547
Distribution equipment	27,513,231	51,343	-	27,564,574
Groundwater reclamation plant	2,642,127	-	-	2,642,127
Autos and trucks	849,195	93,440	(48,160)	894,475
Office equipment	571,660	61,526	-	633,186
Office building	<u>548,360</u>	-	-	<u>548,360</u>
Total depreciable assets	<u>39,130,585</u>	335,844	(48,160)	<u>39,418,269</u>
Accumulated depreciation:				
Production equipment	(3,332,687)	(331,114)	-	(3,663,801)
Distribution equipment	(12,091,877)	(590,469)	-	(12,682,346)
Groundwater reclamation plant	(2,077,126)	(105,685)	-	(2,182,811)
Autos and trucks	(698,227)	(72,649)	48,160	(722,716)
Office equipment	(422,030)	(66,193)	-	(488,223)
Office building	<u>(200,154)</u>	(11,050)	-	<u>(211,204)</u>
Total accumulated depreciation	<u>(18,822,101)</u>	(1,177,160)	48,160	<u>(19,951,101)</u>
Total depreciable assets, net	<u>20,308,484</u>	<u>(841,316)</u>	<u>-</u>	<u>19,467,168</u>
Total capital assets, net	<u>\$ 22,320,687</u>			<u>22,680,985</u>

Changes in 2014, for water operations capital assets consisted primarily in additions of \$129,535 in water production equipment, \$51,343 in water distribution equipment, \$93,439 in autos and trucks, and \$61,526 in office equipment. Deletions in 2014 include \$48,160 in autos and trucks.

Crescenta Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2014 and 2013

(5) Capital Assets, continued

Changes for wastewater operations capital assets in 2014, were as follows:

	Balance 2013	Additions/ Transfers	Deletions/ Transfers	Balance 2014
Non-depreciable assets:				
Construction-in progress	\$ 12,712	19,082	(25,632)	6,162
Total non-depreciable assets	<u>12,712</u>	<u>19,082</u>	<u>(25,632)</u>	<u>6,162</u>
Depreciable assets:				
Wastewater collection system				
Interceptor	4,958,842	-	-	4,958,842
Unit 1	11,262,414	14,912	-	11,277,326
Unit 2	19,891,101	-	-	19,891,101
Tools and lab equipment	30,381	-	-	30,381
Autos and trucks	499,281	-	(16,053)	483,228
Safety equipment	6,569	-	-	6,569
Booster building	69,160	-	-	69,160
Office equipment	9,555	10,720	-	20,275
Total depreciable assets	<u>36,727,303</u>	<u>25,632</u>	<u>(16,053)</u>	<u>36,736,882</u>
Accumulated depreciation:				
Wastewater collection system				
Interceptor	(2,151,581)	(99,182)	-	(2,250,763)
Unit 1	(4,880,093)	(259,840)	-	(5,139,933)
Unit 2	(8,544,710)	(406,530)	-	(8,951,240)
Tools and lab equipment	(27,882)	(1,000)	-	(28,882)
Autos and trucks	(491,105)	(6,324)	16,053	(481,376)
Safety equipment	(3,631)	(657)	-	(4,288)
Booster building	(10,105)	(2,305)	-	(12,410)
Office equipment	(8,347)	(1,472)	-	(9,819)
Total accumulated depreciation	<u>(16,117,454)</u>	<u>(777,310)</u>	<u>16,053</u>	<u>(16,878,711)</u>
Total depreciable capital assets, net	<u>20,609,849</u>	<u>(751,678)</u>	<u>-</u>	<u>19,858,171</u>
Total capital assets, net	<u>\$ 20,622,561</u>			<u>19,864,333</u>

Changes in 2014, for wastewater operations capital assets consisted of \$14,912 in interceptor unit 1 upgrades. Deletions in 2014 include \$16,053 in autos and trucks.

Crescenta Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2014 and 2013

(5) Capital Assets, continued

Capital assets at June 30, 2013, are summarized as follows:

	Balance 2012	Additions/ Transfers	Deletions/ Transfers	Balance 2013
Non-depreciable assets:				
Water operations	\$ 1,349,157	1,046,286	(383,240)	2,012,203
Wastewater operations	<u>37,258</u>	<u>45,784</u>	<u>(70,330)</u>	<u>12,712</u>
Total non-depreciable assets	<u>1,386,415</u>	<u>1,092,070</u>	<u>(453,570)</u>	<u>2,024,915</u>
Depreciable assets, net:				
Water operations	20,806,501	(481,499)	(16,518)	20,308,484
Wastewater operations	<u>21,315,103</u>	<u>(705,246)</u>	<u>(8)</u>	<u>20,609,849</u>
Total depreciable capital assets, net	<u>42,121,604</u>	<u>(1,186,745)</u>	<u>(16,526)</u>	<u>40,918,333</u>
Total capital assets, net	<u>\$ 43,508,019</u>			<u>42,943,248</u>

Changes for water operations capital assets in 2013, were as follows:

