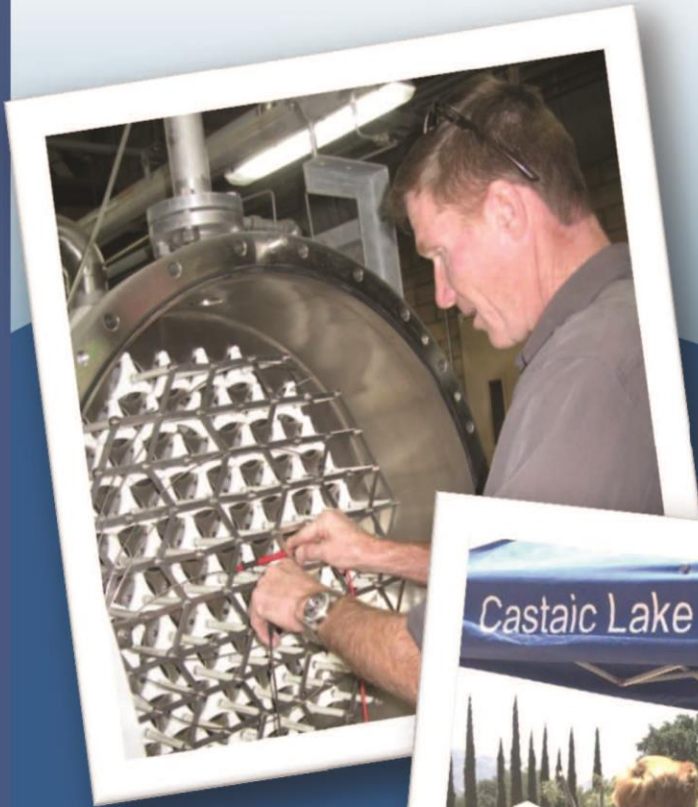


Castaic Lake Water Agency **Santa Clarita, California** **Comprehensive Annual Financial Report** **For the Fiscal Year Ended June 30, 2016**



*Employees
in Action*

*A public agency providing reliable, quality water
at a reasonable cost to the Santa Clarita Valley*

27234 Bouquet Canyon Road, Santa Clarita, CA 91350





Castaic Lake Water Agency
Santa Clarita, California

Comprehensive Annual Financial Report
For The Fiscal Year Ended
June 30, 2016

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**Castaic Lake Water Agency
Comprehensive Annual Financial Report
For The Fiscal Year Ended June 30, 2016**

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Introductory Section



November 1, 2016

The Board of Directors of the
Castaic Lake Water Agency
Santa Clarita, California

It is our pleasure to submit the Comprehensive Annual Financial Report (CAFR) for the Castaic Lake Water Agency (Agency) for the fiscal year ended June 30, 2016. Agency staff, following guidelines set forth by the Governmental Accounting Standards Board (GASB), prepared this financial report. The Agency 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. This report is designed in a manner that we believe necessary to enhance your understanding of the Agency's financial position and activities.

State Law and Agency by-laws require the Agency 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 Agency's financial statements. Their unmodified Independent Auditor's Report appears in the Financial Section.

Generally Accepted Accounting Principles (GAAP) require that management provide a narrative introduction, overview, and analysis to accompany the financial statements in the form of a 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 Agency's MD&A can be found immediately following the Independent Auditor's Report.

Agency Profile

The Agency is located in the northwestern portion of Los Angeles County, approximately 35 miles from downtown Los Angeles. The Agency's wholesale service area has a population of approximately 273,000 and covers an area of approximately 195 square miles or 124,000 acres. The majority of the service area is located in Los Angeles County, encompassing most of the valley and adjacent hill country along the Upper Santa Clara River. Approximately 20 square miles of the service area extends into unincorporated rural portions of Ventura County. The service area is a semi-arid region and includes the City of Santa Clarita and other nearby communities.

The agency provides supplemental wholesale water to four local retail water purveyors – CLWA Santa Clarita Water Division (SCWD), Los Angeles County Waterworks District No. 36, Newhall County Water District (NCWD) and the Valencia Water Company (VWC). During FY 2016, actual water sales in acre-feet were as follows:

| Purveyor | Imported | Saugus Wells | Total |
|-------------------------------------|----------|--------------|--------|
| Santa Clarita Water Division | 14,166 | 3,000 | 17,166 |
| Valencia Water Company | 6,994 | - | 6,994 |
| Newhall County Water Agency | 2,182 | 1,100 | 3,282 |
| L.A. County Waterworks District #36 | 3 | - | 3 |
| Total Water Sales | 23,345 | 4,100 | 27,445 |

The Agency began to sell recycled water in 2004. During FY 2016, 461 AF of recycled water was sold to the Valencia Water Company to provide service to the golf course and median landscaping in the Westridge Development.

Facilities

The Agency owns and operates water conveyance pipelines and water treatment facilities to supply water delivered from the State Water Project (SWP) to the four retail purveyors within its service area. The Department of Water Resources (DWR) transports water via the California Aqueduct to Castaic Lake and releases water to the Agency through the outlet tower at Castaic Lake. The reservoir is a multiple use reservoir that is the terminal point of the West Branch of the California Aqueduct, and stores approximately 320,000 acre-feet of water. The Agency's major facilities consist of the Earl Schmidt Intake Pump Station (ESIPS), the 56 million gallons per day (mgd) Earl Schmidt Filtration Plant (ESFP), the Rio Vista Intake Pump Station (RVIPS), the 66 mgd Rio Vista Water Treatment Plant (RVWTP), the Sand Canyon Pump Station (SCPS), the Sand Canyon Reservoir (SCR), the Perchlorate Treatment Facility and a system of pipelines and ancillary facilities which convey treated water to the four retail purveyors.

The Agency's major facilities are described in more detail as follows:

- Intake Piping – The ESFP receives water from a connection to the State Water Project's 60-inch diameter outlet conduit from the Castaic Reservoir. A 54-inch diameter conduit extends from the State's outlet conduit to the ESIPS. At the ESIPS there are 54 inch and 42 inch diameter pump suction headers.
- ESIPS – The Earl Schmidt Intake Pump Station is located near the shore of the afterbay below Castaic Dam located at the southern end of Castaic Reservoir. The pump station consists of five vertical turbine pumps rated at 6 mgd each and two vertical turbine pumps rated at 14 mgd each. The pumping units are used when the water level in the reservoir falls below the elevation necessary to permit gravity flow of water from the reservoir to the filtration plant. The pump station can deliver at least 56 mgd to the Earl Schmidt Filtration Plant.
- ESFP – The Earl Schmidt Filtration Plant, located at the southern end of the Castaic Reservoir, treats State Water Project and other imported water for domestic uses. The ESFP was completed in 1980 with an original capacity of 12.5 mgd and was expanded to a capacity of 25 mgd in 1988. In 2001, the ESFP was re-rated at 33.6 mgd. In 2005, the ESFP was expanded to 56 mgd. The treatment process includes ozonation, coagulation, contact clarification, and filtration through anthracite filters. Chloramination occurs after treatment. Wash water is recovered, treated, and returned to the headworks. The ESFP also includes sludge drying facilities, an air-water filter backwash system, and facilities for chemical application of coagulants, disinfectants, pH control, and taste and odor control. Two steel tanks provide a total of ten million gallons of treated water storage.
- RVIPS – The Rio Vista Intake Pump Station pumps water from the Metropolitan Water District (MWD) Foothill Feeder to the Rio Vista Water Treatment Plant via a 102-inch diameter raw water pipeline.
- RVWTP – The Rio Vista Water Treatment Plant is located in the City of Santa Clarita and treats water for domestic use. Its current capacity is 66 mgd; however, the site has sufficient land area for a treatment plant with an ultimate capacity of 120 mgd. The treatment process technology includes ozonation, coagulation, contact clarification and filtration through anthracite filters. Chloramination occurs after treatment. Wash water is recovered and returned to the headworks. The RVWTP includes sludge drying facilities, an air-water filter backwash system, and facilities for chemical application of coagulants, disinfectants, pH control, and taste and odor control. Two concrete reservoirs provide a total of 30 million gallons of treated water storage.

The RVWTP site includes the seven-acre Water Conservatory Garden and Learning Center. The purpose of this facility is to inform and educate Santa Clarita Valley residents about the source and treatment of their water supply, as well as means to conserve this precious resource. The

Garden and other water education programs of the Agency have received numerous awards, honors, and grants from the American Water Works Association, the Association of California Water Agencies and the California Department of Education, among others.

- Outlet Piping and Water Distribution Systems – The Agency maintains a network of transmission pipelines, pump stations and reservoirs that convey treated water from the ESFP and RVWTP.

The Castaic Conduit serves as the pipeline connection between ESFP and RVWTP. It also serves as one of the main pipelines for conveying treated water to the retail purveyors through a series of turnouts and laterals.

The portion of the Castaic Conduit between the SWP outlets works and the ESIPS has a normal design capacity of 67 mgd. Downstream of ESFP, the Castaic Conduit was designed with a nominal capacity of 51 mgd along the length of the 54-inch diameter pipeline, which extends approximately five miles southeast through the center of the Agency's service area, eventually transitioning to a 39-inch diameter pipeline with a design capacity of 27 mgd, where it connects with the Honby and Newhall Laterals which, in turn, provide water to the retail purveyors. Approximately two miles of 84-inch pipeline with a nominal capacity of 124 mgd connect the RVWTP to the 39-inch diameter pipeline.

The Newhall Parallel connects to the 84-inch treated water pipeline and provides additional water to the southern portion of Valencia. The Newhall Parallel begins as a 54-inch pipeline and reduces to a 24-inch pipeline. Additionally, the Agency has constructed three phases of the Magic Mountain Pipeline, a 42-inch pipeline that connects to the Newhall Parallel and will provide water to the western portion of the Agency's service area.

The Agency delivers water to the retail purveyors through 26 turnouts, as follows: CLWA Santa Clarita Water Divisions – 13, Los Angeles County Waterworks District #36 – 2, Newhall County Water District – 4 and Valencia Water Company – 7.

- Recycled Water System – The Agency distributes recycled water from the Los Angeles County Sanitation District's Valencia Water Reclamation Plant. The facilities include a 24-inch recycled water pipeline that runs from the Valencia Water Reclamation Plant south to the TPC at Valencia golf course, as well as a recycled water reservoir located near the golf course.
- Sand Canyon Pipeline System – The Sand Canyon System consists of a booster pump station, pipeline and reservoir to convey imported water from the end of the existing Honby Lateral to the southern Sand Canyon area. The reservoir also provides emergency storage. The 48-inch pipeline is approximately five miles in length and delivers water to retail purveyors through six turnouts. The Sand Canyon Pump Station has a capacity of 30,000 gallons per minute (gpm). The Sand Canyon Reservoir can store up to 7 million gallons of water.
- Perchlorate Treatment and Distribution Systems – In 1997, four production wells in the Saugus Formation were found to be contaminated with perchlorate (a chemical used in the manufacture of solid rocket propellants, munitions and fireworks). Three additional production wells in the alluvial aquifer tested positive for perchlorate in 2002, 2005 and 2011. Beginning in 2007 the Agency rehabilitated Saugus 1 and 2 wells and constructed a perchlorate treatment facility and distribution pipelines. The treatment facility, which includes an ion exchange process located at the RVIPS, was placed into service in early 2011. Returning the Saugus 1 and 2 wells to service restored lost capacity and helps contain migration of groundwater contamination in the Saugus Formation emanating from the contaminated sites.
- Groundwater Banking Programs – The Agency has four groundwater banking accounts in three separate programs. In January 2016, the Agency's Stored Water Recovery Program with the Semitropic Water Storage District's Groundwater Banking Program became operational. Under

this agreement two short-term ten-year accounts containing 35,970 acre-feet were transferred into this new program. Under this agreement the Agency can store an additional 15,000 acre-feet. The term of the Semitropic Banking Program extends through 2035 with the option of a 10 year renewal. The Agency may withdraw up to 5,000 acre-feet annually from its accounts in the Semitropic Banking Program.

In September 2005, the Agency initiated participation in the Rosedale-Rio Bravo Water Storage District Groundwater Banking Program (the “Rosedale-Rio Bravo Banking Program”). This program allows the storage of 20,000 acre-feet annually of the Agency’s State Water Project Table A amount or other State Water Project supplies, and has a contract term through 2035, renewable according to the terms of the Agency’s water supply contract with Department of Water Resources (DWR). As of January 1, 2016, the Agency had available 94,200 acre-feet stored in the Rosedale-Rio Bravo Banking Program. In 2015, the Agency exercised an option under the Rosedale-Rio Bravo Banking Program agreement to construct additional extraction wells and conveyance facilities that are anticipated to increase the reliable quantities that can be withdrawn by approximately 7,000 acre-feet annually. These facilities are anticipated to be completed in early 2017. In calendar year 2014 and 2015, the Agency withdrew approximately 2,800 and 3,000 acre-feet respectively from its Rosedale-Rio Bravo Banking Program account. In 2014, the Agency withdrew 4,950 acre-feet from one of its Semitropic short-term accounts.

