



Crescenta Valley Water District

Annual Financial Report

For the Fiscal Years Ended June 30, 2016 and 2015



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, 2016

| Name | Title | Elected/ Appointed | Current Term |
|-------------------|----------------|-------------------------------|-------------------------|
| Kerry Erickson | President | Elected | December 2017 |
| James Bodnar | Vice President | Elected | December 2017 |
| Michael Claessens | Director | Elected | December 2019 |
| Kenneth Putnam | Director | Elected | December 2017 |
| Judy Tejeda | Director | Elected | December 2019 |

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

Crescenta Valley Water District
Annual Financial Report
For the Fiscal Years Ended June 30, 2016 and 2015

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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
Kerry D. Erickson
James D. Bodnar
Michael L. Claessens
Kenneth R. Putnam
Judy L. Tejeda

Officers
Thomas A. Love, P.E.
General Manager
Ron L. Mitchell
Secretary-Treasurer

December 6, 2016

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, 2016 and 2015, 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 34 employees. The District's Board of Directors meets on the first and third Tuesday of each month. Meetings are publicly noticed and customers 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 expected to be stable 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:

- Mandatory Water Conservation Program
- Low-Flow Retrofit Program
- Hi-Efficiency Washers 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 Fedak & Brown LLP, 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 Crescenta Valley Water District’s fiscal policies.

Respectfully submitted,



Thomas A. Love
General Manager



Ron Mitchell
Director of Finance

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Financial Section



Charles Z. Fedak, CPA, MBA
Christopher J. Brown, CPA, CGMA
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Fedak & Brown LLP

Certified Public Accountants

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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, 2016 and 2015, 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, 2016 and 2015, 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

Emphasis of a Matter

As described in note 1 to the financial statements, the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 72 – *Fair Value Measurement and Application* and early implementation of Statement No. 79 – *Certain External Investment Pools and Pool Participants*, for the year ended June 30, 2016; and GASB Statement No. 68 – *Accounting and Financial Reporting for Pensions* and No. 71 – *Pension Transition for Contributions made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*, for the year ended June 30, 2015. Our opinion is not modified with respect to these matters.

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 7 through 11 and pages 44 through 46, 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 audits were 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 47 through 52, 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.

Independent Auditor's Report, continued

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2016 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. This report can be found on pages 53 and 54.

Fedak & Brown LLP

Fedak & Brown LLP

Cypress, California

December 6, 2016

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Crescenta Valley Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2016 and 2015

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, 2016 and 2015. 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 decreased 1.83%, or \$861,408 to \$46,094,184, in fiscal year 2016, primarily due to a \$861,408 decrease from operations. In 2015, the District's net position decreased 8.39%, or \$4,303,070 to \$46,955,592, primarily due to a \$1,322,528 decrease from operations and \$2,980,542 related to the adoption of GASB 68. See note 13 for further information.
- The District's operating revenues decreased 5.82% or \$704,858, in fiscal year 2016. In 2015, the District's operating revenues decreased 4.09% or \$516,134.
- The District's operating expenses increased 0.62%, or \$82,342, in fiscal year 2016. In 2015, the District's operating expenses decreased 3.41%, or \$470,183.

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, 2016 and 2015

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 16 through 43.

Statements of Net Position

Condensed Statements of Net Position

| | 2016 | 2015 | Change |
|--|-----------------------------|--------------------------|-------------------------|
| Assets: | | | |
| Current assets | \$ 12,869,933 | 6,122,029 | 6,747,904 |
| Non-current assets | 5,624,931 | 13,878,687 | (8,253,756) |
| Capital assets, net | <u>45,120,528</u> | <u>42,820,914</u> | <u>2,299,614</u> |
| Total assets | <u>63,615,392</u> | <u>62,821,630</u> | <u>793,762</u> |
| Deferred outflows of resources: | <u>327,407</u> | <u>292,716</u> | <u>34,691</u> |
| Liabilities: | | | |
| Current liabilities | 1,869,198 | 1,406,906 | 462,292 |
| Non-current liabilities | <u>15,429,452</u> | <u>13,935,673</u> | <u>1,493,779</u> |
| Total liabilities | <u>17,298,650</u> | <u>15,342,579</u> | <u>1,956,071</u> |
| Deferred inflows of resources: | <u>549,965</u> | <u>816,175</u> | <u>(266,210)</u> |
| Net position: | | | |
| Net investment in capital assets | 35,874,859 | 34,413,758 | 1,461,101 |
| Restricted | 617,109 | 617,090 | 19 |
| Unrestricted | <u>9,602,216</u> | <u>11,924,744</u> | <u>(2,322,528)</u> |
| Total net position | <u>\$ 46,094,184</u> | <u>46,955,592</u> | <u>(861,408)</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 and deferred inflows by \$46,094,184 and \$46,955,592 as of June 30, 2016 and 2015, respectively.

By far the largest portion of the District's net position (78% and 73% as of June 30, 2016 and 2015, 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 10 for further information.

Crescenta Valley Water District
Management's Discussion and Analysis
 For the Fiscal Years Ended June 30, 2016 and 2015

Statements of Net Position, continued

At the end of fiscal year 2016 and 2015, the District showed a positive balance in its unrestricted net position of \$8,323,642 and \$11,924,744, respectively. See note 12 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

| | 2016 | 2015 | Change |
|---|----------------------|-------------------|--------------------|
| Revenues: | | | |
| Operating revenues | \$ 11,408,080 | 12,112,938 | (704,858) |
| Non-operating revenues | <u>670,584</u> | <u>211,211</u> | <u>459,373</u> |
| Total revenues | <u>12,078,664</u> | <u>12,324,149</u> | <u>(245,485)</u> |
| Expenses: | | | |
| Operating expenses | 13,382,842 | 13,300,500 | 82,342 |
| Non-operating expenses | <u>368,022</u> | <u>377,700</u> | <u>(9,678)</u> |
| Total expenses | <u>13,750,864</u> | <u>13,678,200</u> | <u>72,664</u> |
| Net income before capital contributions | (1,672,200) | (1,354,051) | (318,149) |
| Capital contributions | <u>810,792</u> | <u>31,523</u> | <u>779,269</u> |
| Change in net position | (861,408) | (1,322,528) | 461,120 |
| Net position – beginning of year | | | |
| – as restated | <u>46,955,592</u> | <u>48,278,120</u> | <u>(1,322,528)</u> |
| Net position – end of year | <u>\$ 46,094,184</u> | <u>46,955,592</u> | <u>(861,408)</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 in fiscal year 2016 decreased 1.83%, or \$861,408 to \$46,094,184, in fiscal year 2016, primarily due to an \$861,408 decrease from operations. In fiscal year 2015, net position decreased by \$4,303,070 primarily due to a \$1,322,528 decrease from operations and \$2,980,542 related to the adoption of GASB 68. See note 13 for further information

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

In 2016, the District's total revenues decreased by 1.99%, or \$245,485, primarily due to a decrease in operating revenues of \$704,858, as the result of decreases of \$633,120 in net water operations revenue and \$71,738 in net wastewater revenue. Non-operating revenues increased by \$459,619 due to increases of \$468,076 in investment earnings.

In 2015, the District's total revenues decreased by 38.25%, or \$7,633,699, primarily due to a decrease in non-operating revenues of \$7,117,565, as the result of decreases in legal settlements of \$6,872,846 and investment earnings of \$255,611. Operating revenues decreased by \$516,134 due to decreases of \$638,302 in water operation consumption charges and \$80,097 in water operations other charges, that was offset by increases in wastewater operations user and standby charges of \$100,107 and water operations service charges of \$97,158.

Crescenta Valley Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2016 and 2015

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

In 2016, the District's total expenses increased by 0.53%, or \$72,664. The District's operating expenses increased by \$82,342 primarily due to an increase of \$687,177 in costs associated with the discharge of treated water into the City of Los Angeles wastewater system which was offset by decreases of \$237,406 in source of supply expenses and \$316,633 in plant operations expenses.

In 2016, non-operating expenses decreased by 2.56%, or \$9,678, primarily due to a \$9,432 decrease in interest expense.

In 2015, the District's total expenses decreased by 3.45%, or \$488,296. The District's operating expenses decreased by \$470,183 as follows: a \$409,767 decrease in source of supply expenses, a \$239,164 decrease in costs associated with the discharge of treated water into the City of Los Angeles wastewater system, a \$123,852 decrease in distribution system expenses. Offsetting these decreases were increases, of \$175,561 in general and administrative expenses and \$175,852 in plant operations expenses.

In 2015, non-operating expenses decreased by 4.58%, or \$18,113, primarily due to a \$9,325 decrease in other expenses and a \$9,034 decrease in interest expense.

In 2016, capital contributions increased by 2,472.06%, or \$779,269, primarily due to increases of \$596,446 from state capital grants and \$214,346 from local capital grants, which was offset by a decrease of \$10,060 in assessment capital contributions from prior year.

In 2015, capital contributions decreased by 70.32%, or \$74,701, primarily due to a decrease of \$76,409 from state capital grants from prior year.

Capital Asset Administration

At the end of fiscal years 2016 and 2015, the District's investment in capital assets amounted to \$45,120,528 and \$42,820,914, 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 2016 are as follows:

| | Balance 2015 | Additions | Transfers/ Deletions | Balance 2016 |
|---------------------------|-------------------------|--------------------|---------------------------------|-------------------------|
| Capital assets: | | | | |
| Non-depreciable assets | \$ 2,933,919 | 4,087,270 | (3,667,940) | 3,353,249 |
| Depreciable assets | 77,875,118 | 3,738,396 | (61,254) | 81,552,260 |
| Accumulated depreciation | <u>(37,988,123)</u> | <u>(1,858,112)</u> | <u>61,254</u> | <u>(39,784,981)</u> |
| Total capital assets, net | <u>\$ 42,820,914</u> | <u>5,967,554</u> | <u>(3,667,940)</u> | <u>45,120,528</u> |

Changes in capital asset amounts for 2015 are as follows:

| | Balance 2014 | Additions | Transfers/ Deletions | Balance 2015 |
|---------------------------|-------------------------|--------------------|---------------------------------|-------------------------|
| Capital assets: | | | | |
| Non-depreciable assets | \$ 3,219,979 | 2,089,149 | (2,375,209) | 2,933,919 |
| Depreciable assets | 76,155,151 | 2,525,451 | (805,484) | 77,875,118 |
| Accumulated depreciation | <u>(36,829,812)</u> | <u>(1,925,786)</u> | <u>767,475</u> | <u>(37,988,123)</u> |
| Total capital assets, net | <u>\$ 42,545,318</u> | <u>2,688,814</u> | <u>(2,413,218)</u> | <u>42,820,914</u> |

(See note 4 for further discussion)

Crescenta Valley Water District
Management's Discussion and Analysis
 For the Fiscal Years Ended June 30, 2016 and 2015

Debt Administration

Changes in long-term debt amounts for 2016 were as follows:

| | Balance 2015 | Additions | Principal Payments | Balance 2016 |
|------------------------|-------------------------|------------------|-------------------------------|-------------------------|
| Long-term debt: | | | | |
| Bonds payable | \$ 8,407,156 | - | (236,073) | 8,171,083 |
| Loans payable | - | 1,091,590 | (17,004) | 1,074,586 |
| Total long-term debt | <u>\$ 8,407,156</u> | <u>1,091,590</u> | <u>(253,077)</u> | <u>9,245,669</u> |