	Balance 2012	Additions/ Transfers	Deletions/ Transfers	Balance 2013
Non-depreciable assets:				
Land	\$ 1,158,526	-	-	1,158,526
Construction-in progress	<u>190,631</u>	<u>1,046,286</u>	<u>(383,240)</u>	<u>853,677</u>
Total non-depreciable assets	<u>1,349,157</u>	<u>1,046,286</u>	<u>(383,240)</u>	<u>2,012,203</u>
Depreciable assets:				
Production equipment	8,038,592	260,682	(1,293,262)	7,006,012
Distribution equipment	27,429,465	254,044	(170,278)	27,513,231
Groundwater reclamation plant	2,642,127	-	-	2,642,127
Autos and trucks	745,614	124,458	(20,877)	849,195
Office equipment	625,503	42,144	(95,987)	571,660
Office building	<u>548,360</u>	<u>-</u>	<u>-</u>	<u>548,360</u>
Total depreciable assets	<u>40,029,661</u>	<u>681,328</u>	<u>(1,580,404)</u>	<u>39,130,585</u>
Accumulated depreciation:				
Production equipment	(4,284,667)	(334,070)	1,286,050	(3,332,687)
Distribution equipment	(11,675,941)	(586,214)	170,278	(12,091,877)
Groundwater reclamation plant	(1,971,441)	(105,685)	-	(2,077,126)
Autos and trucks	(668,263)	(50,841)	20,877	(698,227)
Office equipment	(433,743)	(74,968)	86,681	(422,030)
Office building	<u>(189,105)</u>	<u>(11,049)</u>	<u>-</u>	<u>(200,154)</u>
Total accumulated depreciation	<u>(19,223,160)</u>	<u>(1,162,827)</u>	<u>1,563,886</u>	<u>(18,822,101)</u>
Total depreciable assets, net	<u>20,806,501</u>	<u>(481,499)</u>	<u>(16,518)</u>	<u>20,308,484</u>
Total capital assets, net	<u>\$ 22,155,658</u>			<u>22,320,687</u>

Changes in 2013, for water operations capital assets consisted primarily in additions of \$260,682 in water production equipment, \$254,044 in water distribution equipment, \$124,458 in autos and trucks, and \$42,144 in office equipment. Deletions in 2013 include \$1,293,262 in production equipment, \$170,278 in distribution equipment, \$95,987 in office equipment, and \$20,877 in autos and trucks.

Crescenta Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2014 and 2013

(5) Capital Assets, continued

Changes for wastewater operations capital assets in 2013, were as follows:

	<u>Balance 2012</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2013</u>
Non-depreciable assets:				
Construction-in progress	\$ 37,258	45,784	(70,330)	12,712
Total non-depreciable assets	<u>37,258</u>	<u>45,784</u>	<u>(70,330)</u>	<u>12,712</u>
Depreciable assets:				
Wastewater collection system				
Interceptor	4,953,835	5,007	-	4,958,842
Unit 1	11,197,090	65,324	-	11,262,414
Unit 2	19,891,101	-	-	19,891,101
Tools and lab equipment	36,776	-	(6,395)	30,381
Autos and trucks	506,240	-	(6,959)	499,281
Safety equipment	6,569	-	-	6,569
Booster building	119,160	-	(50,000)	69,160
Office equipment	9,555	-	-	9,555
Total depreciable assets	<u>36,720,326</u>	<u>70,331</u>	<u>(63,354)</u>	<u>36,727,303</u>
Accumulated depreciation:				
Wastewater collection system				
Interceptor	(2,052,649)	(98,932)	-	(2,151,581)
Unit 1	(4,624,265)	(255,828)	-	(4,880,093)
Unit 2	(8,138,181)	(406,529)	-	(8,544,710)
Tools and lab equipment	(33,152)	(1,125)	6,395	(27,882)
Autos and trucks	(489,117)	(8,947)	6,959	(491,105)
Safety equipment	(2,974)	(657)	-	(3,631)
Booster building	(56,958)	(3,139)	49,992	(10,105)
Office equipment	(7,927)	(420)	-	(8,347)
Total accumulated depreciation	<u>(15,405,223)</u>	<u>(775,577)</u>	<u>63,346</u>	<u>(16,117,454)</u>
Total depreciable capital assets, net	<u>21,315,103</u>	<u>(705,246)</u>	<u>(8)</u>	<u>20,609,849</u>
Total capital assets, net	<u>\$ 21,352,361</u>			<u>20,622,561</u>

Changes in 2013, for wastewater operations capital assets consisted of \$5,007 in interceptor, and \$65,324 in interceptor unit 1 upgrades. Deletions in 2013 include \$6,395 in tools and equipment, \$6,959 in autos and trucks, and \$50,000 in the booster building.

(6) Compensated Absences

Compensated absences comprise unpaid vacation leave, sick leave and compensating time off which is accrued as earned. The District's liability for compensated absences is determined annually.

The changes to compensated absences balances at June 30, were as follows:

<u>Balance 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 2014</u>	<u>Due Within One Year</u>	<u>Due in More Than One Year</u>
\$ 433,563	160,302	(258,809)	335,056	83,764	251,292
<u>Balance 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 2013</u>	<u>Due Within One Year</u>	<u>Due in More Than One Year</u>
\$ 423,767	291,746	(281,950)	433,563	108,391	325,172

Crescenta Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2014 and 2013

(7) Long-Term Debt

Long-term debt at June 30, 2014, is summarized as follows:

	2013	Additions	Payments	2014
2007 Series COP	\$ 9,060,000	-	(225,000)	8,835,000
Less: current portion	(225,000)			(235,000)
Discount on debt	<u>(210,697)</u>			<u>(201,770)</u>
Long-term portion	<u>\$ 8,624,303</u>			<u>8,398,230</u>

Long-term debt at June 30, 2013, is summarized as follows:

	2012	Additions	Payments	2013
2007 Series COP	\$ 9,280,000	-	(220,000)	9,060,000
Less: current portion	(220,000)			(225,000)
Discount on debt	<u>(219,624)</u>			<u>(210,697)</u>
Long-term portion	<u>\$ 8,840,376</u>			<u>8,624,303</u>

2007 Series Certificates of Participation

On December 1, 2006, the Crescenta Valley Water District issued \$10,070,000 of 2007 Series Certificates of Participation at an average rate of 4.19% to construct a variety of capital improvements to the District's water system and pay down loan debt from La Salle Bank. A reserve fund is held by the trustee and was funded from proceeds from the 2007 Certificates of Participation. Improvements include well rehabilitation, improvements to water reservoirs, water production and distribution systems. Debt service payments are due each June 1st and December 1st with principal payments commencing on June 1, 2009, maturing in fiscal year 2037.

Future annual debt service requirements are as follows:

Fiscal Year	Principal	Interest	Total
2015	\$ 235,000	378,238	613,238
2016	245,000	368,838	613,838
2017	255,000	359,038	614,038
2018	265,000	348,838	613,838
2019	275,000	338,238	613,238
2020-2024	1,560,000	1,512,650	3,072,650
2025-2029	1,925,000	1,150,838	3,075,838
2030-2034	2,380,000	692,344	3,072,344
2035-2037	<u>1,695,000</u>	<u>150,500</u>	<u>1,845,500</u>
Total	<u>8,835,000</u>	<u>5,299,520</u>	<u>14,134,520</u>
Less current portion	(235,000)		
Discount on debt	<u>(201,770)</u>		
Total non-current	<u>\$ 8,398,230</u>		

Crescenta Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2014 and 2013

(8) Defined Benefit Pension Plan

Plan Description

The District contributes to the California Public Employees Retirement System (CalPERS), a cost-sharing multi-employer defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public agencies within the State of California. Benefit provisions and all other requirements are established by state statute and the District. Copies of CalPERS annual financial report may be obtained from their executive Office: 400 P Street, Sacramento, California 95814.

Funding Policy

The contribution rate for plan members in the CalPERS, 2.0% at 55 Risk Pool Retirement Plan is 7% of their annual covered salary and is paid by the District. The District makes these contributions required of District employees on their behalf and for their account. Also, the District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The required employer contribution rates are equal to the annual pension costs (APC) percentage of payroll for fiscal years 2014, 2013 and 2012 as noted on the following page. The contribution requirements of the plan members are established by State statute, and the employer contribution rate is established and may be amended by CalPERS.

California Public Employees' Pension Reform Act of 2013

On September 12, 2012, the California Governor signed the California Public Employees' Pension Reform Act of 2013 (PEPRA) into law. PEPRA took effect January 1, 2013.

Funding Policy

Key components of the legislation are as follows:

- Establishes PEPRA which will apply to all public employers and public pension plans on and after January 1, 2013 (Except specific exemptions);
- Establishes new retirement tiers/benefits for new public employees;
- Prohibits certain cash payments from being counted as compensation; and
- Increases retirement age for all new public employees.

Second-Tier – Beginning January 1, 2013

The contribution rate for plan members in the CalPERS 2.0% at 62 Retirement Plan under PEPRA is 6.25% of their annual covered wages. The Agency filed a Certification of Memorandum of Understanding (MOU) Impairment with CalPERS prior to January 1, 2013. All Agency employees, including those employees hired on or after January 1, 2013 contribute 0.0% of their annual covered wages to their account. Also, the Agency is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members.

For fiscal years 2014, 2013 and 2012, the Agency's annual contributions for the CalPERS plan were equal to the Agency's required and actual contributions for each fiscal year as follows:

Crescenta Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2014 and 2013

(8) Defined Benefit Pension Plan, continued

Three Year Trend Information:

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	APC Percentage of Payroll
2013-2014	\$ 376,787	100%	13.967%
2012-2013	357,566	100%	13.357%
2011-2012	315,706	100%	12.983%

See the Funding Status on page 35

Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially-determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and the pattern of sharing of costs between the employer and plan members to that point. Consistent with the long-term perspective of actuarial calculations, actuarial methods, and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions, continued

The following is a summary of the actuarial assumptions and methods:

Valuation date	June 30, 2011
Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll, open
Average remaining amortization	20 years as of the valuation date
Asset valuation method	15 year smoothed market
Actuarial assumptions:	
Discount rate	7.50% (net of administrative expenses)
Projected salary increase	3.30% to 14.20% depending on age, service, and type of employment
Inflation	2.75%
Payroll growth	3.00%
Individual salary growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%

(9) Deferred Compensation Plan

For the benefit of its employees, the District participates in a 457 Deferred Compensation Program (Program) administered by CalPERS and FTJ Fund Choice. The purpose of this program is to provide deferred compensation for public employees that elect to participate in the Program. Generally, eligible employees may defer receipt of a portion of their salary until termination, retirement, death, or unforeseen emergency. Until the funds are paid or otherwise made available to the employee, the employee is not obligated to report the deferred salary for income tax purposes.

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. Accordingly, the District is in compliance with this legislation. Therefore, these assets are not the legal property of the District, and are not subject to claims of the District's general creditors. Market value of all plan assets held in trust by the District plan amounted to \$1,314,870 and \$1,113,225 in fiscal years 2014 and 2013, respectfully.