In 2011, the Agency implemented a two-for-one exchange program with Rosedale-Rio Bravo Water Storage District pursuant to which the Agency recovers one acre-foot of water for each two acre-feet stored. This program has a maximum of 19,000 acre-feet, or 9,500 acre-feet of recoverable water. In 2011 and 2012, the Agency delivered water to the account such that after losses, 9,440 acre-feet of recoverable water is currently available. The Agency also implemented a two-for-one banking program with the West Kern Water District in Kern County and delivered 5,000 acre-feet in 2011, resulting in a recoverable total of 2,500 acre-feet. Both the total stored and total recoverable are the maximums under the exchange programs. In calendar year 2014, the Agency withdrew approximately 2,000 acre-feet from the West Kern Water District exchange program for use in the Agency’s service area leaving a balance of 500 acre-feet.

Santa Clarita Water Division

The Santa Clarita Water Division’s (SCWD) sources of supply are imported water purchased from the Agency and local groundwater. SCWD’s distribution system consists of approximately 340 miles of pipeline. System pipe sizes range from 2 inches to 24 inches in diameter, with the majority of the piping ranging from 6 inches to 14 inches in diameter. SCWD’s system also includes 27 storage reservoir sites consisting of 48 active storage tanks with a total capacity of 76 million gallons.

In addition to the storage reservoirs, there are four locations which utilize hydropneumatic tanks to provide adequate system pressure to residential areas located at elevations near or above the storage reservoirs.

There are currently 23 active booster stations used to boost water throughout the SCWD water system. Individual booster stations consist of one to six pumps and range from total capacities of 59 to 4,800 gallons per minute.

Revenue Sources

The Agency’s major revenue sources are as follows:

- Water Sales (Wholesale) – The Agency bills its four purveyors monthly for water purchased. In March 2016, the Board of Directors adopted a new wholesale water rate structure effective April 1, 2016, and also adopted rates for calendar years (CY) 2017 and 2018. The new wholesale water rate structure is developed to meet the following objectives:

- Ensure financial sufficiency by meeting the operations and maintenance (O&M) costs, capital replacement and improvement costs, and to provide the necessary reserves for the functions of the Agency.
- Provide fiscal stability to the Agency by maximizing fixed cost recovery through fixed charges.
- Provide a rate design framework consistent with the cost of service guidelines used in the industry that adequately and fairly distributes the full cost of service to clients of the Agency based on the demand they place on the Agency's system.
- Encourage efficient use and conservation of water.

The wholesale water rate structure includes both fixed and variable components. The fixed charge is designed to recover 80 percent of the fixed costs of the Agency directly related to supply and delivery of water that is determined on the basis of a ten-year rolling average of the imported water demand of each Retail Purveyor. The total imported demand fixed revenues that will be allocated among the purveyors are as follows:

| | CY 2016 | CY 2017 | CY 2018 |
|----------------------|--------------|------------|------------|
| <u>Fixed Revenue</u> | \$ 9,765,706 | 14,186,584 | 14,913,205 |

The variable charge is based on a per acre foot charge for the treatment and distribution of imported water within the Agency's service area and also 20 percent of the fixed costs incurred by the Agency. The variable rate is calculated based on the variable expenses of the Agency to treat and deliver imported water (generally energy and chemical expenses).

| | CY 2016 | CY 2017 | CY 2018 |
|-------------------------------|----------|---------|---------|
| <u>Variable Rate (per AF)</u> | \$ 204.8 | 218.18 | 223.18 |

In FY 2003/04, the Agency began selling recycled water.

- Water Sales (Retail) – The retail water rates consist of two main components: a fixed monthly Service Charge and a variable water usage Commodity Charge. The rates for the Service Charge vary based on meter size, whereas the Commodity Charge is a three-tiered rate structure for single family residential (SFR) customers that varies based on the amount of water used in Ccf and separate uniform rates per Ccf of water usage for irrigation and all other customers. The Commodity Charge includes SCWD's water usage charge and pass-through charges for CLWA's purchased water.

SCWD updated its Financial Plan in June 2013, which provided for a 3.5 percent rate increase effective January 1 in 2014, 2015, 2016 and 2017. Effective April 1, 2016, CLWA changed its rate structure and also increased its rates in order to recover its costs. SCWD has been absorbing the CLWA Purchased Water rate increase since April 1, 2016, but is currently analyzing a possible pass-through cost adjustment in 2017 for these CLWA Purchased Water rate increases.

In FY 2015/16, SCWD engaged a financial consultant to update the financial plan and to complete another cost of service rate study. A cost of service analysis determines the equitable allocation of the revenue requirement to the various customer classes of service (e.g., Single Family Residential and Other Customers (non-single family residential and irrigation)). The updated financial plan will provide the revenue requirement analysis to ensure that SCWD meets its operation and maintenance requirements, capital expenditures and its reserve targets. The revenue requirement analysis determines SCWD's overall financial needs, while the cost of service analysis determines the fair and equitable manner of collecting that revenue requirement from each class of customer.

The retail water sales revenues are used to pay for operating expenses, capital improvement projects and to fund reserve target levels.

SCWD Retail Water Rates 2016 to 2017 are as follows:

The following table details the rate effective January 1, 2016 and January 1, 2017 as adopted by the Board on September 25, 2013.

Fixed Meter Service Charge by Meter Size (\$ per month)

| Meter Size (Inches) | January 1, 2016 | January 1, 2017 |
|---------------------|-----------------|-----------------|
| 5/8 by 3/4 | \$ 19.30 | 19.98 |
| 3/4 | 24.41 | 25.26 |
| 1 | 34.59 | 35.80 |
| 1 1/2 | 60.06 | 62.16 |
| 2 | 90.63 | 93.80 |
| 3 | 172.15 | 178.18 |
| 4 | 263.87 | 273.11 |
| 6 | 518.64 | 536.79 |
| 8 | 824.34 | 853.19 |

Private Fire Service Protection

| Per Diameter Inch of Service | January 1, 2016 | January 1, 2017 |
|------------------------------|-----------------|-----------------|
| 1" | \$ 2.74 | 2.84 |
| 2" | 5.48 | 5.68 |
| 4" | 10.96 | 11.36 |
| 6" | 16.44 | 17.04 |
| 8" | 21.92 | 22.72 |
| 10" | 27.40 | 28.40 |
| 12" | 32.88 | 34.08 |
| 14" | 38.36 | 39.76 |
| 16" | 43.84 | 45.44 |
| 18" | 49.32 | 51.12 |
| 20" | 54.80 | 56.80 |

Variable Water Commodity Charges for Single Residential Customers (\$ per Ccf)

| Rate Block | Block Range (Ccf per Month) | | January 1, 2016 | January 1, 2017 |
|------------|--------------------------------|--|-----------------|-----------------|
| | Bottom - Top | | | |
| Tier 1 | 0 - 14 | | \$ 1.7406 | 1.8015 |
| Tier 2 | 15 - 49 | | 1.9415 | 2.0094 |
| Tier 3 | 50 and above | | 2.5524 | 2.6417 |

Variable Water Commodity Charges for Irrigation Customers (\$ per Ccf)

| Commodity Charges | January 1, 2016 | January 1, 2017 |
|-------------------|-----------------|-----------------|
| All Use | \$ 2.5524 | 2.6417 |

Variable Water Commodity Charges for All Other Customers (\$ per Ccf)

| Commodity Charges | January 1, 2016 | January 1, 2017 |
|-------------------|-----------------|-----------------|
| All Use | \$ 1.9415 | 2.0094 |

- o Facility Capacity Fees – The Agency reviews and establishes its facility capacity fee rates yearly through a public hearing process. These fees are paid to the Agency directly by developers or property owners within the Wholesale Service Area shortly before the issuance of building

permits by the County of Los Angeles and the City of Santa Clarita. Facility Capacity Fee Revenues are used to pay future user’s share of the Agency’s Debt.

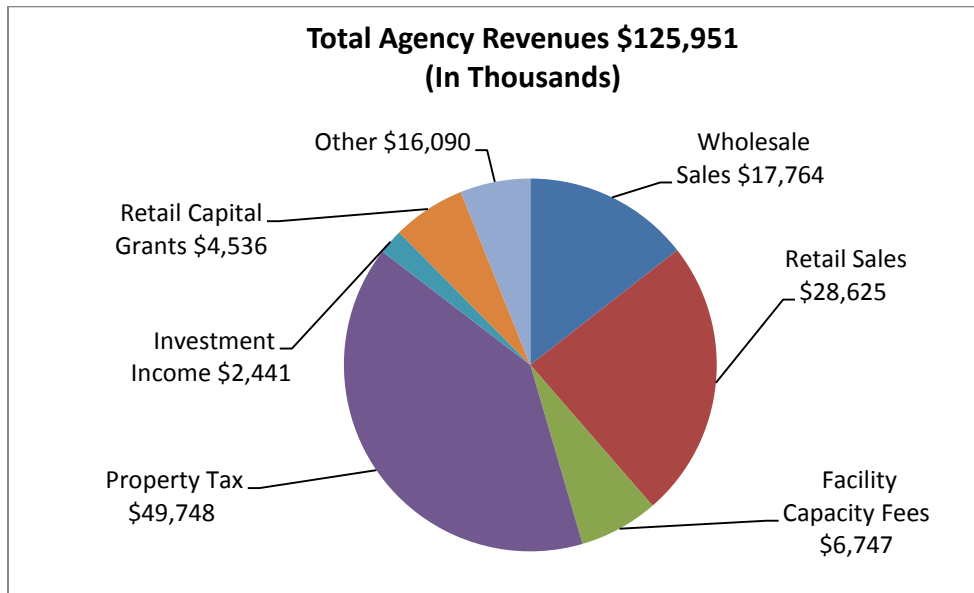
- One Percent Property Tax Revenues – The Counties of Los Angeles and Ventura levy a 1% property tax on behalf of all taxing agencies in the County, including the Agency. The taxes are allocated to the taxing agencies within the County on the basis of a formula established by State Law enacted in 1979 and modified from time to time. Under this formula, the County and all other taxing entities receive a base year allocation plus an allocation on the basis of “situs” growth in assessed value (due to new construction, change of ownership, or a 2% allowance allowed under Article XIII A of the State Constitution) prorated among the jurisdictions which serve the tax rate area within which the growth occurs.

In general, these funds are allocated to debt service and capital improvement projects for existing users, as well as to core non-SWP supplies. During a three-year period from January 1, 2007 through December 31, 2009, these funds were also used for rate stabilization.

- Agency-Set Property Tax Revenues – The Counties of Los Angeles and Ventura also levy for the Agency a special tax rate to pay for the Agency’s share of payments to the State of California Department of Water Resources for its fixed and variable charges. These revenues, and the interest earned thereon, is restricted to pay only these specific payments.
- Other Sources of Revenue – Capital Grants, Investment Income and Other.

All revenues of the Agency, except the Agency-set tax revenues and corresponding interest, are irrevocably pledged to the payment of debt.

The following chart reflects the Agency’s revenue mix for the year ending June 30, 2016, as follows:



Local Economy

The Agency’s service area is considered a premier community for raising families and building businesses. The area is known for its attractive residential neighborhoods, low crime rate, and excellent schools. Prospects for the future economic strength of the area are excellent.

The Santa Clarita Valley is part of a comprehensive transportation network, which includes three major freeways, commuter rail which serves over 2,000 passengers daily and easy access to the ports of Los Angeles and Long Beach. The three Metrolink commuter rail stations in Santa Clarita carry over 2,000

passengers a day to and from the San Fernando Valley and Downtown Los Angeles. The City also has nearly 40 miles of bicycle and pedestrian trails.

There are a number of recreational and historical facilities located in the Santa Clarita Valley, including the Six Flags Magic Mountain amusement park and Gene Autry’s Melody Ranch. The service area is adjacent to the Angeles National Forest, and includes nearby Castaic Lake, the Placerita Canyon Nature Center, and Vasquez Rocks County Park.

Also located in the Santa Clarita Valley are the COC Performing Arts Center, Canyon Theatre Guild, Disney Studios, Santa Clarita Repertory Theater, as well as the Friendly Valley, Valencia Country Club, Robinson’s Ranch, Tournament Players Club, and Vista Valencia golf courses.