Changes in long-term debt amounts for 2015 were as follows:

| | Balance 2014 | Additions | Principal Payments | Balance 2015 |
|------------------------|-------------------------|------------------|-------------------------------|-------------------------|
| Long-term debt: | | | | |
| Bonds payable | \$ 8,633,230 | - | (226,074) | 8,407,156 |
| Total long-term debt | <u>\$ 8,633,230</u> | <u>-</u> | <u>(226,074)</u> | <u>8,407,156</u> |

(See note 7 for further discussion)

Conditions Affecting Current Financial Position

Management is unaware of any conditions at June 30, 2016, 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 Thomas A. Love, 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, 2016 and 2015

| | 2016 | 2015 |
|--|----------------------|-------------------|
| Current assets: | | |
| Cash and cash equivalents (note 2) | \$ 10,326,577 | 3,747,138 |
| Accrued interest receivable | 29,957 | 75,152 |
| Accounts receivable – water and wastewater, net (note 3) | 1,962,565 | 1,896,423 |
| Accounts receivable – local grant | 133,270 | - |
| Accounts receivable – other | 2,520 | 53,199 |
| Materials and supplies inventory | 370,451 | 310,638 |
| Prepaid expenses and other deposits | 44,593 | 39,479 |
| Total current assets | <u>12,869,933</u> | <u>6,122,029</u> |
| Non-current assets: | | |
| Investments (note 2) | 5,007,822 | 13,261,597 |
| Investments – restricted (note 2) | 617,109 | 617,090 |
| Capital assets – not being depreciated (note 4) | 3,353,249 | 2,933,919 |
| Depreciable capital assets (note 4) | <u>41,767,279</u> | <u>39,886,995</u> |
| Total non-current assets | <u>50,745,459</u> | <u>56,699,601</u> |
| Total assets | <u>63,615,392</u> | <u>62,821,630</u> |
| Deferred outflows of resources: | | |
| Deferred pension outflows (note 5, 9) | <u>327,407</u> | <u>292,716</u> |
| Total deferred outflows of resources | <u>327,407</u> | <u>292,716</u> |
| Current liabilities: | | |
| Accounts payable and accrued expenses | 1,150,149 | 782,171 |
| Accrued wages and related payables | 44,499 | 32,365 |
| Customer deposits | 259,847 | 238,147 |
| Accrued interest expense | 29,920 | 30,736 |
| Long-term liabilities – due within one year: | | |
| Compensated absences (note 6) | 78,771 | 78,487 |
| Certificates of participation (note 7) | 255,000 | 245,000 |
| Loan payable (note 7) | <u>51,012</u> | <u>-</u> |
| Total current liabilities | <u>1,869,198</u> | <u>1,406,906</u> |
| Non-current liabilities: | | |
| Long-term liabilities – due in more than one year: | | |
| Compensated absences (note 6) | 236,313 | 235,460 |
| Certificates of participation, net (note 7) | 7,916,083 | 8,162,156 |
| Loan payable (note 7) | 1,023,574 | - |
| Other post employment benefits payable (note 8) | 3,741,462 | 3,122,832 |
| Net pension liability (note 9) | <u>2,512,020</u> | <u>2,415,225</u> |
| Total non-current liabilities | <u>15,429,452</u> | <u>13,935,673</u> |
| Total liabilities | <u>17,298,650</u> | <u>15,342,579</u> |
| Deferred inflows of resources: | | |
| Deferred pension inflows (note 9, 10) | <u>549,965</u> | <u>816,175</u> |
| Total deferred inflows of resources | <u>549,965</u> | <u>816,175</u> |
| Net position: (note 12) | | |
| Net Investment in capital assets | 35,874,859 | 34,413,758 |
| Restricted for debt service | 617,109 | 617,090 |
| Unrestricted | <u>9,602,216</u> | <u>11,924,744</u> |
| Total net position | <u>\$ 46,094,184</u> | <u>46,955,592</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, 2016 and 2015

| | 2016 | 2015 |
|---|----------------------|--------------------|
| Operating revenues: | | |
| Water operations – consumption sales | \$ 5,742,445 | 6,388,564 |
| Water operations – service charge | 1,949,220 | 1,828,481 |
| Water operations – other charges | 440,556 | 548,296 |
| Wastewater operations – user and standby charges | 3,275,859 | 3,341,597 |
| Wastewater operations – other charges | - | 6,000 |
| Total operating revenues | 11,408,080 | 12,112,938 |
| Operating expenses: | | |
| Source of supply – water purchases | 2,503,627 | 2,741,033 |
| Plant operations | 1,928,943 | 2,245,576 |
| Distribution system | 1,275,372 | 1,239,463 |
| City of Los Angeles wastewater system | 1,362,190 | 675,013 |
| Collection system | 307,042 | 282,983 |
| General and administrative expenses | 4,147,556 | 4,190,646 |
| Total operating expenses before depreciation | 11,524,730 | 11,374,714 |
| Operating income before depreciation | (116,650) | 738,224 |
| Depreciation expense | (1,858,112) | (1,925,786) |
| Operating loss | (1,974,762) | (1,187,562) |
| Non-operating revenues (expenses): | | |
| Investment earnings | 635,271 | 167,195 |
| Gain/(loss) on sale of capital assets | 6,901 | (246) |
| Interest expense | (368,022) | (377,454) |
| Rental income | 28,351 | 29,600 |
| Other income (expense), net | 61 | 14,416 |
| Total non-operating expenses, net | 302,562 | (166,489) |
| Net income before capital contributions | (1,672,200) | (1,354,051) |
| Capital contributions | | |
| Capital grants – State | 574,983 | - |
| Capital grants – Local | 214,346 | - |
| Assessments | 21,463 | 31,523 |
| Total capital contributions | 810,792 | 31,523 |
| Changes in net position | (861,408) | (1,322,528) |
| Net position – beginning of year | 46,955,592 | 51,258,662 |
| Prior period adjustment (note 13) | - | (2,980,542) |
| Net position – beginning of year – as restated | 46,955,592 | 48,278,120 |
| Net position – end of year | \$ 46,094,184 | 46,955,592 |

See accompanying notes to the basic financial statements

Crescenta Valley Water District
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2016 and 2015

| | 2016 | 2015 |
|---|----------------------|--------------------|
| Cash flows from operating activities: | | |
| Cash receipts from customers for water sales and services | \$ 11,392,617 | 12,409,131 |
| Cash paid to employees for salaries and wages | (2,864,572) | (2,895,941) |
| Cash paid to vendors and suppliers for materials and services | <u>(8,850,714)</u> | <u>(8,053,433)</u> |
| Net cash (used in)provided by operating activities | <u>(322,669)</u> | <u>1,459,757</u> |
| Cash flows from capital and related financing activities: | | |
| Acquisition and construction of capital assets | (4,157,726) | (2,239,391) |
| Proceeds from grant funding | 656,059 | - |
| Proceeds from property owner assessments | 21,463 | 31,523 |
| Proceeds from loans | 1,091,590 | - |
| Principal paid on long-term debt | (262,004) | (235,000) |
| Interest paid on long-term debt | <u>(338,102)</u> | <u>(346,718)</u> |
| Net cash used in capital and related financing activities | <u>(2,988,720)</u> | <u>(2,789,586)</u> |
| Cash flows from investing activities: | | |
| Purchases of investments | (3,750,000) | (10,070,000) |
| Proceeds from sale of investments | 13,406,547 | 8,599,843 |
| Interest earnings | <u>234,281</u> | <u>196,369</u> |
| Net cash provided by(used in) investing activities | <u>9,890,828</u> | <u>(1,273,788)</u> |
| Net increase(decrease) in cash and cash equivalents | 6,579,439 | (2,603,617) |
| Cash and cash equivalents, beginning of year | 3,747,138 | 6,350,755 |
| Cash and cash equivalents, end of year | <u>\$ 10,326,577</u> | <u>3,747,138</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, 2016 and 2015

| | 2016 | 2015 |
|---|---------------------|------------------|
| Reconciliation of operating loss to net cash (used in)provided by operating activities: | | |
| Operating loss | \$ (1,974,762) | (1,187,562) |
| Adjustments to reconcile operating loss to net cash (used in) provided by operating activities: | | |
| Deprecation | 1,858,112 | 1,925,786 |
| Non-operating, net | 32,437 | 40,894 |
| Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources: | | |
| (Increase)Decrease in assets: | | |
| Accounts receivable – water and wastewater, net | (66,142) | 343,900 |
| Accounts receivable – local grant | (133,270) | - |
| Accounts receivable – other | 50,679 | (47,707) |
| Materials and supplies inventory | (59,813) | (52,338) |
| Prepaid expenses and other deposits | (5,114) | 2,723 |
| Decrease(Increase) in deferred outflows of resources | 7,882 | (26,809) |
| Increase(Decrease) in liabilities: | | |
| Accounts payable and accrued expenses | 367,978 | (58,070) |
| Accrued wages and related payables | 12,134 | 9,150 |
| Customer deposits | 21,700 | 33,419 |
| Compensated absences | 1,137 | (21,109) |
| Other post employment benefits payable | 618,630 | 566,147 |
| Net pension liability | (788,047) | (884,842) |
| (Decrease)Increase in deferred inflows of resources | (266,210) | 816,175 |
| Total adjustments | <u>1,652,093</u> | <u>2,647,319</u> |
| Net cash (used in)provided by operating activities | <u>\$ (322,669)</u> | <u>1,459,757</u> |
| Non-cash investing, capital and financing transactions: | | |
| Change in fair-market value of funds deposited with LAIF | \$ (3,964) | (968) |

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, 2016 and 2015

(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.

The District has adopted the following GASB pronouncements in the current year:

In February 2015, the GASB issued Statement No. 72 – *Fair Value Measurement and Application*, effective for financial statements for periods beginning after June 15, 2015. The objective of this Statement is to enhance comparability of financial statements among governments by measurement of certain assets and liabilities at their fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement establishes a hierarchy of inputs to valuation techniques used to measure fair value.

Crescenta Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

(1) Reporting Entity and Summary of Significant Accounting Policies

C. Financial Reporting, continued

In June 2015, the GASB issued Statement No. 73 – *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statement 67 and 68*, effective for fiscal years beginning after June 15, 2015. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement establishes requirements for defined benefit pensions that are not within the Scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions.

In June 2015, the GASB issued Statement No. 76 – *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, effective for financial statements for periods beginning after June 15, 2015. This Statement replaces the requirements of Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of local governmental entities in conformity with GAAP and the framework for selecting those principles. This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment is not specified within the source of authoritative GAAP.

In December 2015, the GASB issued Statement No. 79 – *Certain External Investment Pools and Pool Participants*, effective for financial statements for periods beginning after June 15, 2015. This Statement enhances comparability of financial statements among governments by establishing specific criteria used to determine whether a qualifying external investment pool may elect to use an amortized cost exception to fair value measurement. Those criteria will provide qualifying external investment pools and participants in those pools with consistent application of an amortized cost-based measurement for financial reporting purposes. That measurement approximates fair value and mirrors the operations of external investment pools that transact with participants at a stable net asset value per share.