Crescenta Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2014 and 2013

(9) Deferred Compensation Plan, continued

The District has implemented GASB Statement No. 32, Accounting for Financial Reporting for Internal Revenue code Section 457 Deferred Compensation Plans. Since the District has little administrative involvement and does not perform the investing function of this plan, the assets and related liabilities are not shown on the Statements of Net Position.

(10) Other Post-Employment Benefits Payable

The District provides other post-employment benefits (OPEB) to qualified employees who retire from the District and meet the District's vesting requirements. During the fiscal year ended June 30, 2010, the District implemented GASB Statement No. 45, which changed the accounting and financial reporting used by local government employers for post employment benefits. Previously, the costs of such benefits were generally recognized as expenses of local government employers on a pay-as-you-go basis. The new reporting requirements for these benefit programs as they pertain to the District are set forth below.

Plan Description – Eligibility

A retired employee and dependent spouse, or spouse of a deceased employee or retiree must satisfy the following requirements in order to be eligible for post employment medical and dental benefits:

- Employee is a minimum of 55 years of age with at least 10 years of continuous service.

If the spouse of a deceased employee or retiree remarries and becomes eligible for health benefits under his/her new spouse's health plan, all District benefits shall be terminated.

Membership in the OPEB plan consisted of the following members as of June 30:

	2014	2013	2012
Active plan members	34	33	33
Retirees and beneficiaries receiving benefits	22	23	22
Separated plan members entitled to but not yet receiving benefits	-	-	-
Total plan membership	56	56	55

Plan Description – Benefits

The District offers post employment medical and dental benefits to retired employees who satisfy the eligibility rules. Spouses and surviving spouses are also eligible to receive benefits. Retirees may enroll in any plan available through the District's medical and dental programs. The contribution requirements of Plan members and the District are established and may be amended by the Board of Directors.

Funding Policy

The District is required to accrue the *Annual Required Contribution (ARC) of the Employer*, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC rate is 25.51% of the annual covered payroll.

Crescenta Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2014 and 2013

(10) Other Post-Employment Benefits Payable, continued

Annual Cost

For the year ended June 30, 2014, the District's ARC cost is \$758,500. The District's net OPEB payable obligation amounted to \$2,556,685 for the year ended June 30, 2014. The District contributed \$143,909 in age adjusted contributions for current retiree OPEB premiums for the year ended June 30, 2014.

The balance at June 30, consists of the following:

	2014	2013	2012
Annual OPEB expense:			
Annual required contribution (ARC)	\$ 758,500	703,265	652,653
Interest on net OPEB obligation	86,924	61,545	37,975
Adjustment to annual required contribution	<u>(89,874)</u>	<u>(61,626)</u>	<u>(36,876)</u>
Total annual OPEB expense	755,550	703,184	653,752
Change in net OPEB payable obligation:			
Age adjusted contributions made	<u>(143,910)</u>	<u>(130,928)</u>	<u>(124,841)</u>
Total change in net OPEB payable obligation	611,640	572,256	528,911
OPEB payable – beginning of year	<u>1,945,045</u>	<u>1,372,789</u>	<u>843,878</u>
OPEB payable – end of year	<u>\$ 2,556,685</u>	<u>1,945,045</u>	<u>1,372,789</u>

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal year 2014 and the three preceding years were as follows:

<i>Three-Year History of Net OPEB Obligation</i>					
Fiscal Year Ended	Annual OPEB Cost	Age Adjusted Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation Payable	
2014	\$ 755,550	143,910	19.05%	\$ 611,640	
2013	703,184	130,928	18.62%	572,256	
2012	653,752	124,841	19.10%	528,911	

Funded Status and Funding Progress of the Plan

The most recent valuation (dated July 1, 2011) includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of \$7,116,527. The covered payroll (annual payroll of active employees covered by the plan) for the year ended June 30, 2014 was \$2,961,875. The ratio of the unfunded actuarial accrued liability to annual covered payroll is 240.27%.

See the Schedule of Funding Status of the District's Other Post-Employment Benefits Obligation in the Required Supplementary Information Section on Page 34.

Crescenta Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2014 and 2013

(10) Other Post-Employment Benefits Payable, continued

Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and the pattern of sharing of costs between the employer and plan members to that point. Consistent with the long-term perspective of actuarial calculations, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities for benefits.

The following is a summary of the actuarial assumptions and methods:

Valuation date	July 1, 2011
Actuarial cost method	Entry age normal cost method
Amortization method	30 Year level percent of payroll Amortization
Remaining amortization period	27 Years as of the valuation date
Actuarial assumptions:	
Investment rate of return	4.50%
Projected salary increase	3.25%
Inflation - discount rate	4.50%

(11) Net Position

Calculation of net position as of June 30, is as follows:

	2014	2013
Net investment in capital assets:		
Capital assets – not being depreciated	\$ 3,219,979	2,024,915
Depreciable capital assets, net	39,325,339	40,918,333
Certificates of participation payable – current	(235,000)	(225,000)
Certificates of participation payable – non-current	<u>(8,398,230)</u>	<u>(8,624,303)</u>
Total net investment in capital assets	<u>33,912,088</u>	<u>34,093,945</u>
Restricted net position:		
Investments – restricted	<u>617,105</u>	<u>617,099</u>
Unrestricted net position:		
Non-spendable net position:		
Materials and supplies inventory	258,300	298,135
Prepaid expenses and other deposits	<u>42,202</u>	<u>40,868</u>
Total non-spendable net position	<u>300,502</u>	<u>339,003</u>
Spendable net position is as follows:		
Unrestricted	<u>16,428,967</u>	<u>10,311,039</u>
Total spendable net position	<u>16,428,967</u>	<u>10,311,039</u>
Total unrestricted net position	<u>16,729,469</u>	<u>10,650,042</u>
Total net position	<u>\$ 51,258,662</u>	<u>45,361,086</u>