The City of Santa Clarita’s strong and diverse economy continues to expand, making Santa Clarita the ideal destination for Southern California businesses. Maintenance of a highly supportive environment of business development is achieved through the cooperation of the local Chamber of Commerce and the City government. In addition, companies benefit greatly from the area’s land and leasing opportunities, as well as from the highly-skilled labor pool, variety of transportation choices, housing, quality of life, climate, and scenery. Santa Clarita’s top employers include Six Flags Magic Mountain, William S. Hart and Saugus Union School Districts, Princess Cruises, Colley of the Canyons, U.S. Postal Service, Henry Mayo Newhall Memorial Hospital, Newhall School District, Quest Diagnostics and The Master’s College.

The Agency evaluates land use data and housing construction in the service area in conjunction with the retail water purveyors and projections from the “One Valley One Vision” (OVOV), a joint planning effort by the City of Santa Clarita and the Los Angeles County Department of Regional Planning. The OVOV general plan amendments will be the basis of the Agency’s 2015 Urban Water Management Plan (UWMP). The first draft of the 2015 UWMP indicates a 1.3 percent annual rate of growth in the service area.

The Agency’s 2015 UWMP provides information on water use, water resources, recycled water, water quality, reliability planning, demand management measures and water shortage contingency planning. It projects future demands for residential, industrial, institutional, landscape, agricultural and other purposes, and lists available and planned supplies to meet that demand.

As of December 31, 2015, the retail water purveyors served 72,851 connections, as follows:

| <u>Retail Water Purveyor</u> | <u>Connections</u> |
|-------------------------------------|---------------------------|
| CLWA Santa Clarita Water Division | 30,681 |
| Valencia Water Company | 31,094 |
| Newhall County Water Agency | 9,731 |
| L.A. County Waterworks District #36 | 1,345 |
| Total Connections | <u>72,851</u> |

Long-term Financial Planning

During FY 2008/09, the Agency developed its first Long-Term Financial Plan. This Plan is updated each year as part of the Budget process. The Plan is not a static, one-time document, but represents a process where the Board and management review financial strategies to help achieve the Agency’s overall strategic plan. This Plan reviews individual financial strategies and serves as the basis for future analysis and decision making by identifying potential financial issues and risks. It also groups financial strategies into near-term, mid-term and long-term issues, to help prioritize and schedule action items for implementation of the Plan. Based on decisions and guidance provided by the Board, the Plan is a rolling “look-ahead” to help identify priorities and focus. It is not intended to address each and every fiscal issue, but identify high priority fiscal programs and strategies to be monitored over time, so that the Agency is positioned to address them at the appropriate time.

Bond Ratings – The Bond ratings for the Agency’s outstanding Debt reflect high grade investment quality debt. They are based on the Agency’s good financial management, strong financial policies and diverse water supply portfolio. Debt issued at these ratings results in lower interest rates and correspondingly lower debt service payments.

| Rating Agency | 1999 | 2008A | 2010A | 2010B | 2011A | 2014A | 2015A | 2016A |
|-------------------|------|-------------|-------|-------|-------|---------------|---------------|---------------|
| | COPs | COPs (VRDO) | COPs | COPs | COPs | Revenue Bonds | Revenue Bonds | Revenue Bonds |
| Fitch | AA | AA- | AA- | - | - | AA- | AA- | AA- |
| Standard & Poor's | AA+ | AA | AA | AA | - | AA | AA | AA |
| Moody's | - | - | - | Aa3 | Aa3 | - | - | - |

Debt Service Administration – various Certificates of Participations (COPs) and Revenue Bonds have been issued to finance the Agency’s Capital Program. Future users’ share of the debt service is funded from Facility Capacity Fees. Existing users’ share is funded from One Percent Property Tax revenues. The following is a summary of the debt outstanding issues to date.

- 1994, 2004 and 2008A COP’s and 2014A Revenue Bonds - In June 1990, the Agency issued \$132 million in COPs to acquire and construct the Rio Vista Water Treatment Plant and related facilities. These were advance refunded in August 1994, in the amount of \$124.6 million. In May 2004, the Agency refunded \$28,475,000 of the 1994 COPs (2004 Series A) in a fixed rate refunding. In June 2004, the Agency refunded \$37,350,000 of the 1994 COPs into a variable to fixed swap agreement for \$40,000,000 (2004 Series B). At the time, the unrefunded 1994 COPs totaled \$40,565,000. The last settlement was paid during FY 2013/14. In May 2008, the Agency refunded all of the 2004B certificates (2008 Series A); the swap agreement remains in effect for the 2008A certificates until its termination in August 2014. In June 2014, the Agency refunded \$20,495,000 of the 2004A certificates (2014 A Revenue Bonds). The remaining balance after FY 2015/16 payments is \$42,025,000 as follows: No balance for the 1994 COP’s or 2004A COP’s as these were retired during FY 2013/14; \$14,050,000 for 2014 Series A and \$27,975,000 for 2008 Series A. Payments totaling \$8,655,595 are due during FY 2016/17.
- 1999 and 2006A COPs and 2016A Refunding Revenue Bonds - In August 1999, the Agency issued \$75.8 million in COPs to provide funds to (a) reimburse the Agency for the acquisition of approximately 41,000 acre-feet of supplemental water from the DWR and (b) to acquire certain capital improvements to the Agency’s Wholesale System. In December 2006, the Agency advance refunded \$45,520,000 of the 1999 certificates (2006 Series A). In May 2016, the Agency refunded \$35,555,000 of the 2006A certificates (2016A Ref Revenue Bonds). The remaining balance after FY 2015/16 payments is \$85,576,309 as follows: \$59,846,309 unrefunded (Series 1999) and \$25,730,000 for 2016 Series A Refunding. Payments totaling \$836,498 are due during FY 2016/17.
- 2001A and 2010A COPs - In March 2001, the Agency issued \$80 million in COPs to provide funds to acquire certain capital improvements to the Agency’s Wholesale System. In June 2010, the Agency advance refunded all of the certificates (2010 Series A). The remaining balance after FY 2015/16 payments is \$57,055,000. Payments totaling \$5,282,606 are due during FY 2016/17.
- 2006C COPs and 2015A Revenue Bonds - In December 2006, the Agency issued \$89.8 million in COP’s to provide funds to acquire certain capital improvements to the Agency’s Wholesale System. In April 2015, the Agency refunded \$77,685,000 of the 2006C certificates (2015 A Revenue Bonds). The remaining balance after FY 2015/16 payment is \$63,525,000. Payments totaling \$5,048,950 are due during FY 2016/17.
- 2010B COPs - In May 2010, the Santa Clarita Water Division (Retail) of the Agency issued \$14,475,000 of COPs to provide funds to acquire the new Administration Office Building, several

reservoir tanks and wells. The certificates are payable by installment payments according to the Installment Purchase Agreement. Interest is payable semi-annually August 1 and February 1, and the principal is due annually on August 1. In June 2016, the fiscal year 2017 principal was defeased. The remaining balance after FY 2015/16 payment is \$12,900,000. Payments totaling \$676,288 are due during FY 2016/17.

- 2011A Revenue Bonds - In September 2011, the Santa Clarita Water Division (Retail) issued \$52,290,000 of Revenue Bonds through Upper Santa Clara Valley Joint Powers Authority, a Joint Powers Authority created on June 8, 2011, between the Castaic Lake Water Agency (the “Agency”) and Devil’s Den Water District (the “District”), to provide funds to pay the outstanding interfund loan balance payable by Retail to the Agency. The Interfund Loan was established in September 1999 as a repayment of acquisition when the Agency acquired Santa Clarita Water Company’s (SCWC) stock for \$63 million. The bonds are payable by installment payments according to the Installment Purchase Agreement. Interest is payable semi-annually August 1 and February 1, and the principal is due annually on August 1. In June 2016, the fiscal year 2017 principal was defeased. The remaining balance after FY 2015/16 payment is \$43,295,000. Payments totaling \$2,183,113 are due during FY 2016/17.
- 2016A New Revenue Bonds - In May 2016, concurrent with the refunding of the 2006A COPs, the Agency issued \$30,665,000 of Revenue Bonds to provide funds to acquire certain capital improvements to the Agency’s Wholesale System. Payments totaling \$1,072,116 are due during FY 2016/17.

State Water Project Contract – On April 30, 1963, the Agency entered into a water supply contract with the Department of Water Resources under which the Agency agreed to make payments which include, among other charges, capital charges and operation and maintenance charges. These contracts are deemed to be voter approved indebtedness for purposes of Article XIII A of the California Constitution, and the Agency levies a tax sufficient to provide for all payments.

Buena Vista/Rosedale-Rio Bravo Water Acquisition - On May 22, 2007, the Agency entered into a 30-year agreement with the Buena Vista Water Storage District and the Rosedale-Rio Bravo Water Storage District for the acquisition of 11,000 acre-feet (AF) of water supply per year for a 30-year period. The purchase price was established in FY 2006/07 at \$486.85 per AF. The purchase price will be adjusted each calendar year by the Consumer Price Index (All Urban Consumers – All Items – Southern California Area). The current purchase price is \$566.10 per AF.

Relevant Financial Policies and Controls

The Agency’s Financial Policies include the Reserve Policy, the Investment Policy, the Debt Management Policy, the Government Fund Balance Policy, the Derivatives Policy and the Purchasing Policy. The Agency’s Controls include the Budgetary Control, Internal Control Structure and Risk Management.

Reserve Policy

Governmental activities – Through FY 2009/10, the Agency’s reserve policy has been to set aside as “reserves” an amount equal to three times the annual (fiscal year) debt obligation, less the amount held by Trustee. In FY 2009/10, this amount was approximately \$59.6 million. Beginning in FY 2010/11, the Agency began implementing new reserve policies intended to maintain the same amount of reserves, but also make the policies more specific. The new reserve policies are as follows:

1. Operating Reserves – Operating Reserves are equal to three months of operating expenditures, and are designed to provide financial flexibility to respond quickly to emergency repairs, unanticipated operations and maintenance activities, local disasters or catastrophic events, costly

regulatory requirements, water quality deficiencies, or other operating emergencies. The source of funding is General Fund (wholesale water rates).

2. Debt Service Reserves – Debt Service Reserves are equal to annual debt service less restricted debt service reserve funds are restricted to help maintain debt service coverage and mitigate variability of revenues and expenditures. The sources of funding are combination of one percent property tax revenues and facility capacity fees.
3. Capital Reserves – Capital Reserves are equal to one year of the current pay-as-you-go capital improvement program. The source of funding is one percent property tax revenues.
4. Reserves for Economic Uncertainties and Catastrophic Situations – Reserves for Economic Uncertainties and Catastrophic Situations are equal to 500 days of operating expenditures less the Operating Reserves. The sources of funding are combination of one percent property tax revenues and facility capacity fees.
5. Reserves for Repair and Replacement – During FY 2012/13, the Board of Directors adopted the Reserves for Repair and Replacement as part of the new wholesale water rate structure effective July 1, 2013.

Business-type activities – A separate reserve policy for the Santa Clarita Water Division (SCWD) has been developed that requires that reserve funds be established and maintained to fund scheduled and unscheduled expense including operation and maintenance, debt service, emergencies, capital improvement project (CIP), repair and replacement, and stabilization of retail water rates. All reserve funds are to be funded through retail water revenues. The business-type activities reserve policy details are as follows:

1. Operating Reserves – The Operating Reserves is set at 25% of the Annual SCWD Operating Expense Budget.
2. Rate Stabilization Reserves – The Rate Stabilization Reserve is set at 15% of Annual Operating Revenue Budget.
3. Capital Reserves – Covers any unexpected and unplanned infrastructure repairs and replacement not included in the budget. The Capital Reserve is \$6,000,000, which is the average annual CIP budget.
4. Emergency Reserves – Covers emergency repairs due to unforeseen natural disasters such as earthquake, fire, etc. The Emergency Reserve is \$1,000,000.

Investment Policy

The Board of Directors annually adopts an Investment Policy that conforms to California State Law, Agency ordinances and resolutions, prudent money management and the “prudent person” standards. The objectives of the Investment Policy are safety, liquidity, and yield.

Agency funds are normally invested in the State Treasurer’s Local Agency Investment Fund, the Los Angeles County Pooled Investment Fund, Certificates of Deposit, Government Agency Obligations or other specifically authorized investments. Both governmental and business-type activities use the same investment policy.

Debt Management Policy

Governmental activities – The Agency’s Debt Management Policy includes the Agency’s written guidelines and restrictions that affect the amount and type of debt issued, the issuance process and the management of the debt portfolio. The policy is designed to provide justification for the structure of debt issuance, identify policy goals, and demonstrate a commitment to long-term financial planning. The Derivatives Policy and the Disclosure Procedure Policy supplement the Debt Management Policy.