Prior Year Financial Data Presentation

In 2015, the District determined to present the annual financial statements with prior year data for comparative purposes, but not restate with regard to GASB 68 and 71, as all information available to restate prior year amounts was not readily available.

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.

Crescenta Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

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

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. Fair Value Measurements

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on valuation inputs used to measure the fair value of the asset, as follows:

- **Level 1** – This valuation level is based on quoted prices in active markets for identical assets.
- **Level 2** – This valuation level is based on directly observable and indirectly observable inputs. These inputs are derived principally from or corroborated by observable market data through correlation or market-corroborated inputs. The concept of market-corroborated inputs incorporates observable market data such as interest rates and yield curves that are observable at commonly quoted intervals.
- **Level 3** – This valuation level is based on unobservable inputs where assumptions are made based on factors such as prepayment rates, probability of defaults, loss severity and other assumptions that are internally generated and cannot be observed in the market.

5. Restricted Assets

Amounts shown as restricted assets are to be used for specified purposes, such as servicing general obligation bond debt and the construction of capital assets. Such assets have been restricted by bond indenture, law or contractual obligations.

6. Accounts Receivable and Allowance for Uncollectible Accounts

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.

7. Prepaids

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

8. 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.

Crescenta Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

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

9. 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 |

10. Deferred Outflows of Resources

The statement of net position reports a separate section for deferred outflows of resources. This financial statement element, *deferred outflows of resources*, represents a consumption of resources applicable to future periods and therefore will *not* be recognized as an outflow of resources (expenditure) until that time. The District has two items which qualify for reporting in this category. The first item is a deferred outflow related to pensions. This amount is equal to the employer contributions made after the measurement date of the net pension liability. This amount will be amortized-in-full against the net pension liability in the next fiscal year. The second item is a deferred outflow related to pensions for the differences between expected and actual experience. This amount will be amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plans determined as of the measurement date June 30, 2015, which is a 3.8 year period.

11. 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.

12. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District's California Public Employees' Retirement System (CalPERS) plans (Plans) and addition to/deduction from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

- Valuation Date: June 30, 2014 and 2013
- Measurement Date: June 30, 2015 and 2014
- Measurement Period: July 1, 2014 to June 30, 2015 and July 1, 2013 to June 30, 2014

Crescenta Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

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

13. Deferred Inflows of Resources

The statement of net position and the governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This financial statement element, *deferred inflows of resources*, represents an acquisition of resources applicable to future periods and therefore will *not* be recognized as an inflow of resources (revenue) until that time. The District has four items which qualify for reporting in this category. The first, second and third items are deferred inflows related to pensions for the changes in assumptions, differences between the actual employer contributions and the proportionate share of contributions and net changes in proportions. These inflow amounts will be amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plans determined as of the measurement date June 30, 2015, which is 3.8 year period. The fourth item is a deferred inflow related to pensions for the net difference in projected and actual earnings on investments of the pension plans fiduciary net position. This amount is amortized over a 5 year period.

14. 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.

15. Deposit Connection Fees

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

16. 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.

17. 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.

Crescenta Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

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

18. 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.

19. Reclassification

The District has reclassified certain prior year information to conform to current year presentations.

(2) Cash and Investments

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

| | 2016 | 2015 |
|----------------------------|----------------------|-------------------|
| Cash and cash equivalents | \$ 10,326,577 | 3,747,138 |
| Investments | 5,007,822 | 13,261,597 |
| Investments – restricted | <u>617,109</u> | <u>617,090</u> |
| Total cash and investments | <u>\$ 15,951,508</u> | <u>17,625,825</u> |

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

| | 2016 | 2015 |
|--------------------------------------|----------------------|-------------------|
| Cash on hand | \$ 800 | 800 |
| Deposits with financial institutions | 590,995 | 139,269 |
| Investments | <u>15,359,713</u> | <u>17,485,756</u> |
| Total cash and investments | <u>\$ 15,951,508</u> | <u>17,625,825</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.

Crescenta Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

(2) Cash and Investments, continued

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.

The District's deposit and withdrawal restrictions and limitations are as follows:

- Same day transaction processing occurs for orders received before 10:00 a.m.
- Next day transactions processing occurs for orders received after 10:00 a.m.
- Maximum limit of 15 transactions (combination of deposits and withdrawals) per month.
- Minimum transaction amount requirement of \$5,000, in increments of a \$1,000 dollars.
- Withdrawals of \$10,000,000 or more require 24 hours advance.
- Prior to funds transfer, an authorized person must call LAIF to do a verbal transaction.

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, 2016 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 | \$ 1,012,230 | - | - | - | 1,012,230 |
| Federal Farm Credit Bank Bonds | 3,995,592 | - | 1,001,250 | 1,783,722 | 1,210,620 |
| Local Agency Investment Fund | 6,385,237 | 6,385,237 | - | - | - |
| Money Market Funds | 3,966,654 | 3,966,654 | - | - | - |
| Total | \$ 15,359,713 | 10,351,891 | 1,001,250 | 1,783,722 | 2,222,850 |

Maturities of investments at June 30, 2015 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 | \$ 4,915,770 | - | - | 2,972,650 | 1,943,120 |
| Federal Farm Credit Bank Bonds | 8,345,827 | - | - | 1,004,605 | 7,341,222 |
| Local Agency Investment Fund | 2,574,523 | 2,574,523 | - | - | - |
| Money Market Funds | 1,649,636 | 1,649,636 | - | - | - |
| Total | \$ 17,485,756 | 4,224,159 | - | 3,977,255 | 9,284,342 |

Crescenta Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

(2) Cash and Investments, continued

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, 2016, were as follows:

| Investment Types | Total | Minimum Legal Rating | Rating as of Year End | | |
|--------------------------------|----------------------|-----------------------------|------------------------------|------------------|------------------|
| | | | AAA | AA+ | Not Rated |
| U.S Treasury Notes | \$ 1,012,230 | A | \$ - | 1,012,230 | - |
| Federal Farm Credit Bank Bonds | 3,995,592 | A | - | 3,995,592 | - |
| Local Agency Investment Fund | 6,385,237 | N/A | - | - | 6,385,237 |
| Money Market Funds | <u>3,966,654</u> | AAA | <u>3,966,654</u> | - | - |
| Total | \$ 15,359,713 | | \$ 3,966,654 | 5,007,822 | 6,385,237 |

Credit ratings of investments as of June 30, 2015, were as follows:

| Investment Types | Total | Minimum Legal Rating | Rating as of Year End | | |
|--------------------------------|----------------------|-----------------------------|------------------------------|-------------------|------------------|
| | | | AAA | AA+ | Not Rated |
| U.S Treasury Notes | \$ 4,915,770 | A | \$ - | 4,915,770 | - |
| Federal Farm Credit Bank Bonds | 8,345,827 | A | - | 8,345,827 | - |
| Local Agency Investment Fund | 2,574,523 | N/A | - | - | 2,574,523 |
| Money Market Funds | <u>1,649,636</u> | AAA | <u>1,649,636</u> | - | - |
| Total | \$ 17,485,756 | | \$ 1,649,636 | 13,261,597 | 2,574,523 |

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.

Crescenta Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

(2) Cash and Investments, continued

Fair Value Measurements

Investments measured at fair value on a recurring and non-recurring basis, are as follows:

Investments at June 30, 2016:

| Investment Type | Fair Value Measurements Using | | | |
|--|---|--|---------------------------------------|-----------|
| | Quoted Prices in Active Markets for Identical Assets | Significant Other Observable Inputs | Significant Unobservable Inputs | (Level 3) |
| | Total | (Level 1) | (Level 2) | |
| Government sponsored entities securities | \$ 3,995,592 | - | 3,995,592 | - |
| U.S. Treasury notes | 1,012,230 | 1,012,230 | - | - |
| Money market funds | 3,240,575 | 3,240,575 | - | - |
| Held by bond trustee: | | | | |
| Money market funds | 726,079 | 726,079 | - | - |
| Total investments measured at fair value | 8,974,476 | 4,978,884 | 3,995,592 | - |
| Investments measured at amortized cost: | | | | |
| Local Agency Investment Fund (LAIF) | 6,385,237 | | | |
| Total | \$ 15,359,713 | | | |

Investments at June 30, 2015:

| Investment Type | Fair Value Measurements Using | | | |
|--|---|--|---------------------------------------|-----------|
| | Quoted Prices in Active Markets for Identical Assets | Significant Other Observable Inputs | Significant Unobservable Inputs | (Level 3) |
| | Total | (Level 1) | (Level 2) | |
| Government sponsored entities securities | \$ 8,345,827 | - | 8,345,827 | - |
| U.S. Treasury notes | 4,915,770 | 4,915,770 | - | - |
| Money market funds | 934,092 | 934,092 | - | - |
| Held by bond trustee: | | | | |
| Money market funds | 715,544 | 715,544 | - | - |
| Total investments measured at fair value | 14,911,233 | 6,565,406 | 8,345,827 | - |
| Investments measured at amortized cost: | | | | |
| Local Agency Investment Fund (LAIF) | 2,574,523 | | | |
| Total | \$ 17,485,756 | | | |

(3) Accounts Receivable – Water and Wastewater, net

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

| | 2016 | 2015 |
|---|---------------------|------------------|
| Accounts receivable – water and wastewater | \$ 1,968,078 | 1,901,936 |
| Allowance for doubtful accounts | (5,513) | (5,513) |
| Accounts receivable – water and wastewater, net | <u>\$ 1,962,565</u> | <u>1,896,423</u> |

Crescenta Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

(4) Capital Assets

Capital assets at June 30, 2016, are summarized as follows:

| | Balance 2015 | Additions/ Transfers | Deletions/ Transfers | Balance 2016 |
|---------------------------------------|-------------------------|---------------------------------|---------------------------------|-------------------------|
| Non-depreciable assets: | | | | |
| Water operations | \$ 2,924,698 | 4,032,686 | (3,625,174) | 3,332,210 |
| Wastewater operations | <u>9,221</u> | <u>54,584</u> | <u>(42,766)</u> | <u>21,039</u> |
| Total non-depreciable assets | <u>2,933,919</u> | <u>4,087,270</u> | <u>(3,667,940)</u> | <u>3,353,249</u> |
| Depreciable assets, net: | | | | |
| Water operations | 20,705,698 | 2,579,060 | - | 23,284,758 |
| Wastewater operations | <u>19,181,297</u> | <u>(698,776)</u> | <u>-</u> | <u>18,482,521</u> |
| Total depreciable capital assets, net | <u>39,886,995</u> | <u>1,880,284</u> | <u>-</u> | <u>41,767,279</u> |
| Total capital assets, net | <u>\$ 42,820,914</u> | | | <u>45,120,528</u> |