Crescenta Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2014 and 2013

(12) MTBE Settlements

In fiscal year 2014, the District approved and authorized a Methyl Tertiary Butyl Ether (MTBE) water contamination settlement agreement with various petroleum and chemical companies. Net proceeds from the settlement agreement are as follows: Lyondell Chemical Company \$547,071, Shell Oil Company \$3,000,000, Chevron Corporation \$733,333, Ultramar Inc. \$2,565,542 and Miller & Axline \$26,899. At June 30, 2014, total proceeds received, net of legal expenses, amounted to \$6,872,846.

In fiscal year 2013, the District approved and authorized a Methyl Tertiary Butyl Ether (MTBE) water contamination settlement agreement with Exxon Mobil. Net proceeds from the settlement totaled \$1,386,187. In addition, the District approved and authorized a gross MTBE water contamination settlement agreement with two parties ConocoPhillips and Arco-BP. Net proceeds from the agreement with ConocoPhillips and Arco-BP totaled \$2,677,296 and \$2,697,851, respectively. At June 30, 2013, total proceeds received, net of legal expenses, amounted to \$6,595,563.

The District has determined to designate funds received as part of the MTBE Settlement for use in approved projects. As a result, these funds are not included in general operating reserves as designated by the Board of Directors. At June 30, designated MTBE funds are as follows:

	2014	2013
MTBE designated funds	\$ <u>9,908,656</u>	<u>2,818,605</u>

(13) Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California water agencies. The purpose of the ACWA/JPIA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. At June 30, 2014, the District participated in the liability and property programs of the ACWA/JPIA as follows:

- General and auto liability, public officials and employees' errors and omissions: Total risk financing self-insurance limits of \$1,000,000, combined single limit at \$1,000,000 per occurrence. The District has additional excess coverage layers through ACWA/JPIA: \$49 million for general, auto and public officials liability, which increases the limits on the insurance coverage noted above.

In addition to the above, the District also has the following insurance coverage:

- Employee dishonesty coverage up to \$1,000,000 per loss, subject to a \$100,000 deductible, includes public employee dishonesty, forgery or alteration and theft, disappearance and destruction coverage's.
- Property loss is paid at the replacement cost for property on file, if replaced within two years after the loss, otherwise paid on an actual cash value basis, to a combined total of \$100 million per occurrence, subject to a \$2,500 deductible per occurrence.
- Boiler and machinery coverage for the replacement cost up to \$100 million per occurrence, subject to various deductibles depending on the type of equipment.
- Workers' compensation insurance up to California statutory limits for all work related injuries/illnesses covered by California law.

Crescenta Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2014 and 2013

(13) Risk Management, continued

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the years ending June 30, 2014, 2013 and 2012. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of June 30, 2014, 2013, and 2012, respectively.

(14) Governmental Accounting Standards Board Statements Issued, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2014, that has effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 68

In June 2012, the GASB issued Statement No. 68 – *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions 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 pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The provisions of Statement 68 are effective for fiscal years beginning after June 15, 2014. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 69

In January 2013, the GASB issued Statement No. 69 – *Government Combinations and Disposals of Government Operations*. The objective of this Statement is to provide new accounting and financial reporting standards for government mergers and acquisitions and for government operations that have been transferred or sold. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2013. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 71

In November 2013, the GASB issued Statement No. 71 – *Pension Transition for Contributions made Subsequent to the Measurement Date – an amendment of GASB No. 68*. The objective of this statement is to address an issue regarding application of the transition provisions of Statement No. 68, Accounting and Financial Reporting for Pensions. The issue relates to amounts associated with contributions, if any, made by state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement No. 68 in the accrual-basis financial statements of employers and non-employer contributing entities. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement No. 68.

Crescenta Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2014 and 2013

(15) Commitments and Contingencies

Litigation

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. After consultation with legal counsel, the District believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

(16) Subsequent Events

Events occurring after June 30, 2014, have been evaluated for possible adjustment to the financial statements or disclosure as of November 1, 2014, which is the date the financial statements were available to be issued. The District is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

Required Supplementary Information

Cresenta Valley Water District
Schedule of Funding Status
For the Fiscal Years Ended June 30, 2014 and 2013

(1) Defined Benefit Pension Plan

Development of the Actuarial Value of Assets Calculation in a Risk Pool			
	June 30, 2011	June 30, 2012	June 30, 2013 *
The District is part of the CalPERS Miscellaneous 2.0% at 55 yrs. Risk Pool			
1. Plan's accrued liability	\$ 11,731,803	12,129,916	-
2. Plan's side fund	(794,150)	(771,746)	-
3. Pool's accrued liability	3,619,835,876	4,175,139,166	-
4. Pool's side fund	(115,840,552)	(132,335,224)	-
5. Pool's actuarial value of assets (AVA) including receivables	3,203,214,899	3,686,598,343	-
6. Plan's actuarial value of assets (AVA) including receivables [(1+2) / (3+4) x 5]	9,998,773	10,357,418	-
7. Pool's market value of assets (MVA) including receivables	2,867,303,802	3,120,110,130	-
8. Plan's market value of assets (MVA) including receivables [(1+2) / (3+4) x 7]	8,950,233	8,765,882	-

Funding History

The Funding History below shows the actuarial accrued liability, the actuarial value of assets, the market value of assets, funded ratios, and the annual covered payroll. The actuarial value of assets is used to establish funding requirements and the funded ratio on this basis represents the progress toward fully funding future benefits for current plan participants. The funded ratio based on the market value of assets is an indicator of the short-term solvency of the plan in the risk pool.