Business-type activities – In June 2014, the Board of Directors approved the SCWD’s revised debt management policy which includes SCWD’s written guidelines and restrictions that affect the amount and type of debt issued, the issuance process and the management of the debt portfolio. The policy is designed to provide justification for the structure of debt issuance, identify policy goals, and demonstrate a commitment to long-term financial planning for the retail water system. The Derivatives Policy and the Disclosure Procedure Policy supplement the Debt Management Policy.

Government Fund Balance Policy

In May 2011, the Agency adopted a fund balance policy based on the published Governmental Accounting Standards Board (GASB) Statement No. 54, which established accounting and financial reporting standards for all governments that report governmental funds. In October 2014, the Agency updated the fund balance policy. This statement divides the fund balance into five classifications: (1) non-spendable, (2) restricted, (3) committed, (4) assigned, and (5) unassigned. In addition to the new five fund balance classifications, GASB 54 also makes clear the definition of special revenue – for financial reporting purposes, a special revenue fund may only be established around one or more revenue sources that are restricted or committed to purposes other than capital projects or debt service.

Purchasing Policy

The Board of Directors has adopted Purchasing Policies which provides uniform procedures for acquiring equipment, goods and services for the wholesale and retail operation. Improvements or units of construction work are subject to the competitive bidding requirements of Public Contract Code, section 21530 et seq. The retail division operates in accordance with the County Water District Law (Cal. Water Code, section 30000).

Budgetary Control

The Board of Directors annually adopts a balanced operating and capital budget prior to the new fiscal year. The budget authorizes and provides the basis for reporting and control of financial operations and accountability for the Agency’s operations and capital projects. The Board of Directors monitors the budget through monthly Finance and Expenditures reports, Quarterly Investment Reports, and Midyear and Yearend Budget reports.

The Board of Directors must approve all supplemental appropriations to the Budget and transfers between major funds. The legal level of budgetary control is at the fund level. The General Manager is authorized to direct the Administrative Services Manager to transfer within individual fund budgets.

Internal Controls

Agency management is responsible for the establishment and maintenance of the internal control structure that ensures that the assets of the Agency are protected from loss, theft, or misuse. The internal control structure also ensures that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The Agency’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.

Major Initiatives

Significant resources are provided as identified in the Santa Clarita Valley Water Use Efficiency Strategic Plan. This plan is intended to help the Agency and the retailers to comply with SBX7-7, which calls for a 20 percent reduction in per capita water use by 2020 (i.e., 20% by 2020). This legislation requires each local water retail purveyor to develop a baseline per capita water use, an interim 2015 water use target and a 2020 compliance target.

With the ongoing drought situation, on April 1, 2015, the Governor of California issued an executive order mandating, among other provisions, an overall 25% reduction in urban water usage by February 28, 2016. The State Water Resources Control Board (SWRCB) issued regulations implementing the mandatory reductions and setting specific targets for each water supplier. The mandatory reductions for the retailers ranged from 24% to 32%. These restrictions were decreased 3 to 4 percent in March 2016.

Most recently, the SWRCB ordered a new “stress test” approach for wholesale and retail water agencies in light of near normal precipitation in Northern California but continued below average precipitation in the Central and Southern portions of the State, including the Agency’s service area. The Governor also ordered development of new water use efficiency targets during the coming year that will go beyond 20% x 2020 framework.

Even with the resulting reduction in the SWRCB conservation targets in 2016, there are significant reductions to be achieved in a short amount of time to continue to meet the 20% x 20 targets, as well as likely development of further conservation mandates beyond the 20% x 2020 targets. We expect this will require significant sustained investments of the Agency’s resources and time.

Awards and Acknowledgments

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting, to the Castaic Lake Water Agency for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2015. This was the eleventh consecutive year that the Agency has achieved this prestigious award. In order to be awarded a Certificate of Achievement for Excellence in Financial Reporting, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both Generally Accepted Accounting Principles (GAAP) and all applicable legal requirements.

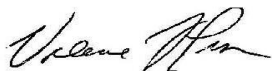
A Certificate of Achievement for Excellence in Financial Reporting is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the requirements of the GFOA Certificate of Achievement Program requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

Preparation of this report was accomplished by the combined efforts of Agency staff. We appreciate the dedicated efforts and professionalism that our staff members bring to the Agency. We would also like to thank the members of the Board of Directors for their continued support in the planning and implementation of Castaic Lake Water Agency’s fiscal policies.

Respectfully submitted,

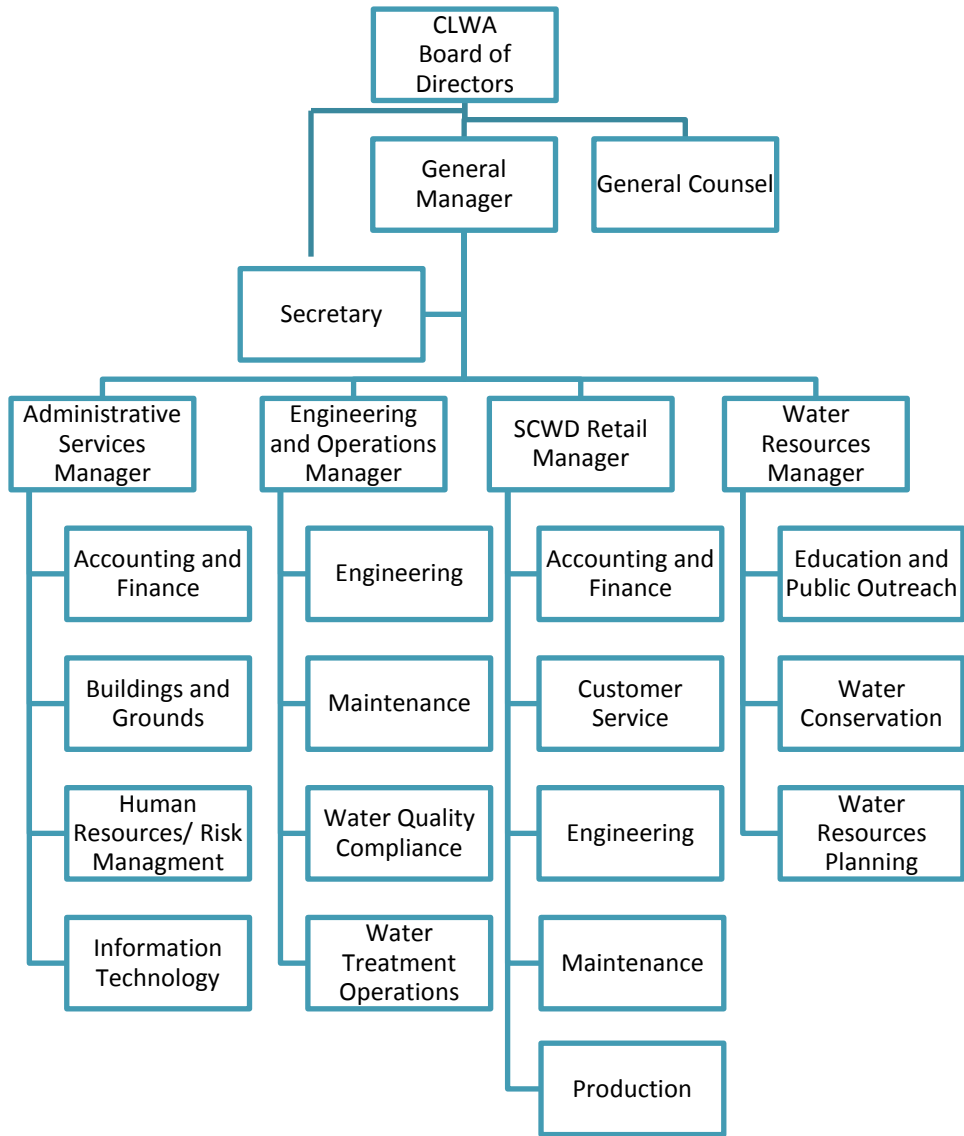


Matthew G. Stone
General Manager



Valerie Pryor
Administrative Services Manager

Castaic Lake Water Agency Organizational Chart



Castaic Lake Water Agency

Our Mission Statement

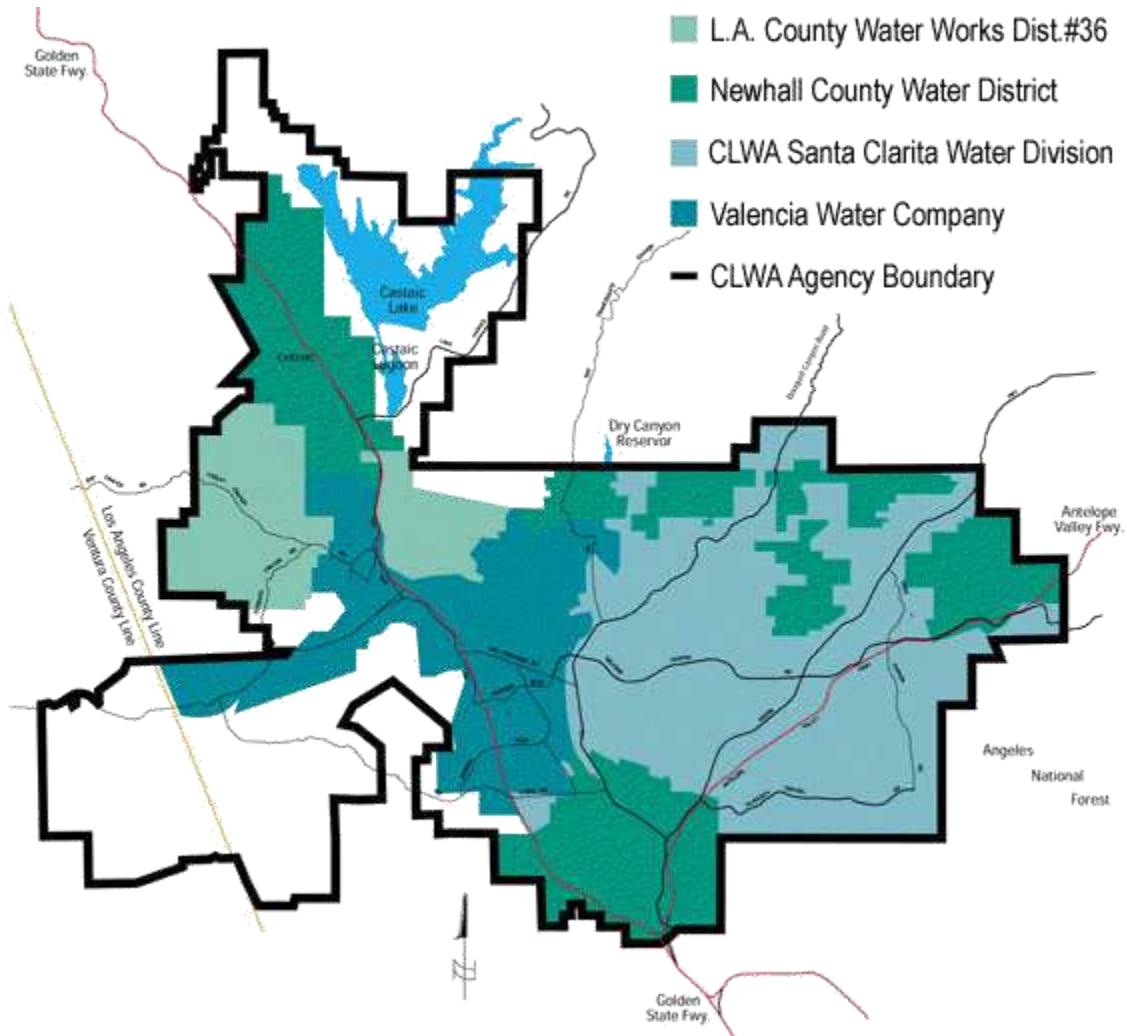
"Providing Reliable Quality Water at a Reasonable cost to the Santa Clarita Valley."