Changes for water operations capital assets in 2016, were as follows:

| | Balance 2015 | Additions/ Transfers | Deletions/ Transfers | Balance 2016 |
|----------------------------------|-------------------------|---------------------------------|---------------------------------|-------------------------|
| Non-depreciable assets: | | | | |
| Land | \$ 1,158,526 | - | - | 1,158,526 |
| Construction-in progress | <u>1,766,172</u> | <u>4,032,686</u> | <u>(3,625,174)</u> | <u>2,173,684</u> |
| Total non-depreciable assets | <u>2,924,698</u> | <u>4,032,686</u> | <u>(3,625,174)</u> | <u>3,332,210</u> |
| Depreciable assets: | | | | |
| Production equipment | 7,015,267 | 3,112,783 | - | 10,128,050 |
| Distribution equipment | 29,324,464 | 492,170 | - | 29,816,634 |
| Groundwater reclamation plant | 2,642,127 | - | - | 2,642,127 |
| Autos and trucks | 939,698 | 26,180 | (41,882) | 923,996 |
| Office equipment | 599,218 | - | - | 599,218 |
| Office building | <u>548,360</u> | <u>20,221</u> | <u>-</u> | <u>568,581</u> |
| Total depreciable assets | <u>41,069,134</u> | <u>3,651,354</u> | <u>(41,882)</u> | <u>44,678,606</u> |
| Accumulated depreciation: | | | | |
| Production equipment | (3,548,217) | (274,611) | - | (3,822,828) |
| Distribution equipment | (13,143,802) | (632,221) | - | (13,776,023) |
| Groundwater reclamation plant | (2,246,199) | (20,639) | - | (2,266,838) |
| Autos and trucks | (709,921) | (93,377) | 41,882 | (761,416) |
| Office equipment | (493,044) | (40,396) | - | (533,440) |
| Office building | <u>(222,253)</u> | <u>(11,050)</u> | <u>-</u> | <u>(233,303)</u> |
| Total accumulated depreciation | <u>(20,363,436)</u> | <u>(1,072,294)</u> | <u>41,882</u> | <u>(21,393,848)</u> |
| Total depreciable assets, net | <u>20,705,698</u> | <u>2,579,060</u> | <u>-</u> | <u>23,284,758</u> |
| Total capital assets, net | <u>\$ 23,630,396</u> | | | <u>26,616,968</u> |

Crescenta Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

(4) Capital Assets, continued

Changes in 2016, for water operations capital assets consisted primarily in additions of \$4,032,686 in construction-in-progress, \$3,112,783 in water production equipment, \$492,170 in water distribution equipment, \$26,180 in autos and trucks, and \$20,221 in office building. Transfers in 2016 include \$3,625,174 in construction-in-progress transferred to depreciable assets. Deletions in 2016 include \$41,882 in autos and trucks.

Changes for wastewater operations capital assets in 2016, were as follows:

| | Balance 2015 | Additions/ Transfers | Deletions/ Transfers | Balance 2016 |
|---------------------------------------|-------------------------|---------------------------------|---------------------------------|-------------------------|
| Non-depreciable assets: | | | | |
| Construction-in progress | \$ 9,221 | 54,584 | (42,766) | 21,039 |
| Total non-depreciable assets | <u>9,221</u> | <u>54,584</u> | <u>(42,766)</u> | <u>21,039</u> |
| Depreciable assets: | | | | |
| Wastewater collection system | | | | |
| Interceptor | 4,968,025 | 20,787 | - | 4,988,812 |
| Unit 1 | 11,373,627 | 30,572 | - | 11,404,199 |
| Unit 2 | 19,891,101 | - | - | 19,891,101 |
| Tools and lab equipment | 30,381 | - | - | 30,381 |
| Autos and trucks | 454,405 | 24,208 | (19,372) | 459,241 |
| Safety equipment | 6,569 | - | - | 6,569 |
| Booster building | 66,465 | - | - | 66,465 |
| Office equipment | 15,411 | 11,475 | - | 26,886 |
| Total depreciable assets | <u>36,805,984</u> | <u>87,042</u> | <u>(19,372)</u> | <u>36,873,654</u> |
| Accumulated depreciation: | | | | |
| Wastewater collection system | | | | |
| Interceptor | (2,350,404) | (100,530) | - | (2,450,934) |
| Unit 1 | (5,405,334) | (270,217) | - | (5,675,551) |
| Unit 2 | (9,357,770) | (406,530) | - | (9,764,300) |
| Tools and lab equipment | (29,882) | (499) | - | (30,381) |
| Autos and trucks | (454,405) | (3,026) | 19,372 | (438,059) |
| Safety equipment | (4,945) | (657) | - | (5,602) |
| Booster building | (14,041) | (2,215) | - | (16,256) |
| Office equipment | (7,906) | (2,144) | - | (10,050) |
| Total accumulated depreciation | <u>(17,624,687)</u> | <u>(785,818)</u> | <u>19,372</u> | <u>(18,391,133)</u> |
| Total depreciable capital assets, net | <u>19,181,297</u> | <u>(698,776)</u> | <u>-</u> | <u>18,482,521</u> |
| Total capital assets, net | <u>\$ 19,190,518</u> | | | <u>18,503,560</u> |

Changes in 2016, for wastewater operations capital assets consisted of \$54,584 in construction-in-progress, \$20,787 in interceptor additions, \$30,572 in interceptor unit 1 upgrades, \$24,208 in autos and trucks, and \$11,475 in office equipment. Transfers in 2016 include \$42,766 in construction-in-progress transferred to depreciable assets. Deletions in 2016 include \$19,372 in autos and trucks.

Crescenta Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

(4) Capital Assets, continued

Capital assets at June 30, 2015, are summarized as follows:

| | Balance 2014 | Additions/ Transfers | Deletions/ Transfers | Balance 2015 |
|---------------------------------------|-------------------------|---------------------------------|---------------------------------|-------------------------|
| Non-depreciable assets: | | | | |
| Water operations | \$ 3,213,817 | 1,980,606 | (2,269,725) | 2,924,698 |
| Wastewater operations | <u>6,162</u> | <u>108,543</u> | <u>(105,484)</u> | <u>9,221</u> |
| Total non-depreciable assets | <u>3,219,979</u> | <u>2,089,149</u> | <u>(2,375,209)</u> | <u>2,933,919</u> |
| Depreciable assets, net: | | | | |
| Water operations | 19,467,168 | 1,273,854 | (35,324) | 20,705,698 |
| Wastewater operations | <u>19,858,171</u> | <u>(674,189)</u> | <u>(2,685)</u> | <u>19,181,297</u> |
| Total depreciable capital assets, net | <u>39,325,339</u> | <u>599,665</u> | <u>(38,009)</u> | <u>39,886,995</u> |
| Total capital assets, net | <u>\$ 42,545,318</u> | | | <u>42,820,914</u> |

Changes for water operations capital assets in 2015, were as follows:

| | Balance 2014 | Additions/ Transfers | Deletions/ Transfers | Balance 2015 |
|----------------------------------|-------------------------|---------------------------------|---------------------------------|-------------------------|
| Non-depreciable assets: | | | | |
| Land | \$ 1,158,526 | - | - | 1,158,526 |
| Construction-in progress | <u>2,055,291</u> | <u>1,980,606</u> | <u>(2,269,725)</u> | <u>1,766,172</u> |
| Total non-depreciable assets | <u>3,213,817</u> | <u>1,980,606</u> | <u>(2,269,725)</u> | <u>2,924,698</u> |
| Depreciable assets: | | | | |
| Production equipment | 7,135,547 | 347,318 | (467,598) | 7,015,267 |
| Distribution equipment | 27,564,574 | 1,911,029 | (151,139) | 29,324,464 |
| Groundwater reclamation plant | 2,642,127 | - | - | 2,642,127 |
| Autos and trucks | 894,475 | 142,521 | (97,298) | 939,698 |
| Office equipment | 633,186 | 19,099 | (53,067) | 599,218 |
| Office building | <u>548,360</u> | - | - | <u>548,360</u> |
| Total depreciable assets | <u>39,418,269</u> | <u>2,419,967</u> | <u>(769,102)</u> | <u>41,069,134</u> |
| Accumulated depreciation: | | | | |
| Production equipment | (3,663,801) | (316,829) | 432,413 | (3,548,217) |
| Distribution equipment | (12,682,346) | (612,595) | 151,139 | (13,143,802) |
| Groundwater reclamation plant | (2,182,811) | (63,388) | - | (2,246,199) |
| Autos and trucks | (722,716) | (84,503) | 97,298 | (709,921) |
| Office equipment | (488,223) | (57,749) | 52,928 | (493,044) |
| Office building | <u>(211,204)</u> | <u>(11,049)</u> | - | <u>(222,253)</u> |
| Total accumulated depreciation | <u>(19,951,101)</u> | <u>(1,146,113)</u> | <u>733,778</u> | <u>(20,363,436)</u> |
| Total depreciable assets, net | <u>19,467,168</u> | <u>1,273,854</u> | <u>(35,324)</u> | <u>20,705,698</u> |
| Total capital assets, net | <u>\$ 22,680,985</u> | | | <u>23,630,396</u> |

Changes in 2015, for water operations capital assets consisted primarily in additions of \$1,980,606 in construction-in-progress, \$347,318 in water production equipment, \$1,911,029 in water distribution equipment, \$142,521 in autos and trucks, and \$19,099 in office equipment. Transfers in 2015 include \$2,269,725 in construction-in-progress transferred to depreciable assets. Deletions in 2015 include, \$467,598 in water production equipment, \$151,139 in water distribution equipment, \$97,298 in autos and trucks, and \$53,067 in office equipment.

Crescenta Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

(4) Capital Assets, continued

Changes for wastewater operations capital assets in 2015, were as follows:

| | Balance 2014 | Additions/ Transfers | Deletions/ Transfers | Balance 2015 |
|---------------------------------------|-------------------------|---------------------------------|---------------------------------|-------------------------|
| Non-depreciable assets: | | | | |
| Construction-in progress | \$ 6,162 | 108,543 | (105,484) | 9,221 |
| Total non-depreciable assets | <u>6,162</u> | <u>108,543</u> | <u>(105,484)</u> | <u>9,221</u> |
| Depreciable assets: | | | | |
| Wastewater collection system | | | | |
| Interceptor | 4,958,842 | 9,183 | - | 4,968,025 |
| Unit 1 | 11,277,326 | 96,301 | - | 11,373,627 |
| Unit 2 | 19,891,101 | - | - | 19,891,101 |
| Tools and lab equipment | 30,381 | - | - | 30,381 |
| Autos and trucks | 483,228 | - | (28,823) | 454,405 |
| Safety equipment | 6,569 | - | - | 6,569 |
| Booster building | 69,160 | - | (2,695) | 66,465 |
| Office equipment | 20,275 | - | (4,864) | 15,411 |
| Total depreciable assets | <u>36,736,882</u> | <u>105,484</u> | <u>(36,382)</u> | <u>36,805,984</u> |
| Accumulated depreciation: | | | | |
| Wastewater collection system | | | | |
| Interceptor | (2,250,763) | (99,641) | - | (2,350,404) |
| Unit 1 | (5,139,933) | (265,401) | - | (5,405,334) |
| Unit 2 | (8,951,240) | (406,530) | - | (9,357,770) |
| Tools and lab equipment | (28,882) | (1,000) | - | (29,882) |
| Autos and trucks | (481,376) | (1,852) | 28,823 | (454,405) |
| Safety equipment | (4,288) | (657) | - | (4,945) |
| Booster building | (12,410) | (2,260) | 629 | (14,041) |
| Office equipment | (9,819) | (2,332) | 4,245 | (7,906) |
| Total accumulated depreciation | <u>(16,878,711)</u> | <u>(779,673)</u> | <u>33,697</u> | <u>(17,624,687)</u> |
| Total depreciable capital assets, net | <u>19,858,171</u> | <u>(674,189)</u> | <u>(2,685)</u> | <u>19,181,297</u> |
| Total capital assets, net | <u>\$ 19,864,333</u> | | | <u>19,190,518</u> |

Changes in 2015, for wastewater operations capital assets consisted of \$108,543 in construction-in-progress, \$9,183 in interceptor additions \$96,301 in interceptor unit 1 upgrades. Deletions in 2015 include \$28,823 in autos and trucks, \$2,695 in booster building, and \$4,864 in office equipment.