Actuarial Valuation Date	Actuarial Accrued Liability (a)	Actuarial Value of Assets (AVA) (b)	Market Value of Assets (MVA) (c)	Funded Ratio AVA (b/a)	MVA (c/a)	Annual Covered Payroll
June 30, 2011	\$ 11,731,803	9,998,773	8,950,233	85.2%	76.3%	\$ 2,468,799
June 30, 2012	12,129,916	10,357,418	8,765,882	85.4%	72.3%	2,443,885
June 30, 2013 *	-	-	-	0.00%	0.00%	-

* CalPERS has not provided the information for these periods as of the date of the audit report.

(2) Other Post-Employment Benefits Payable

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2011	\$ -	7,116,527	7,116,527	0.00%	\$ 2,961,875	240.27%
7/1/2008	-	5,407,674	5,407,674	0.00%	3,007,857	179.78%

Funding progress is presented for the year(s) that an actuarial study has been prepared since the effective date of GASB Statement 45. Actuarial review and analysis of the post-employment benefits liability and funding status is performed every three years or annually if there are significant changes in the plan. The next scheduled actuarial review and analysis of the post-employment benefits liability and funding status will be performed in fiscal year 2015 based on the year ending June 30, 2014.

Supplemental Information

Crescenta Valley Water District
Combining Schedule of Statements of Net Position
For the Fiscal Year Ended June 30, 2014

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
Current assets:			
Cash and cash equivalents	\$ 5,713,389	637,366	6,350,755
Accrued interest receivable	47,810	-	47,810
Accounts receivable – water and wastewater, net	1,688,178	552,145	2,240,323
Accounts receivable – other	5,492	-	5,492
Materials and supplies inventory	243,808	14,492	258,300
Prepaid expenses and other deposits	26,539	15,663	42,202
Total current assets	7,725,216	1,219,666	8,944,882
Non-current assets:			
Investments	11,776,032	-	11,776,032
Investments – restricted	617,105	-	617,105
Internal balances	(239,672)	239,672	-
Capital assets – not being depreciated	3,213,817	6,162	3,219,979
Depreciable capital assets	19,467,168	19,858,171	39,325,339
Total non-current assets	34,834,450	20,104,005	54,938,455
Total assets	42,559,666	21,323,671	63,883,337
Deferred outflows of resources: (note 6)			
Discount on Certificates of Participation	-	-	-
Total deferred outflows of resources	-	-	-
Current liabilities:			
Accounts payable and accrued expenses	782,758	57,483	840,241
Accrued wages and related payables	13,850	9,365	23,215
Customer deposits	181,462	23,266	204,728
Accrued interest expense	31,520	-	31,520
Long-term liabilities – due within one year:			
Compensated absences	62,823	20,941	83,764
Certificates of participation	235,000	-	235,000
Total current liabilities	1,307,413	111,055	1,418,468
Non-current liabilities:			
Long-term liabilities – due in more than one year:			
Compensated absences	188,469	62,823	251,292
Other post employment benefits payable	1,534,011	1,022,674	2,556,685
Certificates of participation	8,398,230	-	8,398,230
Total non-current liabilities	10,120,710	1,085,497	11,206,207
Total liabilities	11,428,123	1,196,552	12,624,675
Net position:			
Net Investment in capital assets	14,047,755	19,864,333	33,912,088
Restricted	617,105	-	617,105
Unrestricted	16,466,683	262,786	16,729,469
Total net position	\$ 31,131,543	20,127,119	51,258,662

See accompanying notes to the basic financial statements

Crescenta Valley Water District
Combining Schedule of Statements of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2014

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
Operating revenues:			
Water operations – consumption sales	\$ 7,026,866	-	7,026,866
Water operations – service charge	1,731,323	-	1,731,323
Water operations – other charges	628,393	-	628,393
Wastewater operations – user and standby charges	-	3,241,490	3,241,490
Wastewater operations – other charges	-	1,000	1,000
Total operating revenues	<u>9,386,582</u>	<u>3,242,490</u>	<u>12,629,072</u>
Operating expenses:			
Source of supply – water purchases	3,150,800	-	3,150,800
Plant operations	1,864,744	204,980	2,069,724
Distribution system	1,363,315	-	1,363,315
City of Los Angeles wastewater system	-	914,177	914,177
Collection system	-	303,112	303,112
General and administrative expenses	<u>2,501,737</u>	<u>1,513,348</u>	<u>4,015,085</u>
Total operating expenses before depreciation	<u>8,880,596</u>	<u>2,935,617</u>	<u>11,816,213</u>
Operating income before depreciation	505,986	306,873	812,859
Depreciation expense	<u>(1,177,160)</u>	<u>(777,310)</u>	<u>(1,954,470)</u>
Operating loss	<u>(671,174)</u>	<u>(470,437)</u>	<u>(1,141,611)</u>
Non-operating revenues(expenses):			
Investment earnings	422,599	207	422,806
Gain(loss) on sale of capital assets	4,360	-	4,360
Interest expense	(386,488)	-	(386,488)
Rental income	21,573	7,191	28,764
MTBE settlement, net	6,872,846	-	6,872,846
Other income(expense), net	<u>(7,713)</u>	<u>(1,612)</u>	<u>(9,325)</u>
Total non-operating revenues, net	<u>6,927,177</u>	<u>5,786</u>	<u>6,932,963</u>
Net income (loss) before capital contributions	6,256,003	(464,651)	5,791,352
Capital contributions:			
Capital grants – State	76,409	-	76,409
Assessments	<u>-</u>	<u>29,815</u>	<u>29,815</u>
Total capital contributions	<u>76,409</u>	<u>29,815</u>	<u>106,224</u>
Changes in net position	6,332,412	(434,836)	5,897,576
Net position – beginning of year	<u>24,799,131</u>	<u>20,561,955</u>	<u>45,361,086</u>
Net position – end of year	<u>\$ 31,131,543</u>	<u>20,127,119</u>	<u>51,258,662</u>