Board of Directors as of June 30, 2016

| Name | Title | Division | Elected/ Appointed | Term Expires |
|------------------------|----------------|-----------------|-------------------------------|-------------------------|
| Thomas Campbell | President | At-Large | Elected | January 2019 |
| William Cooper | Vice-President | At-Large | Elected | January 2017 |
| Gary Martin | Director | At-Large | Elected | January 2019 |
| Edward Colley | Director | 1 | Elected | January 2019 |
| R. J. Kelly | Director | 1 | Elected | January 2017 |
| Robert J. DiPrimo | Director | 2 | Elected | January 2019 |
| E. G. "Jerry" Gladbach | Director | 2 | Elected | January 2017 |
| Jacque McMillan | Director | 3 | Elected | January 2019 |
| William Pecsì | Director | 3 | Elected | January 2017 |
| Dean D. Efstathiou | Director | LA Co. #36 | Appointed | January 2019 |
| B. J. Atkins | Director | NCWD | Appointed | January 2017 |

Matthew G. Stone, General Manager
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Santa Clarita, California 91350-2173
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Castaic Lake Water Agency Service Area





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California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2015

Executive Director/CEO



Financial Section



Charles Z. Fedak, CPA, MBA
Christopher J. Brown, CPA, CGMA
Jonathan P. Abadesco, CPA

Fedak & Brown LLP

Certified Public Accountants

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Independent Auditor's Report

Board of Directors
Castaic Lake Water Agency
Santa Clarita, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Castaic Lake Water Agency (Agency) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Agency'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 opinion on these financial statements based on our audit. We conducted our audit 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 opinion.

Independent Auditor's Report, continued

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Castaic Lake Water Agency, as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in the note 1 to the financial statements, the Agency adopted the provisions of Governmental Accounting Standard Board Statement (GASB) No. 72 – *Fair Value Measurement and Application*, GASB Statement No. 79 – *Certain External Investment Pools and Pool Participants*, for the year ended June 30, 2016. Our opinion is not modified with respect to these matters.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 8 and the required supplementary information on pages 66 through 72 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 Matters

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The introductory section, budget and actual capital project schedule, budget and actual debt service schedule, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budget and actual capital project schedule and budget and actual debt service schedule 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 budget and actual capital project schedule and budget and actual debt service schedule are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have 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 them.

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 November 1, 2016, on our consideration of the Agency'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 Agency's internal control over financial reporting and compliance. That report can be found on pages 99 and 100.

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
November 1, 2016



**Castaic Lake Water Agency
Management's Discussion and Analysis
For the Year Ended June 30, 2016**

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Castaic Lake Water Agency (Agency) provides an introduction to the financial statements of the Agency for the fiscal year ended June 30, 2016. 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 Agency's net position increased 6.1%, or \$25.51 million to \$443.60 million, due primarily to increase in capital assets, \$10.3 million grants and the results of this year's operations.
- Total revenues from all sources increased by 5.44%, or \$6.51 million from the prior year due primarily to increase in grant revenue and property taxes.
- Total expenses increased by 4.21%, or \$4.07 million from the prior year, due primarily to increased capital projects expenditures.

Using This Financial Report

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provides information about the activities and performance of the Agency using accounting methods similar to those used by private sector companies. The Statement of Net Position includes all of the Agency's investments in resources (assets), deferred outflows of resources and 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 Agency and assessing the liquidity and financial flexibility of the Agency. All of the current year's revenues and expenses are accounted for in the Statement of Activities. This statement measures the success of the Agency's operations over the past year and can be used to determine the Agency's profitability and credit worthiness.

Government-wide Financial Statements

Statement of Net Position and Statement of Activities

One of the most important questions asked about the Agency's finances is, "Is the Agency better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Activities report information about the Agency in a way that helps answer this question. These statements include all assets, deferred outflows, 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.

These two statements report the Agency's *net position* and changes in them. Think of the Agency's net position – the difference between assets, deferred outflows of resources, and liabilities and deferred inflows of resources – as one way to measure the Agency's financial health, or *financial position*. Over time, *increases or decreases* in the Agency's net position are one indicator of whether its *financial health* is improving or deteriorating. One will need to consider other non-financial factors; however, such as changes in the Agency's property tax base and the types of grants the Agency applies for to assess the *overall financial health* of the Agency.

Fund Financial Statements

Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near term financing requirements.

**Castaic Lake Water Agency
Management's Discussion and Analysis
For the Year Ended June 30, 2016**

Fund Financial Statements, continued

Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance, continued

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Propriety funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Agency maintains one type of propriety fund: the Water Enterprise Fund. The Agency uses the enterprise fund to account for the Water Enterprise Fund.

The Water Enterprise Fund accounts for all activities necessary to provide retail water distribution to the service area that includes a portion of the City of Santa Clarita and unincorporated portions of Los Angeles County in the communities of Saugus, Canyon County and West Newhall. Some of these activities include, but are not limited to, operations and maintenance.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 18 through 65.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the Agency's budgetary information and other post employment benefits (OPEB) funding progress. Required supplementary information can be found on pages 66 through 72. Other supplementary information can be found on pages 73 through 74.

Government-wide Financial Analysis

Statements of Net Position

| | Statements of Net Position (in millions) | | | | | |
|---------------------------------------|--|---------------|--------------------------|---------------|---------------|---------------|
| | Governmental Activities | | Business-Type Activities | | Total Agency | |
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Assets: | | | | | | |
| Current and other assets | \$ 235.85 | 207.55 | 49.03 | 47.08 | 284.88 | 254.63 |
| Capital assets, net | 434.47 | 423.94 | 113.59 | 111.56 | 548.06 | 535.50 |
| Total assets | <u>670.32</u> | <u>631.49</u> | <u>162.62</u> | <u>158.64</u> | <u>832.94</u> | <u>790.13</u> |
| Deferred outflows of resources | <u>0.80</u> | <u>0.70</u> | <u>0.49</u> | <u>0.43</u> | <u>1.29</u> | <u>1.13</u> |
| Liabilities: | | | | | | |
| Current liabilities | 19.97 | 33.36 | 11.02 | 17.20 | 30.99 | 50.56 |
| Non-current liabilities | 294.52 | 259.06 | 64.10 | 61.32 | 358.62 | 320.38 |
| Total liabilities | <u>314.49</u> | <u>292.42</u> | <u>75.12</u> | <u>78.52</u> | <u>389.61</u> | <u>370.94</u> |
| Deferred inflows of resources | <u>0.63</u> | <u>1.38</u> | <u>0.39</u> | <u>0.85</u> | <u>1.02</u> | <u>2.23</u> |
| Net position: | | | | | | |
| Net investment in capital assets | 173.70 | 184.77 | 52.20 | 47.21 | 225.90 | 231.98 |
| Restricted | 82.42 | 51.54 | - | - | 82.42 | 51.54 |
| Unrestricted | 99.88 | 102.08 | 35.40 | 32.49 | 135.28 | 134.57 |
| Total net position | <u>\$ 356.00</u> | <u>338.39</u> | <u>87.60</u> | <u>79.70</u> | <u>443.60</u> | <u>418.09</u> |

**Castaic Lake Water Agency
Management's Discussion and Analysis
For the Year Ended June 30, 2016**

Government-wide Financial Analysis, continued

Statements of Net Position, continued

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Agency, assets and deferred outflows of the Agency exceeded liabilities and deferred inflows by \$443.60 million as of June 30, 2016. Compared to prior year, net position of the Agency increased 6.1%, or \$25.51 million. The increase in net position is primarily due to increase in capital assets, \$10.3 million grants and the results of this year's operations. The Agency's net position is made-up of three components: (1) net investment in capital assets, (2) restricted, and (3) unrestricted.

Statement of Activities

| | Statement of Activities (in millions) | | | | | |
|--|---------------------------------------|---------------|--------------------------|--------------|---------------|---------------|
| | Governmental Activities | | Business-Type Activities | | Total Agency | |
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 17.76 | 17.26 | 28.63 | 28.87 | 46.39 | 46.13 |
| Cap. grants and contribs. | 6.75 | 8.19 | 4.53 | 7.57 | 11.28 | 15.76 |
| General revenues: | | | | | | |
| Property taxes | 49.75 | 47.69 | - | - | 49.75 | 47.69 |
| Investment earnings | 2.06 | 2.31 | 0.38 | 0.28 | 2.44 | 2.59 |
| Other revenues | 14.98 | 6.51 | 1.11 | 0.76 | 16.09 | 7.27 |
| Total revenues | <u>91.30</u> | <u>81.96</u> | <u>34.65</u> | <u>37.48</u> | <u>125.95</u> | <u>119.44</u> |
| Expenses: | | | | | | |
| Wholesale water operations | 61.41 | 52.64 | - | - | 61.41 | 52.64 |
| Interest on long-term debt | 12.28 | 17.16 | - | - | 12.28 | 17.16 |
| Water enterprise fund | - | - | 26.75 | 26.57 | 26.75 | 26.57 |
| Total expenses | <u>73.69</u> | <u>69.80</u> | <u>26.75</u> | <u>26.57</u> | <u>100.44</u> | <u>96.37</u> |
| Change in net position | 17.61 | 12.16 | 7.90 | 10.91 | 25.51 | 23.07 |
| Net position, beginning of year | <u>338.39</u> | <u>326.23</u> | <u>79.70</u> | <u>68.79</u> | <u>418.09</u> | <u>395.02</u> |
| Net position, end of year | <u>\$ 356.00</u> | <u>338.39</u> | <u>87.60</u> | <u>79.70</u> | <u>443.60</u> | <u>418.09</u> |

Government and business-type activities increased the Agency's net position by \$25.51 million, accounting for the 6.1% increase in the net position of the Agency primarily due to \$10.3 million grant and the results of this year's operations. Key elements for this increase are as follows:

Governmental activities increased the Agency's net position by \$17.61, million or 5.2% from the prior year mainly from increased property tax and grants.

Business activities increased the Agency's net position by \$7.9 million, or 9.91% from prior year, mainly from the results of this year's operations.

**Castaic Lake Water Agency
Management's Discussion and Analysis
For the Year Ended June 30, 2016**

Fund Financial Analysis

The General fund is the operating fund of the Agency. At the end of the fiscal year, the fund balance of the General fund was \$10.28 million. The General fund decreased by \$0.48 million, primarily due to decreased water demand from the four purveyors.

The Pledged Revenue fund balance decreased by \$2.56 million, primarily due to increased capital expenditures.

The State Water Contract fund balance increased by \$5.47 million, primarily due to increased property tax revenue.

The Capital Project fund balance increased by \$28.82 million, primarily due to the proceeds of 2016A Revenue Bonds.

The Debt Service fund balance decreased by \$3.41 million, due to 2006 Series A refunding.

Capital Asset Administration

| Capital Assets (in millions) | | | | | | |
|-------------------------------------|--------------------------------|---------------|---------------------------------|---------------|---------------|---------------|
| | Governmental Activities | | Business-Type Activities | | Total | |
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Capital assets: | | | | | | |
| Non-depreciable | \$ 42.72 | 44.00 | 3.84 | 8.00 | 46.56 | 52.00 |
| Depreciable | 598.78 | 569.71 | 168.72 | 158.46 | 767.50 | 728.17 |
| Total capital assets | 641.50 | 613.71 | 172.56 | 166.46 | 814.06 | 780.17 |
| Accumulated depreciation | (207.02) | (189.77) | (58.96) | (54.90) | (265.98) | (244.67) |
| Total capital assets, net | \$ <u>434.48</u> | <u>423.94</u> | <u>113.60</u> | <u>111.56</u> | <u>548.08</u> | <u>535.50</u> |

At the end of fiscal year 2016, the Agency's investment in capital assets amounted to \$548.08 million (net of accumulated depreciation). This investment in capital assets includes land, transmission and distribution systems, pumping plants and rights, buildings and structures, equipment, vehicles, and construction-in-process. Major capital asset additions in the business-type activities area included upgrades to water tanks and mains, and developer contributions to the water retail enterprise's transmission and distribution system. A significant portion of these additions were constructed by the Agency and/or sub-contractors and transferred out of construction-in-process upon completion of these various projects. The capital assets of the Agency are more fully analyzed in Note 5 to the basic financial statements.

Long-Term Debt Administration

| Long-term Debt (in millions) | | | | | | |
|-------------------------------------|--------------------------------|---------------|---------------------------------|--------------|---------------|---------------|
| | Governmental Activities | | Business-Type Activities | | Total | |
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Long-term debt: | | | | | | |
| Long-term debt | \$ 302.57 | 280.96 | 61.40 | 64.35 | 363.97 | 345.31 |
| Total long-term debt | \$ <u>302.57</u> | <u>280.96</u> | <u>61.40</u> | <u>64.35</u> | <u>363.97</u> | <u>345.31</u> |

Long-term debt increased \$18.66 million between fiscal years primarily due to (1) a decrease of \$16.38 million due to principal payments, (2) accretion of debt principal of \$3.31 million on the 1999 Certificates of Participation, and (3) issuance of \$30.66 million of 2016A revenue bonds. The long-term debt position of the Agency is more fully analyzed in Note 7 to the basic financial statements.