(5) Deferred Outflows of Resources

Changes in deferred outflows of resources for 2016, were as follows:

| | Balance 2015 | Additions | Amortization/ Transfers | Balance 2016 |
|--|-------------------------|------------------|------------------------------------|-------------------------|
| Deferred outflows of resources: | | | | |
| Deferred pension outflows | \$ 292,716 | 334,099 | (299,408) | 327,407 |
| Total deferred outflows of resources | <u>\$ 292,716</u> | <u>334,099</u> | <u>(299,408)</u> | <u>327,407</u> |

Crescenta Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

(5) Deferred Outflows of Resources, continued

Changes in deferred outflows of resources for 2015, were as follows:

| | <u>Balance</u> <u>2014</u> | <u>Additions</u> | <u>Amortization/ Transfers</u> | <u>Balance</u> <u>2015</u> |
|--------------------------------------|-------------------------------|------------------|------------------------------------|-------------------------------|
| Deferred outflows of resources: | | | | |
| Deferred pension outflows | \$ - | 292,716 | - | 292,716 |
| Total deferred outflows of resources | <u>\$ -</u> | <u>292,716</u> | <u>-</u> | <u>292,716</u> |

(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</u> <u>2015</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u> <u>2016</u> | <u>Due Within One Year</u> | <u>Due in More Than One Year</u> |
|-------------------------------|------------------|------------------|-------------------------------|--------------------------------|--------------------------------------|
| \$ 313,946 | 257,700 | (256,562) | 315,084 | 78,771 | 236,313 |
| <u>Balance</u> <u>2014</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u> <u>2015</u> | <u>Due Within One Year</u> | <u>Due in More Than One Year</u> |
| <u>\$ 335,056</u> | <u>296,361</u> | <u>(317,471)</u> | <u>313,946</u> | <u>78,487</u> | <u>235,460</u> |

(7) Long-Term Debt

Changes in long-term debt amounts at June 30, were as follows:

| | <u>Balance</u> <u>2015</u> | <u>Additions</u> | <u>Payments</u> | <u>Balance</u> <u>2016</u> |
|---|-------------------------------|------------------|------------------|-------------------------------|
| Long-term debt: | | | | |
| Bonds payable: | | | | |
| 2007 Certificates of participation | \$ 8,600,000 | - | (245,000) | 8,355,000 |
| 2007 Certificates of participation discount | (192,844) | - | 8,927 | (183,917) |
| Total bonds payable | <u>8,407,156</u> | <u>-</u> | <u>(236,073)</u> | <u>8,171,083</u> |
| Loans payable: | | | | |
| 2016 GWP infrastructure loan | - | 1,091,590 | (17,004) | 1,074,586 |
| Total loans payable | <u>-</u> | <u>1,091,590</u> | <u>(17,004)</u> | <u>1,074,586</u> |
| Total long-term debt | <u>\$ 8,407,156</u> | <u>1,091,590</u> | <u>(253,077)</u> | <u>9,245,669</u> |

Changes in long-term debt amounts at June 30, were as follows:

| | <u>Balance</u> <u>2014</u> | <u>Additions</u> | <u>Payments</u> | <u>Balance</u> <u>2015</u> |
|---|-------------------------------|------------------|------------------|-------------------------------|
| Long-term debt: | | | | |
| Bonds payable: | | | | |
| 2007 Certificates of participation | \$ 8,835,000 | - | (235,000) | 8,600,000 |
| 2007 Certificates of participation discount | (201,770) | - | 8,926 | (192,844) |
| Total long-term debt | <u>\$ 8,633,230</u> | <u>-</u> | <u>(226,074)</u> | <u>8,407,156</u> |

Crescenta Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

(7) Long-Term Debt, continued

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 |
|----------------------|------------------|------------------|-------------------|
| 2017 | \$ 255,000 | 359,038 | 614,038 |
| 2018 | 265,000 | 348,838 | 613,838 |
| 2019 | 275,000 | 338,238 | 613,238 |
| 2020 | 285,000 | 327,238 | 612,238 |
| 2021 | 300,000 | 315,481 | 615,481 |
| 2022-2026 | 1,695,000 | 1,378,957 | 3,073,957 |
| 2027-2031 | 2,095,000 | 979,344 | 3,074,344 |
| 2032-2036 | 2,595,000 | 479,500 | 3,074,500 |
| 2037 | <u>590,000</u> | <u>25,813</u> | <u>615,813</u> |
| Total | 8,355,000 | <u>4,552,445</u> | <u>12,907,445</u> |
| Less current portion | (255,000) | | |
| Discount on debt | <u>(183,917)</u> | | |
| Total non-current \$ | <u>7,916,083</u> | | |

2016 GWP Infrastructure Loan

On September 9, 2014, the District entered into a loan agreement to receive a \$1,091,590 zero-percent interest loan from the City of Glendale Water and Power to provide construction related expenditure costs related to the Rockhaven Well #16 project. Terms of the agreement call for monthly principal payments with an expected maturity in fiscal year 2037.

| Fiscal Year | Principal | Interest | Total |
|----------------------|------------------|-----------------|------------------|
| 2017 | \$ 51,012 | - | 51,012 |
| 2018 | 51,012 | - | 51,012 |
| 2019 | 51,012 | - | 51,012 |
| 2020 | 51,012 | - | 51,012 |
| 2021 | 51,012 | - | 51,012 |
| 2022-2026 | 255,060 | - | 255,060 |
| 2027-2031 | 255,060 | - | 255,060 |
| 2032-2036 | 255,060 | - | 255,060 |
| 2037 | <u>54,346</u> | <u>-</u> | <u>54,346</u> |
| Total | 1,074,586 | <u>-</u> | <u>1,074,586</u> |
| Less current portion | (51,012) | | |
| Total non-current \$ | <u>1,023,574</u> | | |

Crescenta Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

(8) 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:

| | 2016 | 2015 | 2014 |
|---|-------------|-------------|-------------|
| Active plan members | 34 | 34 | 34 |
| Retirees and beneficiaries receiving benefits | 23 | 21 | 22 |
| Separated plan members entitled to but not yet receiving benefits | - | - | - |
| Total plan membership | <u>57</u> | <u>55</u> | <u>56</u> |

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 26.22% of the annual covered payroll.

Annual Cost

For the year ended June 30, 2016, the District's ARC cost is \$751,149. The District's net OPEB payable obligation amounted to \$3,741,462 for the year ended June 30, 2016. The District contributed \$117,502 in age adjusted contributions for current retiree OPEB premiums for the year ended June 30, 2016.

Crescenta Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

(8) Other Post-Employment Benefits Payable, continued

The balance at June 30, consists of the following:

| | 2016 | 2015 | 2014 |
|---|---------------------|------------------|------------------|
| Annual OPEB expense: | | | |
| Annual required contribution (ARC) | \$ 751,149 | 698,496 | 758,500 |
| Interest on net OPEB obligation | 139,883 | 115,051 | 86,924 |
| Adjustment to annual required contribution | <u>(154,900)</u> | <u>(123,008)</u> | <u>(89,874)</u> |
| Total annual OPEB expense | 736,132 | 690,539 | 755,550 |
| Change in net OPEB payable obligation: | | | |
| Age adjusted contributions made | <u>(117,502)</u> | <u>(124,392)</u> | <u>(143,910)</u> |
| Total change in net OPEB payable obligation | 618,630 | 566,147 | 611,640 |
| OPEB payable – beginning of year | <u>3,122,832</u> | <u>2,556,685</u> | <u>1,945,045</u> |
| OPEB payable – end of year | <u>\$ 3,741,462</u> | <u>3,122,832</u> | <u>2,556,685</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 2016 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 | |
| 2016 | \$ 736,132 | 117,502 | 15.96% | \$ 3,741,462 | |
| 2015 | 690,539 | 124,392 | 18.01% | 3,122,832 | |
| 2014 | 755,550 | 143,910 | 19.05% | 2,556,685 | |

Funded Status and Funding Progress of the Plan

The most recent valuation (dated July 1, 2014) includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of \$8,390,044. The covered payroll (annual payroll of active employees covered by the plan) for the year ended June 30, 2016 was \$2,864,572. The ratio of the unfunded actuarial accrued liability to annual covered payroll is 292.89%.

See the Schedule of Funding Status of the District's Other Post-Employment Benefits Obligation in the Required Supplementary Information Section on page 46.

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.

Crescenta Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

(8) Other Post-Employment Benefits Payable, continued

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

| | |
|-------------------------------|---|
| Valuation date | July 1, 2014 |
| Actuarial cost method | Entry age normal cost method |
| Amortization method | 30 Year level percent of payroll Amortization |
| Remaining amortization period | Closed, 30 Years as of the valuation date |
| Actuarial assumptions: | |
| Investment rate of return | 4.50% |
| Projected salary increase | 3.25% |
| Inflation - discount rate | 4.50% |

(9) Defined Benefit Pension Plan

Plan Description

All qualified permanent and probationary employees are eligible to participate in the District's separate Miscellaneous Employee Pension Plans, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plan is established by State statute and Local Government resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website or may be obtained from their executive office: 400 P Street, Sacramento, CA, 95814.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: The Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

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. The new legislation closed the District's CalPERS 2.0% at 55 Risk Pool Retirement Plan to new employee entrants, not previously employed by an agency under CalPERS, effective December 31, 2013. All employees hired after January 1, 2013 are eligible for the District's CalPERS 2.0% at 62 Retirement Plan under PEPRA.

The Plans' provision and benefits in effect at June 30, 2016, are summarized as follows:

| | Miscellaneous Plan | |
|---|------------------------------------|---------------------------------------|
| | Tier 1 | Tier 2 |
| Hire date | Prior to <u>January 1, 2013</u> | On or after <u>January 1, 2013</u> |
| Benefit formula | 2.0% @ 55 | 2.0% @ 62 |
| Benefit vesting schedule | 5 years of service | 5 years of service |
| Benefit payments | monthly for life | monthly for life |
| Retirement age | 50 - 55 | 52 - 67 |
| Monthly benefits, as a % of eligible compensation | 2.0% to 2.5% | 1.0% to 2.5% |
| Required employee contribution rates | 7.00% | 6.25% |
| Required employer contribution rates | 12.499% | 6.237% |

Crescenta Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

(9) Defined Benefit Pension Plan, continued

Benefits Provided, continued

As of June 30, 2015, an actuarial report was not prepared by CalPERS for the District's PEPRA tier. CalPERS made this determination as a result of the District not having PEPRA eligible employees between the period January 1, 2013 and June 30, 2013, the valuation date of the actuarial report provided.