See accompanying notes to the basic financial statements

Crescenta Valley Water District
Detailed Schedule of Revenues, Expenses and Changes in Net Position
Water Operations
For the Fiscal Years Ended June 30, 2014 and 2013

	2014		2013	
	Amount	Percent	Amount	Percent
Operating revenues:				
Consumption sales – customers	\$ 7,026,866	74.86%	6,530,258	74.30%
Consumption sales – others	101,939	1.09%	100,107	1.14%
Service charges	1,731,323	18.44%	1,633,352	21.18%
Meter installations	24,883	0.27%	64,019	0.83%
Other revenue	501,571	5.34%	461,769	5.99%
Total operating revenues	<u>9,386,582</u>	<u>100.00%</u>	<u>8,789,505</u>	<u>100.00%</u>
Operating expenses:				
Source of supply – water purchases	3,150,800	35.48%	2,233,668	29.40%
Plant operations:				
Power	658,340	8.67%	636,754	8.69%
Plant wages	585,966	7.71%	590,334	8.06%
Utilities	16,329	0.21%	12,660	0.17%
Telephone	46,082	0.61%	31,260	0.43%
Maintenance	142,861	1.88%	106,373	1.45%
Signal system	12,899	0.17%	32,639	0.45%
Lab and treatment	176,764	2.33%	189,897	2.59%
Nitrate treatment	39,189	0.52%	60,678	0.83%
Insurance	104,694	1.38%	127,990	1.75%
Other expense	81,620	1.07%	59,312	0.81%
Total plant operations	<u>1,864,744</u>	<u>24.55%</u>	<u>1,847,897</u>	<u>25.23%</u>
Distribution system:				
Meter maintenance	1,146,535	15.09%	847,862	11.58%
Pipeline maintenance	33,944	0.45%	62,310	0.85%
Backflow operations	389	0.01%	927	0.01%
Reservoir and building maintenance	50,773	0.67%	63,619	0.87%
Auto and truck expense	119,644	1.57%	85,000	1.16%
Property taxes	12,030	0.16%	11,877	0.16%
Total distribution system	<u>\$ 1,363,315</u>	<u>17.94%</u>	<u>1,071,595</u>	<u>14.63%</u>

Continued on next page

See accompanying notes to the basic financial statements

Crescenta Valley Water District
Detailed Schedule of Revenues, Expenses and Changes in Net Position
Water Operations, Continued
For the Fiscal Years Ended June 30, 2014 and 2013

	2014		2013	
	Amount	Percent	Amount	Percent
General and administrative:				
Directors' fees	\$ 8,370	0.11%	8,280	0.11%
Salaries – statutory officers	144,628	1.90%	139,364	1.90%
Salaries – general office	386,131	5.08%	429,031	5.86%
Retirement (CalPERS)	264,073	3.48%	257,323	3.51%
Payroll taxes	126,904	1.67%	119,407	1.63%
Engineering and drafting	313,708	4.13%	287,879	3.93%
Accounting	15,079	0.20%	7,428	0.10%
Legal	42,935	0.57%	47,314	0.65%
Administrative consultant - water system	13,586	0.18%	64,705	0.88%
Insurance – general	14,131	0.19%	18,996	0.26%
Insurance – group	729,713	9.60%	696,566	9.51%
Maintenance	15,263	0.20%	22,034	0.30%
Computer and supplies	71,617	0.94%	57,934	0.79%
Utilities	17,698	0.23%	16,383	0.22%
Telephone	39,554	0.52%	49,869	0.68%
Printing and postage	41,638	0.55%	47,394	0.65%
Bad debt	-	0.00%	-	0.00%
Water system fees	47,454	0.62%	36,217	0.49%
Water conservation	82,318	1.08%	54,554	0.74%
Training	32,092	0.42%	34,667	0.47%
Other	94,845	1.25%	48,723	0.67%
Total general and administrative	2,501,737	32.93%	2,444,068	33.37%
Total operating expenses	8,880,596	110.90%	7,597,228	102.64%
Operating income before depreciation	505,986	5.39%	1,192,277	13.56%
Depreciation expense	(1,177,160)	-12.54%	(1,162,827)	-13.23%
Operating loss	(671,174)	-7.15%	29,450	0.34%
Non-operating revenues(expense):				
Investment earnings	422,599	6.10%	(363,935)	-4.14%
Gain(loss) on sale of capital assets	4,360	0.06%	(9,193)	-0.10%
Interest expense	(386,488)	-5.58%	(414,486)	-4.72%
Rental income	21,573	0.31%	22,500	0.26%
MTBE settlement, net	6,872,846	99.22%	6,595,563	0.00%
Other income(expense), net	(7,713)	-0.11%	(96,979)	-1.10%
Total non-operating revenues, net	6,927,177	100.00%	5,733,470	-9.81%
Net income (loss) before capital contributions	6,256,003	100.00%	5,762,920	100.00%
Capital contributions:				
Capital grants – state	76,409	1.10%	-	0.00%
Change in net position	\$ 6,332,412	67.46%	5,762,920	65.57%