**Castaic Lake Water Agency
Management's Discussion and Analysis
For the Year Ended June 30, 2016**

Conditions Affecting Current Financial Position

Expanding in Infrastructure – Management has identified a need to invest in the Agency's infrastructure and Capital Improvement Program (CIP). As the Agency's infrastructure continues to expand, the Agency understands the importance of monitoring the impacts of CIP projects on operating expenditures. Each major CIP project that becomes operational adds new complexity and costs to the Agency's overall system. As this additional infrastructure is implemented, the Agency will require additional staff resources and will incur additional costs to operate and maintain the infrastructure. The current CIP includes a number of water quality and pipeline projects that will not have significant operating costs. However, the future development of the recycled water program will have significant operating costs that should be identified as part of the planning process.

Requests for Information

This financial report is designed to provide the Agency's funding sources, customers, stakeholders, and other interested parties with an overview of the Agency'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 the Agency's Administrative Services Manager at 27234 Bouquet Canyon Road, Santa Clarita, California 91350-2173 or (661) 297-1600.



Basic Financial Statements

Castaic Lake Water Agency
Statement of Net Position
June 30, 2016

| <i>Assets</i> | Governmental Activities | Business-type Activities | Total |
|--|------------------------------------|-------------------------------------|--------------------|
| Cash and cash equivalents (note 2) | \$ 86,164,467 | 9,349,592 | 95,514,059 |
| Cash and cash equivalents with fiscal agent (note 2) | 5,506,906 | - | 5,506,906 |
| Investments (note 2) | 73,500,000 | 32,308,961 | 105,808,961 |
| Investment in the stock of the Valencia Water Company (note 6) | 62,673,570 | - | 62,673,570 |
| Accrued interest receivable | 269,822 | 58,635 | 328,457 |
| Accounts receivable - water sales and services | 1,910,977 | 4,898,578 | 6,809,555 |
| Accounts receivable - other | 1,208,485 | 34,226 | 1,242,711 |
| Property taxes receivable | 966,273 | - | 966,273 |
| Materials and supplies inventory | - | 677,942 | 677,942 |
| Prepaid expenses and other deposits | 188,056 | 78,049 | 266,105 |
| Other post employment benefits asset (note 15) | 3,451,814 | 1,618,045 | 5,069,859 |
| Capital assets - not being depreciated (note 5) | 42,717,441 | 3,843,804 | 46,561,245 |
| Capital assets, net - being depreciated (note 5) | <u>391,767,828</u> | <u>109,757,343</u> | <u>501,525,171</u> |
| Total assets | 670,325,639 | 162,625,175 | 832,950,814 |
| <i>Deferred Outflows of Resources</i> | | | |
| Deferred outflow (note 8) | <u>802,148</u> | <u>493,157</u> | <u>1,295,305</u> |
| Total deferred outflows of resources | 802,148 | 493,157 | 1,295,305 |
| <i>Liabilities</i> | | | |
| Accounts payable and accrued expenses | 3,575,672 | 4,943,297 | 8,518,969 |
| Accrued salaries and wages | 636,141 | 353,553 | 989,694 |
| Customer deposits and unearned revenue | - | 661,289 | 661,289 |
| Advances for construction | - | 3,781,692 | 3,781,692 |
| Accrued interest - long-term debt | 2,979,415 | 1,162,075 | 4,141,490 |
| Long-term liabilities - due within one year: | | | |
| Compensated absences (note 4) | 223,003 | 117,409 | 340,412 |
| Revenue bonds (note 7) | 4,660,000 | - | 4,660,000 |
| Certificates of participation (note 7) | 7,890,000 | - | 7,890,000 |
| Long-term liabilities - due in more than one year: | | | |
| Compensated absences (note 4) | 669,009 | 352,228 | 1,021,237 |
| Net pension liability (note 14) | 3,836,283 | 2,350,823 | 6,187,106 |
| Revenue bonds (note 7) | 151,576,006 | 47,849,066 | 199,425,072 |
| Certificates of participation (note 7) | <u>138,443,931</u> | <u>13,551,406</u> | <u>151,995,337</u> |
| Total liabilities | 314,489,460 | 75,122,838 | 389,612,298 |
| <i>Deferred Inflows of Resources</i> | | | |
| Deferred Inflow (note 9) | <u>637,217</u> | <u>393,155</u> | <u>1,030,372</u> |
| Total deferred inflows of resources | 637,217 | 393,155 | 1,030,372 |
| <i>Net Position</i> | | | |
| Net invested in capital assets (note 10) | 173,702,698 | 52,200,675 | 225,903,373 |
| Restricted for capital improvement | 36,612,643 | - | 36,612,643 |
| Restricted for state water contract | 40,334,280 | - | 40,334,280 |
| Restricted for debt service | 5,477,637 | - | 5,477,637 |
| Unrestricted | <u>99,873,852</u> | <u>35,401,664</u> | <u>135,275,516</u> |
| Total net position | \$ 356,001,110 | 87,602,339 | 443,603,449 |

See accompanying notes to the basic financial statements

Castaic Lake Water Agency
Statement of Activities
For the Year Ended June 30, 2016

| <u>Functions/Programs</u> | <u>Expenses</u> | <u>Program Revenues</u> | | <u>Net (Expense) Revenue and Changes in Net Positions</u> | | |
|--|-----------------------|-----------------------------|---|---|---------------------------------|---------------------|
| | | <u>Charges for Services</u> | <u>Capital Grants and Contributions</u> | <u>Governmental Activities</u> | <u>Business-type Activities</u> | <u>Total</u> |
| Governmental activities: | | | | | | |
| Wholesale water agency | \$ 61,412,484 | 17,763,755 | 6,747,047 | (36,901,682) | - | (36,901,682) |
| Interest on long-term debt | 12,273,440 | - | - | (12,273,440) | - | (12,273,440) |
| Total governmental activities | <u>73,685,924</u> | <u>17,763,755</u> | <u>6,747,047</u> | <u>(49,175,122)</u> | <u>-</u> | <u>(49,175,122)</u> |
| Business-type activities: | | | | | | |
| Retail water enterprise | 26,754,793 | 28,624,712 | 4,536,624 | - | 6,406,543 | 6,406,543 |
| Total government | \$ <u>100,440,717</u> | <u>46,388,467</u> | <u>11,283,671</u> | <u>(49,175,122)</u> | <u>6,406,543</u> | <u>(42,768,579)</u> |
| General revenues: | | | | | | |
| Property taxes levied for general purposes | | | | \$ 49,748,061 | - | 49,748,061 |
| Interest and investment earnings | | | | 2,059,717 | 381,434 | 2,441,151 |
| Other revenues | | | | 14,979,414 | 1,110,176 | 16,089,590 |
| Total general revenues | | | | <u>66,787,192</u> | <u>1,491,610</u> | <u>68,278,802</u> |
| Change in net position | | | | 17,612,070 | 7,898,153 | 25,510,223 |
| Net position, beginning of year | | | | <u>338,389,040</u> | <u>79,704,186</u> | <u>418,093,226</u> |
| Net position, end of year | | | | \$ <u>356,001,110</u> | <u>87,602,339</u> | <u>443,603,449</u> |

See accompanying notes to the basic financial statements

Castaic Lake Water Agency
Balance Sheet – Governmental Funds
June 30, 2016

| | <u>General</u> | <u>Pledged Revenue</u> | <u>State Water Contract</u> | <u>Capital Project</u> | <u>Debt Service</u> | <u>Total Governmental Funds</u> |
|--|----------------------|----------------------------|-------------------------------------|----------------------------|-------------------------|---|
| Assets: | | | | | | |
| Cash and investments | \$ 9,273,296 | 51,711,549 | 40,755,900 | 37,023,722 | 20,900,000 | 159,664,467 |
| Cash and cash equivalents with fiscal agent | - | - | - | - | 5,506,906 | 5,506,906 |
| Investment in the stock of the Valencia Water Company (note 6) | - | 62,673,570 | - | - | - | 62,673,570 |
| Accrued interest receivable | 14,990 | 116,507 | 65,412 | 32,895 | 40,018 | 269,822 |
| Accounts receivable - water sales, net | 1,910,977 | - | - | - | - | 1,910,977 |
| Accounts receivable - other | 1,127,675 | 41,257 | - | 39,553 | - | 1,208,485 |
| Property taxes receivable | - | 467,361 | 498,912 | - | - | 966,273 |
| Prepaid items | 13,996 | - | 174,060 | - | - | 188,056 |
| Due from other funds (note 3) | - | 20,932,287 | - | - | - | 20,932,287 |
| Total assets | \$ 12,340,934 | 135,942,531 | 41,494,284 | 37,096,170 | 26,446,924 | 253,320,843 |
| Liabilities: | | | | | | |
| Accounts payable | \$ 1,426,984 | 468,157 | 1,160,004 | 483,527 | 37,000 | 3,575,672 |
| Accrued expenditures | 636,141 | - | - | - | - | 636,141 |
| Due to other funds (note 3) | - | - | - | - | 20,932,287 | 20,932,287 |
| Total liabilities | 2,063,125 | 468,157 | 1,160,004 | 483,527 | 20,969,287 | 25,144,100 |
| Fund balances (note 11): | | | | | | |
| Nonspendable | 13,996 | - | 174,060 | - | - | 188,056 |
| Restricted | - | - | 40,160,220 | 36,612,643 | 5,477,637 | 82,250,500 |
| Committed | 5,707,000 | 131,422,770 | - | - | - | 137,129,770 |
| Assigned | 4,556,813 | 4,051,604 | - | - | - | 8,608,417 |
| Total fund balances | 10,277,809 | 135,474,374 | 40,334,280 | 36,612,643 | 5,477,637 | 228,176,743 |
| Total liabilities and fund balances | \$ 12,340,934 | 135,942,531 | 41,494,284 | 37,096,170 | 26,446,924 | 253,320,843 |

See accompanying notes to the basic financial statements

Castaic Lake Water Agency
Reconciliation of the Balance Sheet of Governmental
Funds to the Statement of Net Position
June 30, 2016

| | | |
|---|----------------------|------------------------------|
| Total fund balances – Governmental funds | | \$ 228,176,743 |
| <p>Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet. However, the Statement of Net Position includes those capital assets among the assets of the Agency as a whole.</p> | | |
| Beginning balance, net of depreciation | \$ 423,942,858 | |
| Current year additions | 28,115,212 | |
| Current year depreciation | <u>(17,572,801)</u> | |
| Ending balance, net of depreciation | | 434,485,269 |
| <p>Long-term liabilities applicable to the Agency are not due and payable in the current period and accordingly, are not reported as governmental fund liabilities. All liabilities both current and long-term, are reported in the Statement of Net Position.</p> | | |
| Other post employment benefits asset | 3,451,814 | |
| Net pension liability | (3,836,283) | |
| Compensated absences | (892,012) | |
| Premium on debt | (23,723,628) | |
| Certificates of participation and revenue bonds | <u>(278,846,309)</u> | |
| | | (303,846,418) |
| Deferred inflows of resources | | (637,217) |
| Deferred outflows of resources | | 802,148 |
| <p>Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.</p> | | |
| | | <u>(2,979,415)</u> |
| Net position of governmental activities | | \$ <u>356,001,110</u> |