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates, for all public employers, be determined on an annual basis by the actuary and shall be effective on July 1 following notice of the change in rate. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

As of the fiscal year ended June 30, the contributions recognized as part of pension expense for the Plan was as follows:

| Miscellaneous Plan | | |
|---|--------------------------|-----------------------|
| | 2016 | 2015 |
| Contributions – employer | \$ 308,670 | 292,716 |
| Contributions – employee (paid by employer) | <u>151,019</u> | <u>166,690</u> |
| Total employer paid contributions | <u><u>\$ 459,689</u></u> | <u><u>459,406</u></u> |

Net Pension Liability

As of the fiscal year ended June 30, the District reported net pension liabilities for its proportionate share of the net pension liability of the Plan was as follows:

| Proportionate Share of Net Pension Liability | | |
|---|---------------------|------------------|
| | 2016 | 2015 |
| Miscellaneous Plan | <u>\$ 2,512,020</u> | <u>2,415,225</u> |

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2015 and 2014, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 and 2013, rolled forward to June 30, 2015 and 2014, using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

The District's proportionate share of the pension liability for the District's Plan as of the June 30, 2014 and 2015, was as follows:

| Miscellaneous Plan | |
|-------------------------------|-------------------------|
| Proportion – June 30, 2014 | 0.03881% |
| Proportion – June 30, 2015 | <u>0.03660%</u> |
| Change – Increase (Decrease) | <u><u>-0.00221%</u></u> |

Crescenta Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

(9) Defined Benefit Pension Plan, continued

The District's proportionate share of the pension liability for the District's Plan as of the June 30, 2013 and 2014, was as follows:

| | Miscellaneous Plan |
|------------------------------|-------------------------------|
| Proportion – June 30, 2013 | 0.04094% |
| Proportion – June 30, 2014 | <u>0.03881%</u> |
| Change – Increase (Decrease) | <u>-0.00213%</u> |

Deferred Pension Outflows (Inflows) of Resources

As of June 30, 2016 and 2015, the District recognized pension expense of \$250,858 and \$104,564, respectively.

As of the fiscal year ended June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| Description | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|--|
| Pension contributions subsequent to the measurement date | \$ 308,670 | |
| Differences between actual and expected experience | 18,737 | - |
| Changes in assumptions | - | (177,273) |
| Net differences between projected and actual earnings on plan investments | - | (88,869) |
| Differences between actual contribution and proportionate share of contribution | - | (80,723) |
| Net adjustment due to differences in proportions of net pension liability | - | (203,100) |
| Total | \$ 327,407 | (549,965) |

As of the fiscal year ended June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| Description | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|--|
| Pension contributions subsequent to measure | \$ 292,716 | - |
| Net differences between projected and actual earnings on plan investments | - | (811,627) |
| Net adjustment due to differences in proportions of net pension liability | - | (4,548) |
| Total | \$ 292,716 | (816,175) |

Crescenta Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

(9) Defined Benefit Pension Plan, continued

Deferred Pension Outflows (Inflows) of Resources

As of June 30 2016 and 2015, employer pension contributions of \$308,670 and \$292,716, respectively, reported as deferred outflows of resources related to contributions subsequent to the measurement date were and will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2017 and 2016, respectively.

As of June 30, 2016, the District recognized other amounts reported by the Plan actuarial as deferred outflows of resources and deferred inflows of resources related to the pension liability. Pension related amounts will be recognized as pension expense as follows.

| Fiscal Year Ending June 30: | Deferred Outflows/(Inflows) of Resources | |
|--|---|-----------|
| 2017 | \$ | (231,509) |
| 2018 | | (231,185) |
| 2019 | | (198,496) |
| 2020 | | 129,962 |
| 2021 | | - |
| Thereafter | | - |

Actuarial Assumptions

The total pension liability in the June 30, 2015 and 2014 actuarial valuation report was determined using the following actuarial assumptions:

| | |
|-------------------------------|---|
| Valuation Date | June 30, 2014 and 2013 |
| Measurement Date | June 30, 2015 and 2014 |
| Actuarial cost method | Entry Age Normal in accordance with the requirements of GASB Statement No. 68 |
| Actuarial assumptions: | |
| Discount rate | 7.50% Net of Administrative Expenses for 2015 and 2014 |
| Inflation | 2.75% |
| Salary increases | Varies by Entry Age and Service |
| Investment Rate of Return | 7.50 % Net of Pension Plan Investment and Administrative Expenses; includes inflation |
| Mortality Rate Table* | Derived using CalPERS' Membership Data for all Funds |
| Post Retirement Benefit | Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter |

* The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 Experience Study report. Further details of the Experience Study can be found on the CalPERS website.

Crescenta Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

(9) Defined Benefit Pension Plan, continued

Discount Rate

The Discount rate used to measure the total pension liability was 7.50% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50% will be applied to all plans in the Public Employees' Retirement Fund (PERF). The stress test results are presented in a detailed report which can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65%. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS confirmed the materiality threshold for the difference in the calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the Discount rate will require CalPERS Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the fiscal year ended 2017-2018. CalPERS will continue to check the materiality of the difference in the calculation until such time as it has changed its methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

Crescenta Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

(9) Defined Benefit Pension Plan, continued

Discount Rate, continued

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

| Asset Class | New Strategic Allocation | Real Return Years 1–10* | Real Return Year 11+** |
|-------------------------------|--------------------------|-------------------------|------------------------|
| Global Equity | 47.0% | 5.25% | 5.71% |
| Global Fixed Income | 19.0 | 0.99 | 2.43 |
| Inflation Sensitive | 6.0 | 0.45 | 3.36 |
| Private Equity | 12.0 | 6.83 | 6.95 |
| Real Estate | 11.0 | 4.50 | 5.13 |
| Infrastructure and Forestland | 3.0 | 4.50 | 5.09 |
| Liquidity | 2.0 | (0.55) | (1.05) |
| Total | 100.0% | | |

* An expected inflation of 2.5% used for this period

** An expected inflation of 3.0% used for this period

Sensitivity of the Proportionate Share of Net Pension Liability to Changes in the Discount Rate

The following table presents the District's proportionate share of the net position liability for the Plan, calculated using the discount rate, as well as what the District's proportional share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

At June 30, 2016, the discount rate comparison was the following:

| | Discount Rate – 1% (6.65%) | Current Discount Rate (7.65%) | Discount Rate + 1% (8.65%) |
|----------------------------------|---|--|---|
| District's Net Pension Liability | \$ <u>4,109,462</u> | <u>2,512,020</u> | <u>1,080,619</u> |

At June 30, 2015, the discount rate comparison was the following:

| | Discount Rate – 1% (6.50%) | Prior Discount Rate (7.50%) | Discount Rate + 1% (8.50%) |
|----------------------------------|---|--|---|
| District's Net Pension Liability | \$ <u>4,303,185</u> | <u>2,415,225</u> | <u>848,398</u> |

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in separately issued CalPERS financial reports. See pages 44 through 45 for the Required Supplementary Schedules.

Payable to the Pension Plan

At June 30, 2016 and 2015, the District reported no payables for the outstanding amount of contribution to the pension plan.

Crescenta Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

(10) Deferred Inflows of Resources

Changes in deferred inflows of resources for 2016, were as follows:

| | Balance 2015 | Additions | Amortization/ Transfers | Balance 2016 |
|-------------------------------------|-------------------------|------------------|------------------------------------|-------------------------|
| Deferred inflows of resources: | | | | |
| Deferred pension inflows | 816,175 | (28,009) | (238,201) | 549,965 |
| Total deferred inflows of resources | \$ 816,175 | (28,009) | (238,201) | \$ 549,965 |

Changes in deferred inflows of resources for 2015, were as follows:

| | Balance 2014 | Additions | Amortization/ Transfers | Balance 2015 |
|-------------------------------------|-------------------------|------------------|------------------------------------|-------------------------|
| Deferred inflows of resources: | | | | |
| Deferred pension inflows | \$ - | 1,020,706 | (204,531) | 816,175 |
| Total deferred inflows of resources | \$ - | 1,020,706 | (204,531) | \$ 816,175 |

(11) 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 \$1,227,925 and \$1,426,057 in fiscal years 2016 and 2015, respectfully.

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.

Crescenta Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

(12) Net Position

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

| | 2016 | 2015 |
|---|----------------------|-------------------|
| Net investment in capital assets: | | |
| Capital assets – not being depreciated | \$ 3,353,249 | 2,933,919 |
| Depreciable capital assets, net | 41,767,279 | 39,886,995 |
| Certificates of participation payable – current | (255,000) | (245,000) |
| Certificates of participation payable – non-current | (7,916,083) | (8,162,156) |
| Loan payable – current | (51,012) | - |
| Loan payable – non-current | (1,023,574) | - |
| Total net investment in capital assets | <u>35,874,859</u> | <u>34,413,758</u> |
| Restricted net position: | | |
| Investments – restricted | <u>617,109</u> | <u>617,090</u> |
| Unrestricted net position: | | |
| Non-spendable net position: | | |
| Materials and supplies inventory | 370,451 | 310,638 |
| Prepaid expenses and other deposits | <u>44,593</u> | <u>39,479</u> |
| Total non-spendable net position | <u>415,044</u> | <u>350,117</u> |
| Spendable net position is as follows: | | |
| Unrestricted | <u>9,187,172</u> | <u>11,574,627</u> |
| Total spendable net position | <u>9,187,172</u> | <u>11,574,627</u> |
| Total unrestricted net position | <u>9,602,216</u> | <u>11,924,744</u> |
| Total net position | <u>\$ 46,094,184</u> | <u>46,955,592</u> |

(13) Adjustment to Net Position

Net Pension Liability – GASB 68 Implementation

In fiscal year 2015, the District implemented GASB pronouncements 68 and 71 to recognize its proportionate share of the net pension liability. As a result of the implementation, the District recognized the pension liability and recorded a prior period adjustment, a (decrease) to net position, of \$3,300,067 at July 1, 2014. The District recorded a prior period adjustment, increase to net position, to reclassify from expense to deferred outflows of resources, the prior year's proportionate share of employer pension contributions of \$319,525 at July 1, 2014.

The adjustment to net position is as follows:

| | |
|--|----------------------|
| Net position at June 30, 2014, as previously stated | \$ 51,258,662 |
| Effect of adjustment to record net pension liability | \$ (3,300,067) |
| Effect of adjustment to record deferred pension outflows | <u>319,525</u> |
| Total adjustment to net position | <u>(2,980,542)</u> |
| Net position at July 1, 2014, as restated | <u>\$ 48,278,120</u> |

Crescenta Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

(14) 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, 2016, the District participated in the liability, property programs, and workers' compensation 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 \$2,000,000 per occurrence. The District has additional excess coverage layers through ACWA/JPIA: \$58 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 from the ACWA/JPIA provides self-insurance up to \$100,000 subject to a \$1,000 deductible per loss. The District has purchased excess coverage up to \$1,000,000 per loss, subject to a \$100,000 deductible. Coverage includes public employee dishonesty, forgery or alteration, computer fraud, and faithful performance.
- 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 \$150 million per occurrence, subject to a \$2,500 deductible per occurrence. Mobile equipment is replaced at actual cash value subject to a \$2,500 deductible per occurrence. Scheduled vehicles covered for comprehensive and collision, actual cash value basis subject to \$1,000 deductible per occurrence.
- Boiler and machinery coverage for the replacement cost up to \$150 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.

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, 2016, 2015 and 2014. 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, 2016, 2015, and 2014, respectively.