See accompanying notes to the basic financial statements

Crescenta Valley Water District
Detailed Schedule of Revenues, Expenses and Changes in Net Position
Wastewater Operations
For the Fiscal Years Ended June 30, 2014 and 2013

	2014		2013	
	Amount	Percent	Amount	Percent
Operating revenues:				
User and standby charges	\$ 3,241,490	99.97%	2,928,381	99.95%
Other charges	1,000	0.03%	1,500	0.05%
Total operating revenues	<u>3,242,490</u>	100.00%	<u>2,929,881</u>	100.00%
Operating expenses:				
City of Los Angeles wastewater system expense	<u>914,177</u>	31.14%	<u>865,052</u>	31.71%
Plant operations:				
Power	691	0.03%	720	0.03%
Plant wages	77,040	2.82%	86,171	3.16%
Utilities	3,558	0.13%	2,575	0.09%
Telephone	15,361	0.56%	8,598	0.32%
Maintenance	5,017	0.18%	5,397	0.20%
Insurance - general	85,215	3.12%	100,034	3.67%
Other expense	18,098	0.66%	26,610	0.98%
Total plant operations	<u>204,980</u>	7.51%	<u>230,105</u>	8.45%
Collection system:				
Maintenance	241,930	8.87%	146,267	5.37%
Auto and truck expense	59,939	2.20%	44,457	1.63%
Inspection	1,243	0.05%	33	0.00%
Total collection system	<u>\$ 303,112</u>	11.11%	<u>190,757</u>	7.00%

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See accompanying notes to the basic financial statements

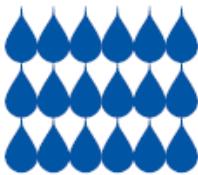
Crescenta Valley Water District
Detailed Schedule of Revenues, Expenses and Changes in Net Position
Wastewater Operations, Continued
For the Fiscal Years Ended June 30, 2014 and 2013

	2014		2013	
	Amount	Percent	Amount	Percent
General and administrative:				
Directors' fees	\$ 8,370	0.31%	8,280	0.30%
Salaries – statutory officers	144,628	5.30%	139,364	5.12%
Salaries – general office	268,444	9.84%	272,923	10.02%
Retirement (CalPERS)	176,593	6.47%	172,093	6.32%
Payroll taxes	84,603	3.10%	79,514	2.92%
Engineering and drafting	104,254	3.82%	95,005	3.49%
Accounting	15,079	0.55%	7,428	0.27%
Legal	15,546	0.57%	14,289	0.52%
Administrative	9,519	0.35%	16,251	0.60%
Insurance – general	9,420	0.35%	12,755	0.47%
Insurance – group	485,756	17.81%	463,449	17.01%
Maintenance	5,088	0.19%	7,361	0.27%
Computer and supplies	33,669	1.23%	29,976	1.10%
Utilities	5,522	0.20%	4,909	0.18%
Telephone	13,178	0.48%	18,407	0.68%
Printing and postage	41,406	1.52%	45,132	1.66%
Bad debt	-	0.00%	-	0.00%
Training	4,860	0.18%	3,077	0.11%
Other	87,413	3.20%	51,943	1.91%
Total general and administrative	1,513,348	55.47%	1,442,156	52.94%
Total operating expenses	2,935,617	105.24%	2,728,070	100.09%
Operating income before depreciation	306,873	9.46%	201,811	6.89%
Depreciation expense	(777,310)	-23.97%	(775,577)	-26.47%
Operating loss	(470,437)	-14.51%	(573,766)	-19.58%
Non-operating revenues(expense):				
Investment earnings	207	0.01%	47,781	1.63%
Gain/(loss) on sale of capital assets	-	0.00%	2,434	0.08%
Interest expense	-	0.00%	(12,788)	-0.44%
Rental income	7,191	0.22%	7,500	0.26%
Other income(expense), net	(1,612)	-0.05%	11,303	0.00%
Total non-operating revenues, net	5,786	0.18%	56,230	1.53%
Loss before capital contributions	(464,651)	-14.33%	(517,536)	-18.05%
Capital contributions:				
Assessments	29,815	0.92%	59,914	2.04%
Change in net position	\$ (434,836)	-13.41%	(457,622)	-15.62%

See accompanying notes to the basic financial statements

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Report on Internal Controls and Compliance



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Independent Auditor's Report on Internal Controls Over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
Crescenta Valley Water District
La Crescenta, California

We have audited, in accordance with the 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, the financial statements of the Crescenta Valley Water District (District), as of and for the years June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 1, 2014.

Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Independent Auditor's Report on Internal Controls Over Financial Reporting
And on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*, (continued)**

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the district's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Charles Z. Fedak & Company CPAs - An Accountancy Corporation

Charles Z. Fedak & Company, CPAs - An Accountancy Corporation

Cypress, California

November 1, 2014