See accompanying notes to the basic financial statements

Castaic Lake Water Agency
Statement of Revenues, Expenditures and Changes in Fund Balances– Governmental Funds
For the Year Ended June 30, 2016

| | <u>General</u> | <u>Pledged Revenue</u> | <u>State Water Contract</u> | <u>Capital Project</u> | <u>Debt Service</u> | <u>Total Governmental Funds</u> |
|---|----------------------|----------------------------|-------------------------------------|----------------------------|-------------------------|---|
| Revenues: | | | | | | |
| Property taxes | \$ - | 22,648,707 | 27,099,354 | - | - | 49,748,061 |
| Water sales - Agency | 17,660,871 | - | - | - | - | 17,660,871 |
| Facility capacity fee | - | 6,747,047 | - | - | - | 6,747,047 |
| Laboratory fees | 102,884 | - | - | - | - | 102,884 |
| Interest and investment earnings | 86,386 | 1,364,794 | 296,869 | 64,141 | 247,527 | 2,059,717 |
| Other | 2,579,834 | 1,349,732 | 2,832,107 | 8,217,741 | - | 14,979,414 |
| Total revenues | <u>20,429,975</u> | <u>32,110,280</u> | <u>30,228,330</u> | <u>8,281,882</u> | <u>247,527</u> | <u>91,297,994</u> |
| Expenditures: | | | | | | |
| Water treatment operations | 4,954,109 | - | - | - | - | 4,954,109 |
| Water resources | 5,072,042 | - | - | - | - | 5,072,042 |
| Maintenance | 3,082,075 | - | - | - | - | 3,082,075 |
| Water quality and regulatory affairs | 941,920 | - | - | - | - | 941,920 |
| Administration | 4,230,738 | - | - | - | - | 4,230,738 |
| Management | 1,740,920 | - | - | - | - | 1,740,920 |
| Engineering | 894,863 | - | - | - | - | 894,863 |
| State water contract payments | - | - | 21,799,974 | - | - | 21,799,974 |
| Capital outlay | - | 13,133,408 | 2,954,706 | 16,395,245 | - | 32,483,359 |
| Debt service: | | | | | | |
| Interest | - | - | - | - | 7,938,309 | 7,938,309 |
| Principal | - | - | - | - | 13,865,000 | 13,865,000 |
| Cost of issuance | - | - | - | - | 270,718 | 270,718 |
| Total expenditures | <u>20,916,667</u> | <u>13,133,408</u> | <u>24,754,680</u> | <u>16,395,245</u> | <u>22,074,027</u> | <u>97,274,027</u> |
| Excess of revenues over(under) expenditures | <u>(486,692)</u> | <u>18,976,872</u> | <u>5,473,650</u> | <u>(8,113,363)</u> | <u>(21,826,500)</u> | <u>(5,976,033)</u> |
| Other financing sources(uses): | | | | | | |
| Transfers in (note 3) | - | - | - | 36,934,624 | 21,542,471 | 58,477,095 |
| Transfers out (note 3) | - | (21,542,471) | - | - | (36,934,624) | (58,477,095) |
| Refunding bond issued | - | - | - | - | 56,395,000 | 56,395,000 |
| Payment to refunded bond escrow | - | - | - | - | (34,393,791) | (34,393,791) |
| Premium on refunding bond issue | - | - | - | - | 11,808,569 | 11,808,569 |
| Total other financing sources(uses) | <u>-</u> | <u>(21,542,471)</u> | <u>-</u> | <u>36,934,624</u> | <u>18,417,625</u> | <u>33,809,778</u> |
| Net change in fund balances | <u>(486,692)</u> | <u>(2,565,599)</u> | <u>5,473,650</u> | <u>28,821,261</u> | <u>(3,408,875)</u> | <u>27,833,745</u> |
| Fund balance, beginning of year | 10,764,501 | 138,039,973 | 34,860,630 | 7,791,382 | 8,886,512 | 200,342,998 |
| Fund balance, end of year | <u>\$ 10,277,809</u> | <u>135,474,374</u> | <u>40,334,280</u> | <u>36,612,643</u> | <u>5,477,637</u> | <u>228,176,743</u> |

See accompanying notes to the basic financial statements

Castaic Lake Water Agency
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of
Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2016

| | |
|--|-----------------------------|
| Net change in fund balances – Total governmental funds | \$ 27,833,745 |
| When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the Statement of Revenues, Expenses and Changes in Fund Balance, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount that capital expenditures (\$32,483,359) and depreciation (\$17,572,801) in the current period. | 14,910,558 |
| Repayment of long-term debt is reported as expenditures in governmental funds, and thus, has the effect of reducing fund balance because current financial resources have been used. For the Agency as a whole, however, the principal payments reduce the liabilities in the Statement of Net Position and do not result in an expense in the Statement of Revenues, Expenses and Change in Fund Balance. | 13,865,000 |
| The accretion of interest on long-term debt is not reported as an expenditure in governmental funds, but as an addition to principal outstanding in the statement of activities. | (3,314,940) |
| Net effect of issuance of long-term debt related items. | (35,747,816) |
| Pension expense | 711,877 |
| Some expenses reported in the Statement of Revenues, Expenses and Changes in Net Assets do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds: | |
| Net change in accrued interest for the current period | (1,020,191) |
| Net change in compensated absences for the current period. | (5,522) |
| Net change in other post retirement benefits obligation for the current period. | <u>379,359</u> |
| Change in net position of governmental activities | \$ <u>17,612,070</u> |

See accompanying notes to the basic financial statements

Castaic Lake Water Agency
Statement of Net Position – Water Enterprise Fund
June 30, 2016

| <i>Assets</i> | Business-Type Activities |
|--|-------------------------------------|
| Current assets: | |
| Cash and cash equivalents | \$ 9,349,592 |
| Accrued interest receivable | 58,635 |
| Accounts receivable - water sales and services | 4,898,578 |
| Accounts receivable - other | 34,226 |
| Materials and supplies inventory | 677,942 |
| Prepaid expenses and other deposits | 78,049 |
| Total current assets | 15,097,022 |
| Non-current assets: | |
| Investments | 32,308,961 |
| Other post employment benefits assets | 1,618,045 |
| Capital assets - not being depreciated | 3,843,804 |
| Capital assets, net - being depreciated | 109,757,343 |
| Total non-current assets | 147,528,153 |
| Total assets | 162,625,175 |
| <i>Deferred Outflows of Resources</i> | |
| Deferred outflows | 493,157 |
| Total deferred outflows of resources | 493,157 |
| <i>Liabilities</i> | |
| Current liabilities: | |
| Accounts payable and accrued expenses | 4,943,297 |
| Accrued wages and related payables | 353,553 |
| Customer deposits and unearned revenue | 661,289 |
| Advances for construction | 3,781,692 |
| Accrued interest | 1,162,075 |
| Long-term liabilities - due within one year: | |
| Compensated absences (note 4) | 117,409 |
| Revenue bonds (note 7) | - |
| Certificates of participation (note 7) | - |
| Total current liabilities | 11,019,315 |
| Non-current liabilities: | |
| Long-term liabilities - due in more than one year: | |
| Compensated absences (note 4) | 352,228 |
| Net pension liability | 2,350,823 |
| Revenue bonds (note 7) | 47,849,066 |
| Certificates of participation (note 7) | 13,551,406 |
| Total non-current liabilities | 64,103,523 |
| Total liabilities | 75,122,838 |
| <i>Deferred Inflows of Resources</i> | |
| Deferred inflows | 393,155 |
| Total deferred inflows of resources | 393,155 |
| <i>Net Position</i> | |
| Net investment in capital assets | 52,200,675 |
| Unrestricted | 35,401,664 |
| Total net position | \$ 87,602,339 |

See accompanying notes to the basic financial statements.

Castaic Lake Water Agency
Statement of Revenues, Expenses and Changes in Net Position – Water Enterprise Fund
For the Year Ended June 30, 2016

| | <u>Business-type Activities</u> |
|---|--|
| Operating revenues: | |
| Water consumption sales and services | \$ 27,753,519 |
| Other charges and services | <u>871,193</u> |
| Total operating revenues | <u>28,624,712</u> |
| Operating expenses: | |
| Source of supply | 8,508,698 |
| Pumping | 2,629,656 |
| Water treatment | 831,626 |
| Transmission and distribution | 4,042,902 |
| Customer accounts | 744,474 |
| Engineering | 915,884 |
| General and administrative | <u>2,303,089</u> |
| Total operating expenses | <u>19,976,329</u> |
| Operating income before depreciation and amortization | 8,648,383 |
| Depreciation and amortization | <u>(4,299,022)</u> |
| Operating income | <u>4,349,361</u> |
| Non-operating revenue(expense) | |
| Interest earnings | 381,434 |
| Interest expense | (2,917,383) |
| Other non-operating revenues, net | <u>1,548,117</u> |
| Total non-operating, net | <u>(987,832)</u> |
| Net income before capital contributions | 3,361,529 |
| Capital contributions – developer and customer | <u>4,536,624</u> |
| Change in net position | 7,898,153 |
| Net position, beginning of year | <u>79,704,186</u> |
| Net position, end of year | <u>\$ 87,602,339</u> |

See accompanying notes to the basic financial statements

Castaic Lake Water Agency
Statement of Cash Flows – Water Enterprise Fund
For the Year Ended June 30, 2016

| | <u>Business-type Activities</u> |
|--|-------------------------------------|
| Cash flows from operating activities: | |
| Receipts from customers for water sales and services | \$ 27,618,540 |
| Payments to employees for salaries and wages | (2,333,691) |
| Payments to vendors and suppliers for materials and services | (18,129,314) |
| Net cash provided by operating activities | <u>7,155,535</u> |
| Cash flows from non-capital financing activities: | |
| | <u>-</u> |
| Cash flows from capital and related financing activities: | |
| Acquisition and construction of capital assets | (6,330,228) |
| Capital contributions | 4,536,624 |
| Principal paid | (2,514,999) |
| Interest paid | (2,960,000) |
| Change in construction deposits | 335,344 |
| Net cash used in capital and related financing activities | <u>(6,933,259)</u> |
| Cash flows from investing activities: | |
| Purchase of investments | (3,581,909) |
| Interest earnings | 368,284 |
| Net cash used in investing activities | <u>(3,213,625)</u> |
| Net increase in cash and cash equivalents | (2,991,349) |
| Cash and cash equivalents, beginning of year | <u>12,340,941</u> |
| Cash and cash equivalents, end of year | <u>\$ 9,349,592</u> |
| Reconciliation of operating income to net cash provided by operating activities: | |
| Operating income | \$ <u>4,349,361</u> |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Depreciation and amortization | 4,299,022 |
| Other non-operating revenues, net | 1,110,175 |
| Changes in assets, deferred outflow of resources, deferred inflow of resources and liabilities: | |
| (Increase)decrease in assets: | |
| Accounts receivable - water sales and services, net | (1,434,940) |
| Accounts receivable - other | 193,752 |
| Materials and supplies inventory | (234,043) |
| Prepaid expenses and other deposits | (13,176) |
| Other post-employment benefit asset | (191,553) |
| (Increase)decrease in deferred outflow of resources: | |
| Pension | (493,157) |
| Increase(decrease) in liabilities: | |
| Accounts payable and accrued expenses | (981,786) |
| Accrued salaries and wages | 141,834 |
| Customer deposits and unearned revenue | (158,438) |
| Compensated absences | 19,118 |
| Due to other funds | 156,211 |
| Increase(decrease) in deferred inflow of resources: | |
| Pension | <u>393,155</u> |
| Total adjustments | <u>2,806,174</u> |
| Net cash provided by operating activities | <u>\$ 7,155,535</u> |
| Non-cash investing, capital and financing transactions: | |
| Developer contributions of capital assets | <u>\$ -</u> |
| See accompanying notes to the basic financial statements | |

Castaic Lake Water Agency
Notes to the Basic Financial Statements
June 30, 2016

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The Castaic Lake Water Agency (Agency) (formerly the Upper Santa Clara Valley Water Agency) was organized on April 20, 1962, by virtue of Assembly Bill No. 26, Chapter 28, California Statutes of 1962, to contract with the State of California for the delivery of a portion of the water to be brought over the Tehachapi Mountains from the Sacramento-San Joaquin Delta through the state water resources development system.

The Agency provides supplemental wholesale water to four local retail water purveyors as follows: the Newhall County Water District, the Valencia Water Company, the Los Angeles County Waterworks District No. 36, and the Santa Clarita Water Division (blended component unit – retail water enterprise fund). The Agency covers an area of approximately 195 square miles situated in northwest Los Angeles County. It is divided into three elective divisions; its governing board is made up of two directors from each division, three directors at-large, and one director appointed by each of two of the retail water purveyors (Newhall County Water District and Los Angeles County Waterworks District No. 36).

The Agency's operations to date have consisted of participation in the development of the State Water Project, construction of its water treatment and delivery facilities and the sale of water to local water distribution agencies. All costs incurred by the Agency for construction, engineering, contract payments to the State Water Project and administrative costs through June 30, 1980, were capitalized. Water sales commenced during the fiscal year ended June 30, 1981.

Blended Component Units

The criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Statements No. 14 and 34 (an amendment of No. 14) and GASB No. 61 – *The Financial Reporting Entity*, Omnibus (an amendment of GASB Statements No. 14 and No. 34). The Agency is the primary governmental unit based on the foundation of a separately elected governing board that is elected by the citizens in a general popular election. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The Agency is financially accountable if it appoints a voting majority of the organization's governing body and: 1) It is able to impose its will on that organization, or 2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. The Agency has accounted for the Santa Clarita Water Division and the Castaic Lake Water Agency Financing Corporation (Corporation) as blended component units. Accordingly, these basic financial statements present the Agency and its component units and the Corporation.

The Agency acquired 100% of the outstanding shares of the Santa Clarita Water Company (Company) through a Stock Purchase Agreement (Agreement). The Agreement was entered into in the settlement of the Agency's condemnation action files against the Company in which the Agency planned to exercise the power of eminent domain to acquire the Company. The Agency sells and distributes water to residential and commercial customers located in the Santa Clarita Valley of Southern California. The stock sale resulting in the acquisition of assets and assuming the liabilities of the Company became effective September 3, 1999. The acquisition of the Company was intended to maximize local revenues within the Santa Clarita Water Company's service area and integrate them with the Agency's resources. This will reduce long-term capital costs and increase water reliability while enhancing the Agency's financial strength. Although the Division is legally separate, it is included as a blended component unit – water enterprise fund of the Agency, as it is in substance part of the Agency's operations. There are no separate basic financial statements prepared for the Division or the Company.