Crescenta Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

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

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2016, that has effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 74

In June 2015, the GASB issued Statement No. 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness or information about postemployment benefits other than pensions (other postemployment benefits of OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.

This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No.50, *Pension Disclosures*.

The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2016. 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. 75

In June 2015, the GASB issued Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.

This Statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2017. 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. 77

In August 2015, the GASB issued Statement No. 77 – *Tax Abatement Disclosures*. The objective of this Statement is to improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Financial statement users need information about certain limitations on a government's ability to raise resources. This includes limitations on revenue-raising capacity resulting from governmental programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens. Tax abatements are widely used by state and local governments, particularly to encourage economic development. This Statement is effective for financial statements for periods beginning after December 15, 2015. It is believed that the implementation of this Statement will not have a material effect to the District's financial statements.

Crescenta Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

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

Governmental Accounting Standards Board Statement No. 80

In January 2016, the GASB issued Statement No. 80 – *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*. The objective of this Statement is to improve financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. This Statement is effective for financial statements for periods beginning after June 15, 2016. It is believed that the implementation of this Statement will not have a material effect to the District's financial statements.

Governmental Accounting Standards Board Statement No. 81

In March 2016, the GASB issued Statement No. 81 – *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. This Statement is effective for financial statements for periods beginning after December 15, 2016. It is believed that the implementation of this Statement will not have a material effect to the District's financial statements.

Governmental Accounting Standards Board Statement No. 82

In March 2016, the GASB issued Statement No. 82 – *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No.73*. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement is effective for financial statements for periods beginning after June 15, 2016. It is believed that the implementation of this Statement will not have a material effect to the District's financial statements.

(16) 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.

(17) Subsequent Events

Events occurring after June 30, 2016, have been evaluated for possible adjustment to the financial statements or disclosure as of December 6, 2016, 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.

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Required Supplementary Information

Cresenta Valley Water District
Schedule of the District's Proportionate Share of the Net Pension Liability
As of June 30, 2016 and 2015
Last Ten Years*

| Description | Measurement Date | Measurement Date |
|---|-------------------------|-------------------------|
| | 6/30/2015 | 6/30/2014 |
| District's Proportion of the Net Pension Liability | 0.03660% | 0.03881% |
| District's Proportionate Share of the Net Pension Liability | \$ 2,512,020 | 2,415,225 |
| District's Covered-Employee Payroll | \$ 2,715,807 | 2,388,479 |
| District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll | 92.50% | 101.12% |
| District's Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability | 82.80% | 83.03% |

* Fiscal Year 2015 was the first year of implementation, therefore only two years are shown.

Cresenta Valley Water District
Schedule of Pension Plan Contributions
As of June 30, 2016 and 2015
Last Ten Years*

| <u>Schedule of Pension Plan Contributions:</u> | Fiscal Year | Fiscal Year |
|---|---------------------|--------------------|
| | 2014-2015 | 2013-2014 |
| Actuarially Determined Contribution | \$ 307,695 | 262,967 |
| Contribution's in Relation to the Actuarially Determined Contribution | <u>(292,716)</u> | <u>(262,967)</u> |
| Contribution Deficiency (Excess) | <u>\$ 14,979</u> | - |
| Covered Payroll | <u>\$ 2,715,807</u> | 2,388,479 |
| Contribution's as a percentage of Covered-employee Payroll | <u>11.33%</u> | 11.01% |

* Fiscal Year 2015 was the first year of implementation, therefore only two years are shown.

Cresenta Valley Water District
Schedule of Funding Status – Other Post-Employment Benefits Obligation
For the Fiscal Years Ended June 30, 2016 and 2015

Required Supplemental Information – Schedule of Funding Progress

| 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) |
|--------------------------|-------------------------------|---------------------------------|---|--------------------|---------------------|---|
| 7/1/2014 | \$ - | 8,390,044 | 8,390,044 | 0.00% | \$ 2,864,572 | 292.89% |
| 7/1/2011 | - | 7,116,527 | 7,116,527 | 0.00% | 2,895,941 | 245.74% |
| 7/1/2008 | - | 5,407,674 | 5,407,674 | 0.00% | 3,007,857 | 179.78% |

Funding progress is presented for the years 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 2017 based on the year ending June 30, 2018.

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Supplemental Information

Crescenta Valley Water District
Combining Schedule of Statements of Fund Net Position
For the Fiscal Year Ended June 30, 2016

| | Enterprise Funds | | |
|--|-------------------------|-------------------|-------------------|
| | Water Fund | Sewer Fund | Total |
| Current assets: | | | |
| Cash and cash equivalents | \$ 10,239,534 | 87,043 | 10,326,577 |
| Accrued interest receivable | 29,957 | - | 29,957 |
| Accounts receivable – water and wastewater, net | 1,445,930 | 516,635 | 1,962,565 |
| Accounts receivable – local grant | 133,270 | - | 133,270 |
| Accounts receivable – other | 2,520 | - | 2,520 |
| Materials and supplies inventory | 365,033 | 5,418 | 370,451 |
| Prepaid expenses and other deposits | 27,448 | 17,145 | 44,593 |
| Total current assets | 12,243,692 | 626,241 | 12,869,933 |
| Non-current assets: | | | |
| Investments | 5,007,822 | - | 5,007,822 |
| Investments – restricted | 617,109 | - | 617,109 |
| Internal balances | (1,667,012) | 1,667,012 | - |
| Capital assets – not being depreciated | 3,332,209 | 21,040 | 3,353,249 |
| Depreciable capital assets | 23,284,758 | 18,482,521 | 41,767,279 |
| Total non-current assets | 30,574,886 | 20,170,573 | 50,745,459 |
| Total assets | 42,818,578 | 20,796,814 | 63,615,392 |
| Deferred outflows of resources: (note 6) | | | |
| Deferred pension outflows | 196,444 | 130,963 | 327,407 |
| Total deferred outflows of resources | 196,444 | 130,963 | 327,407 |
| Current liabilities: | | | |
| Accounts payable and accrued expenses | 1,074,119 | 76,030 | 1,150,149 |
| Accrued wages and related payables | 32,951 | 11,548 | 44,499 |
| Customer deposits | 246,980 | 12,867 | 259,847 |
| Accrued interest expense | 29,920 | - | 29,920 |
| Long-term liabilities – due within one year: | | | |
| Compensated absences | 59,078 | 19,693 | 78,771 |
| Certificates of participation | 255,000 | - | 255,000 |
| Loans payable | 51,012 | - | 51,012 |
| Total current liabilities | 1,749,060 | 120,138 | 1,869,198 |
| Non-current liabilities: | | | |
| Long-term liabilities – due in more than one year: | | | |
| Compensated absences | 177,235 | 59,078 | 236,313 |
| Certificates of participation | 7,916,083 | - | 7,916,083 |
| Loans payable | 1,023,574 | - | 1,023,574 |
| Other post employment benefits payable | 2,244,991 | 1,496,471 | 3,741,462 |
| Net pension liability | 1,507,212 | 1,004,808 | 2,512,020 |
| Total non-current liabilities | 12,869,095 | 2,560,357 | 15,429,452 |
| Total liabilities | 14,618,155 | 2,680,495 | 17,298,650 |
| Deferred inflows of resources: (note 6) | | | |
| Deferred pension inflows | 329,979 | 219,986 | 549,965 |
| Total deferred outflows of resources | 329,979 | 219,986 | 549,965 |
| Net position: | | | |
| Net Investment in capital assets | 17,371,298 | 18,503,561 | 35,874,859 |
| Restricted | 617,109 | - | 617,109 |
| Unrestricted | 10,078,481 | (476,265) | 9,602,216 |
| Total net position | \$ 28,066,888 | 18,027,296 | 46,094,184 |

See accompanying notes to the basic financial statements

Crescenta Valley Water District
Combining Schedule of Statements of Revenues, Expenses and Changes in Fund Net Position
For the Fiscal Year Ended June 30, 2016

| | Enterprise Funds | | |
|--|-------------------------|-------------------|--------------------|
| | Water Fund | Sewer Fund | Total |
| Operating revenues: | | | |
| Water operations – consumption sales | \$ 5,742,445 | - | 5,742,445 |
| Water operations – service charge | 1,949,220 | - | 1,949,220 |
| Water operations – other charges | 440,556 | - | 440,556 |
| Wastewater operations – user and standby charges | - | 3,275,859 | 3,275,859 |
| Wastewater operations – other charges | - | - | - |
| Total operating revenues | <u>8,132,221</u> | <u>3,275,859</u> | <u>11,408,080</u> |
| Operating expenses: | | | |
| Source of supply – water purchases | 2,503,627 | - | 2,503,627 |
| Plant operations | 1,741,066 | 187,877 | 1,928,943 |
| Distribution system | 1,275,372 | - | 1,275,372 |
| City of Los Angeles wastewater system | - | 1,362,190 | 1,362,190 |
| Collection system | - | 307,042 | 307,042 |
| General and administrative expenses | <u>2,611,625</u> | <u>1,535,931</u> | <u>4,147,556</u> |
| Total operating expenses before depreciation | <u>8,131,690</u> | <u>3,393,040</u> | <u>11,524,730</u> |
| Operating income before depreciation | 531 | (117,181) | (116,650) |
| Depreciation expense | <u>(1,072,294)</u> | <u>(785,818)</u> | <u>(1,858,112)</u> |
| Operating loss | <u>(1,071,763)</u> | <u>(902,999)</u> | <u>(1,974,762)</u> |
| Non-operating revenues(expenses): | | | |
| Investment earnings | 635,075 | 196 | 635,271 |
| Gain/(loss) on sale of capital assets | 5,401 | 1,500 | 6,901 |
| Interest expense | (368,022) | - | (368,022) |
| Rental income | 21,263 | 7,088 | 28,351 |
| Other income(expense), net | <u>(18,282)</u> | <u>18,343</u> | <u>61</u> |
| Total non-operating revenues, net | <u>275,435</u> | <u>27,127</u> | <u>302,562</u> |
| Net income (loss) before capital contributions | <u>(796,328)</u> | <u>(875,872)</u> | <u>(1,672,200)</u> |
| Capital contributions: | | | |
| Capital grants – state | 574,983 | - | 574,983 |
| Capital grants – local | 214,346 | - | 214,346 |
| Assessments | - | 21,463 | 21,463 |
| Total capital contributions | <u>789,329</u> | <u>21,463</u> | <u>810,792</u> |
| Changes in net position | | | |
| | (6,999) | (854,409) | (861,408) |
| Net position – beginning of year | <u>28,073,887</u> | <u>18,881,705</u> | <u>46,955,592</u> |
| Net position – end of year | <u>\$ 28,066,888</u> | <u>18,027,296</u> | <u>46,094,184</u> |

See accompanying notes to the basic financial statements

Crescenta Valley Water District
Detailed Schedules of Revenues, Expenses and Changes in Fund Net Position
Water Operations
For the Fiscal Year Ended June 30, 2016 and 2015

| | 2016 | | 2015 | |
|------------------------------------|---------------------|----------------|------------------|----------------|
| | Amount | Percent | Amount | Percent |
| Operating revenues: | | | | |
| Consumption sales – customers | \$ 5,742,445 | 70.61% | 6,388,564 | 72.88% |
| Consumption sales – others | 99,670 | 1.23% | 104,754 | 1.20% |
| Service charges | 1,949,220 | 23.97% | 1,828,481 | 20.86% |
| Meter installations | 40,690 | 0.50% | 148,150 | 1.69% |
| Other revenue | 300,196 | 3.69% | 295,392 | 3.37% |
| Total operating revenues | <u>8,132,221</u> | <u>100.00%</u> | <u>8,765,341</u> | <u>100.00%</u> |
| Operating expenses: | | | | |
| Source of supply – water purchases | 2,503,627 | 30.79% | 2,741,033 | 31.55% |
| Plant operations: | | | | |
| Power | 673,699 | 8.28% | 697,388 | 8.03% |
| Plant wages | 503,028 | 6.19% | 590,884 | 6.80% |
| Utilities | 12,119 | 0.15% | 17,368 | 0.20% |
| Telephone | - | 0.00% | 52,487 | 0.60% |
| Maintenance | 122,388 | 1.51% | 138,642 | 1.60% |
| Signal system | 23,478 | 0.29% | 20,300 | 0.23% |
| Lab and treatment | 145,773 | 1.79% | 211,483 | 2.43% |
| Nitrate treatment | 60,135 | 0.74% | 49,441 | 0.57% |
| Insurance | 130,058 | 1.60% | 100,590 | 1.16% |
| Other expense | 70,388 | 0.87% | 152,962 | 1.76% |
| Total plant operations | <u>1,741,066</u> | <u>21.41%</u> | <u>2,031,545</u> | <u>23.38%</u> |
| Distribution system: | | | | |
| Meter maintenance | 1,007,772 | 12.39% | 937,195 | 10.79% |
| Pipeline maintenance | 72,757 | 0.89% | 89,534 | 1.03% |
| Backflow operations | 460 | 0.01% | 331 | 0.00% |
| Reservoir and building maintenance | 83,820 | 1.03% | 88,315 | 1.02% |
| Auto and truck expense | 98,061 | 1.21% | 111,786 | 1.29% |
| Property taxes | 12,502 | 0.15% | 12,302 | 0.14% |
| Total distribution system | <u>\$ 1,275,372</u> | <u>15.68%</u> | <u>1,239,463</u> | <u>14.27%</u> |

Continued on next page

See accompanying notes to the basic financial statements

Crescenta Valley Water District
Detailed Schedules of Revenues, Expenses and Changes in Fund Net Position
Water Operations, continued
For the Fiscal Year Ended June 30, 2016 and 2015

| | 2016 | | 2015 | |
|--|--------------------|----------------|--------------------|----------------|
| | Amount | Percent | Amount | Percent |
| Operating expenses, continued: | | | | |
| General and administrative: | | | | |
| Directors' fees | \$ 8,370 | 0.10% | 9,225 | 0.11% |
| Salaries – statutory officers | 163,897 | 2.02% | 150,010 | 1.73% |
| Salaries – general office | 454,109 | 5.58% | 468,979 | 5.40% |
| Retirement (CalPERS) | 153,037 | 1.88% | 249,566 | 2.87% |
| Payroll taxes | 130,768 | 1.61% | 130,866 | 1.51% |
| Engineering and drafting | 295,124 | 3.63% | 304,542 | 3.51% |
| Accounting | 10,940 | 0.13% | 11,515 | 0.13% |
| Legal | 75,684 | 0.93% | 85,614 | 0.99% |
| Administrative consultant - water system | 81,820 | 1.01% | 73,932 | 0.85% |
| Insurance – general | 19,387 | 0.24% | 13,221 | 0.15% |
| Insurance – group | 721,758 | 8.88% | 709,991 | 8.17% |
| Maintenance | 13,804 | 0.17% | 16,282 | 0.19% |
| Computer and supplies | 102,129 | 1.26% | 86,447 | 1.00% |
| Utilities | 21,381 | 0.26% | 19,978 | 0.23% |
| Telephone | 102,160 | 1.26% | 31,133 | 0.36% |
| Printing and postage | 40,413 | 0.50% | 43,423 | 0.50% |
| Bad debt | - | 0.00% | - | 0.00% |
| Water system fees | 49,690 | 0.61% | 46,503 | 0.54% |
| Water conservation | 77,603 | 0.95% | 137,935 | 1.59% |
| Training | 30,007 | 0.37% | 23,068 | 0.27% |
| Other | 59,544 | 0.73% | 63,301 | 0.73% |
| | <u>2,611,625</u> | <u>32.12%</u> | <u>2,675,531</u> | <u>30.80%</u> |
| | <u>8,131,690</u> | <u>100.00%</u> | <u>8,687,572</u> | <u>100.00%</u> |
| Operating income before depreciation | 531 | 100.00% | 77,769 | 100.00% |
| Depreciation expense | (1,072,294) | 100.00% | (1,146,113) | 100.00% |
| Operating loss | (1,071,763) | 100.00% | (1,068,344) | 100.00% |
| Non-operating revenues(expense): | | | | |
| Investment earnings | 635,075 | 230.57% | 167,092 | -83.14% |
| Gain/(loss) on sale of capital assets | 5,401 | 1.96% | 664 | -0.33% |
| Interest expense | (368,022) | -133.61% | (377,454) | 187.80% |
| Rental income | 21,263 | 7.72% | 22,200 | -11.05% |
| Other income(expense), net | (18,282) | -6.64% | (13,489) | 6.71% |
| Total non-operating revenues, net | <u>275,435</u> | <u>100.00%</u> | <u>(200,987)</u> | <u>100.00%</u> |
| Net income (loss) before capital contributions | (796,328) | 100.00% | (1,269,331) | 100.00% |
| Capital contributions: | | | | |
| Capital grants – state | 574,983 | 72.84% | - | 0.00% |
| Capital grants – local | 214,346 | 27.16% | - | 0.00% |
| Total capital contributions | <u>\$ 789,329</u> | <u>100.00%</u> | <u>-</u> | <u>0.00%</u> |
| Change in net position | \$ (6,999) | 100.00% | (1,269,331) | 100.00% |

See accompanying notes to the basic financial statements

Crescenta Valley Water District
Detailed Schedule of Revenues, Expenses and Changes in Fund Net Position
Wastewater Operations
For the Fiscal Years Ended June 30, 2016 and 2015

| | 2016 | | 2015 | |
|---|-------------------|----------------|------------------|----------------|
| | Amount | Percent | Amount | Percent |
| Operating revenues: | | | | |
| User and standby charges | \$ 3,275,859 | 100.00% | 3,341,597 | 99.82% |
| Other charges | - | 0.00% | 6,000 | 0.18% |
| Total operating revenues | <u>3,275,859</u> | <u>100.00%</u> | <u>3,347,597</u> | <u>100.00%</u> |
| Operating expenses: | | | | |
| City of Los Angeles wastewater system expense | 1,362,190 | 40.15% | 675,013 | 25.12% |
| Plant operations: | | | | |
| Power | 646 | 0.02% | 723 | 0.03% |
| Plant wages | 58,056 | 1.71% | 86,393 | 3.22% |
| Utilities | 2,912 | 0.09% | 3,575 | 0.13% |
| Telephone | - | 0.00% | 17,495 | 0.65% |
| Maintenance | 7,334 | 0.22% | 4,994 | 0.19% |
| Insurance - general | 103,520 | 3.05% | 81,771 | 3.04% |
| Other expense | 15,409 | 0.45% | 19,080 | 0.71% |
| Total plant operations | <u>187,877</u> | <u>5.54%</u> | <u>214,031</u> | <u>7.97%</u> |
| Collection system: | | | | |
| Maintenance | 250,492 | 7.38% | 233,755 | 8.70% |
| Auto and truck expense | 53,424 | 1.57% | 47,868 | 1.78% |
| Inspection | 3,126 | 0.09% | 1,360 | 0.05% |
| Total collection system | <u>\$ 307,042</u> | <u>9.05%</u> | <u>282,983</u> | <u>10.53%</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 Fund Net Position
Wastewater Operations, Continued
For the Fiscal Years Ended June 30, 2016 and 2015

| | 2016 | | 2015 | |
|---|---------------------|----------------|------------------|----------------|
| | Amount | Percent | Amount | Percent |
| Operating expenses, continued: | | | | |
| General and administrative: | | | | |
| Directors' fees | \$ 8,370 | 0.25% | 9,225 | 0.34% |
| Salaries – statutory officers | 164,628 | 4.85% | 150,010 | 5.58% |
| Salaries – general office | 305,023 | 8.99% | 309,570 | 11.52% |
| Retirement (CalPERS) | 102,546 | 3.02% | 168,737 | 6.28% |
| Payroll taxes | 87,179 | 2.57% | 87,244 | 3.25% |
| Engineering and drafting | 93,354 | 2.75% | 95,584 | 3.56% |
| Accounting | 10,940 | 0.32% | 11,515 | 0.43% |
| Legal | 15,503 | 0.46% | 16,163 | 0.60% |
| Administrative | 69,512 | 2.05% | 27,706 | 1.03% |
| Insurance – general | 12,925 | 0.38% | 8,815 | 0.33% |
| Insurance – group | 480,762 | 14.17% | 473,470 | 17.62% |
| Maintenance | 4,601 | 0.14% | 5,427 | 0.20% |
| Computer and supplies | 40,577 | 1.20% | 36,759 | 1.37% |
| Utilities | 6,848 | 0.20% | 6,294 | 0.23% |
| Telephone | 34,053 | 1.00% | 10,377 | 0.39% |
| Printing and postage | 36,718 | 1.08% | 43,425 | 1.62% |
| Bad debt | - | 0.00% | - | 0.00% |
| Training | 4,703 | 0.14% | 3,305 | 0.12% |
| Other | 57,689 | 1.70% | 51,489 | 1.92% |
| Total general and administrative | <u>1,535,931</u> | <u>45.27%</u> | <u>1,515,115</u> | <u>56.38%</u> |
| Total operating expenses | <u>3,393,040</u> | <u>100.00%</u> | <u>2,687,142</u> | <u>100.00%</u> |
| Operating income before depreciation | (117,181) | 100.00% | 660,455 | 100.00% |
| Depreciation expense | (785,818) | 100.00% | (779,673) | 100.00% |
| Operating loss | (902,999) | 100.00% | (119,218) | 100.00% |
| Non-operating revenues(expense): | | | | |
| Investment earnings | 196 | 0.72% | 103 | 0.30% |
| Gain(loss) on sale of capital assets | 1,500 | 5.53% | (910) | -2.64% |
| Interest expense | - | 0.00% | - | 0.00% |
| Rental income | 7,088 | 26.13% | 7,400 | 21.45% |
| Other income(expense), net | 18,343 | 67.62% | 27,905 | 80.89% |
| Total non-operating revenues, net | <u>27,127</u> | <u>100.00%</u> | <u>34,498</u> | <u>100.00%</u> |
| Loss before capital contributions | (875,872) | 100.00% | (84,720) | 100.00% |
| Capital contributions: | | | | |
| Assessments | 21,463 | 100.00% | 31,523 | 100.00% |
| Change in net position | \$ (854,409) | 100.00% | (53,197) | 100.00% |

See accompanying notes to the basic financial statements

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, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 6, 2016.

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.

Fedak & Brown LLP

Fedak & Brown LLP

Cypress, California

December 6, 2016