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
June 30, 2016

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

A. Organization and Operations of the Reporting Entity, continued

The Castaic Lake Water Agency Financing Corporation (Corporation) was formed in 1990. The Corporation is a California nonprofit public benefit corporation formed to assist the Castaic Lake Water Agency (Agency) by acquiring, constructing, operating and maintaining facilities, equipment, or other property needed by the Agency and leasing or selling such property to the Agency and as such has no employees or other operations. Although the Corporation is legally separate, it is included as a blended component unit of the Agency, as it is in substance part of the Agency's operations. There are no separate basic financial statements prepared for the Corporation.

On October 25, 1988, the Agency purchased land and equipment owned by Producers Cotton Oil Company. Of the 8,459 acres of land purchased in Kern and Kings Counties, approximately, 7,759 acres are within the Devil's Den Water District (District). The District encompasses 8,676 acres. The cost of acquiring the land and equipment was approximately \$5.0 million. The land is being leased to an outside party to the Agency under terms of an operating lease agreement. The annual lease payments received by the Agency range from \$110 to \$130 per acre foot of all water supplied to the leased property. The accompanying basic financial statements contain all above-mentioned land and water allocation transactions.

B. Basis of Accounting and Measurement Focus

The *basic financial statements* of the Agency are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

Government-wide Financial Statements

These statements are presented on an *economic resources* measurement focus and the accrual basis of accounting for both governmental and business-like activities. Accordingly, all of the Agency's assets and liabilities, including capital assets, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place. The Statement of Activities demonstrates the degree to which the operating expenses of a given function are offset by operating revenues. Operating expenses are those that are clearly identifiable with a specific function. The types of transactions reported as operating revenues for the Agency are charges for services directly related to the operations of the Agency. Charges for services include revenues from customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by the Agency. Taxes, operating grants, and other items not properly included among operating revenues are reported instead as non-operating revenues. Contributed capital and capital grants are included as capital contributions.

Fund Financial Statements

These statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds. Accompanying these statements is a schedule to reconcile and explain the differences in fund balances as presented in these statements to the net assets presented in the Government-wide Financial Statements.

Governmental funds are accounted for on a spending or *current financial resources* measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under modified accrual basis of accounting, revenues are recognized in the accounting

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
June 30, 2016

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

B. Basis of Accounting and Measurement Focus, continued

period in which they become measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60-days after year-end) are recognized when due. The primary sources susceptible to accrual for the Agency are property tax, interest earnings, investment revenue, and operating and capital grant revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. However, exceptions to this rule include principal and interest on debt, which are recognized when due.

Inter-fund activity in the amount of \$58,477,095 (see note 3) has been eliminated from the general governmental function for the government-wide financial statements except for charges between the Agency's Water Enterprise Fund and various other functions of the government. Elimination of these charges prevents any potential distortion of the direct costs and program revenues for the various functions considered.

The accrual basis of accounting is followed by the proprietary fund. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Unbilled water and utility services receivables are recorded at year end.

Proprietary funds distinguish operating revenues and expenses from non-operating items. 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, such as water sales, result from exchange transactions associated with the principal activity of the Company. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as grant funding and investment income, result from non-exchange transactions, in which, the Agency gives (receives) value without directly receiving (giving) value in exchange.

When both restricted and unrestricted resources are available for use, it is the Agency's policy to use restricted resources first, and then unrestricted resources as they are needed.

The accounts of the Agency are organized on the basis of funds, each of which is considered a separate accounting entity with a self-balancing set of accounts established for the purpose of carrying out specific activities or attaining certain objectives in accordance with specific regulations, restrictions or limitations.

Funds are organized into two major categories: governmental and proprietary categories. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operation fund of the Agency, or meets the following criteria:

- a) Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or proprietary fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b) Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or proprietary fund are at least 5 percent of the corresponding total for all governmental and proprietary funds combined.
- c) The entity has determined that a fund is important to the financial statement user.

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
June 30, 2016

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

B. Basis of Accounting and Measurement Focus, continued

Accounting Pronouncements

The financial statements of the Agency are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) issued by the Governmental Accounting Standards Board (GASB) applicable to governmental entities.

The funds of the financial reporting entity are described below:

Governmental Fund Types

General Fund – This fund is used to account for and report all financial resources not accounted for and reported in another fund.

Special Revenue Funds – These funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Capital Project Funds – These funds are used to account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays including the acquisition or construction of capital facilities and other capital assets.

Debt Service Funds – These funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

Proprietary Fund Types

Enterprise Funds – These funds account for operations that are financed and operated in a manner similar to a private enterprise – where the intent of the entity is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The major funds of the Agency are:

Governmental Funds

General Fund – is the general operating fund of the Agency. It is used to account for and report all financial resources not accounted for and reported in another fund.

Pledged Revenue Fund – is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Major revenue sources are property tax and facility capacity fees. Pledged revenue funds are used to finance certain capital improvements to the Agency's wholesale water system.

State Water Contract Fund – is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Revenue is derived from a tax collected to pay for participation in the State Water Project. Its use is restricted for costs of the State Water Project.

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
June 30, 2016

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

B. Basis of Accounting and Measurement Focus, continued

Capital Project Fund – is used to account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays including the acquisition or construction of capital facilities and other capital assets.

Debt Service Fund – is used to account for resources and payments of various debt obligation instruments issued by the Agency.

Proprietary Fund

Water Enterprise Fund – is used to account for the operations of the Agency’s retail water enterprise division including the amount of funds advanced to the fund to purchase the Company.

C. Financial Statement Elements

1. Cash and Cash Equivalents

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

2. Investments and Investment Policy

The Agency has adopted an investment policy directing the Treasurer 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. The Agency’s policy is to hold its investments until maturity, or until market values equal or exceed cost.

The Agency 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 assets, as follows:

- Level 1 – Valuation is based on quoted prices in active markets for identical assets.
- Level 2 – Valuation 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 – Valuation 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.

3. Property Taxes and Assessments

The Counties of Los Angeles and Ventura Assessor’s Offices assesses all real and personal property within each respective County each year. The Counties of Los Angeles and Ventura Tax Collector’s Offices bills and collects the Agency’s share of property taxes and/or tax assessments. The Counties of Los Angeles and Ventura Treasurer’s Office remits current and delinquent property tax collections to the Agency throughout the year. Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent (1%) of countywide assessed valuations.

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
June 30, 2016

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

C. Financial Statement Elements, continued

Property taxes receivable at year-end are related to property taxes and tax assessments collected by the Counties of Los Angeles and Ventura, which have not been credited to the Agency's cash balance as of June 30. The property tax calendar is as follows:

| | |
|------------------|--------------------------|
| Lien date | March 1 |
| Levy date | July 1 |
| Due dates | November 1 and March 1 |
| Collection dates | December 10 and April 10 |

4. Accounts Receivable

The Agency extends credit to customers in the normal course of operations. Management deems not all accounts receivable as collectible at year-end. Accordingly, an allowance for doubtful accounts has been recorded.

5. Materials and Supplies Inventory

Materials and supplies inventory consists primarily of water meters, pipe and pipe fittings for construction and repair to the Agency's retail water transmission and distribution system. Inventory is valued at cost using a weighted average method. Inventory items are charged to expense at the time that individual items are withdrawn from inventory or consumed.

6. Prepaid Expenses

Certain payments to vendors reflect costs or deposits applicable to future accounting periods and are recorded as prepaid items in the basic financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

7. Premium on Debt Issued

The premium received on debt issued will be amortized over the remaining life of the respective debt service.

8. Capital Assets

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

Governmental Activities

- Castaic turnout, reservoirs, tanks and water mains – 50 years
- Treatment plant and facilities – 2 to 50 years
- Maintenance facility – 30 years
- Lighting and roads – 25 years
- Fencing – 5 to 25 years
- Meters and services – 2 to 40 years
- Office furniture and equipment – 2 to 20 years
- Vehicles, tools and equipment – 1 to 20 years

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
June 30, 2016

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

C. Financial Statement Elements, continued

Business-Type Activities

- Wells – 30 years
- Pumping – equipment, structures and improvements – 10 to 30 years
- Water treatment equipment and storage tanks – 10 to 30 years
- Transmission and distribution mains – 60 years
- Services, meters and hydrants – 30 years
- Structures and improvements – 25 to 30 years
- Furniture, equipment, tools and other – 6 to 20 years

9. Compensated Absences

The Agency's policy is to permit employees to accumulate an unlimited amount of earned vacation and 480 hours of sick leave. Accumulated vacation and sick time is accrued at year-end to account for the Agency's obligation to the employees for the amount owed.

Governmental fund types and enterprise fund recognize the vested vacation and sick leave as expenditure in the current year to the extent it is paid during the year. The General and Water Enterprise funds have been used in prior years to liquidate compensated absences for vested vacation as a result of resignations or retirements. Accrued vacation and sick leave relating to governmental and water enterprise funds are included as a long-term liability in the Statement of Net Position as those are payable from future resources.

10. Pensions

For the purposes of measuring the net pension liability and deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the CalPERS Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value. CalPERS audited financial statements are publicly available reports that can be obtained at CalPERS website.

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

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
June 30, 2016

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

C. Financial Statement Elements, continued

11. Net Positions/Fund Balances

The government-wide financial statements follow the financial reporting requirements of the GASB and reports net position under the following classifications:

- **Net Investment in Capital Assets** – Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and amortization, and reduced by outstanding balances of any debt, or other long-term borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted** – Restricted 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** – Unrestricted consists of any remaining balance of the Agency’s net position that do not meet the definition of “restricted” or “net investment in capital assets”.

In the case where both restricted and unrestricted resources are available for use for the same purpose (restricted bond proceeds and unrestricted resources for the same capital project, for example), the Agency will first apply the restricted resources.

In the fund financial statements, fund balances are reported based on the GASB Statement No. 54, which divide fund balance into the five classifications below:

- **Non-spendable** – includes amounts that cannot be spent because they are (1) not in spendable form, or (b) legally or contractually required to be maintained intact. This classification accounts for the Agency inventories and prepaid amounts.
- **Restricted** – includes amounts that have constraints that are either (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or (2) imposed by law through constitutional provisions or enabling legislations.
- **Committed** – includes amounts than can only be used for specific purposes pursuant to constraints imposed by resolution of the government’s highest level of decision making authority, the Board of Directors of the Agency.
- **Assigned** – includes amounts that are constrained by the government’s “intent” to be used for specific purposes, but are neither restricted nor committed, except for stabilization arrangements. Intent should be expressed by the Board of Directors of the Agency itself or a subordinate high level body (the Agency’s Finance and Administration committee, for example) or official to which the board has delegated the authority to assign amounts to be used for specific purposes. The Agency has delegated the authority to assign amounts for specific purposes to Administrative Services Manager.
- **Unassigned** – includes amounts that have not been assigned to other funds and that has not been restricted, committed, or assigned for specific purposes.

The Agency’s reserve amounts are reviewed annually to ensure compliance with the Agency’s reserve policy. During the budget process, the designation of reserves are established first (committed), then the remaining resources will be available for other purposes. The order of spending is first committed fund balance, then assigned fund balance, and last is unassigned fund balance.

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
June 30, 2016

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

C. Financial Statement Elements, continued

12. Water Sales

Water sales, retail and wholesale, are billed on a monthly cyclical basis. Estimated unbilled water revenue through June 30, has been accrued at year-end for the water enterprise fund.

13. Facility Capacity Fee

Assembly Bill 4175 was signed into California law on September 16, 1986, and became effective January 1, 1987. This bill authorizes the Agency to impose standby charges and a facility capacity fee to generate revenues to pay for future Agency expansion. The Agency's Board of Directors elected to begin imposing facility capacity fees on October 1, 1987, but has not elected to impose any standby charges.

14. Capital Contributions

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

15. 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 assets during the reporting period. Actual results could differ from those estimates.

16. Budgetary Policies

The Agency follows specific procedures in establishing the budgetary data reflected in the financial statements. Each April, the Agency's General Manager and Administrative Services Manager prepare and submit a capital and operating budget to the Board of Directors and adopted no later than June of each year. Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all government and proprietary funds. Annual budgets are adopted on the modified accrual basis of accounting for government fund types and accrual basis for the proprietary fund. The adopted budget becomes operative on July 1.

The Board of Directors must approve all supplemental appropriations to the budget and transfers between major funds. The legal level of budgetary control is at the fund level. Budget information is presented as required supplementary information for the general fund, pledged revenue fund and state water contract fund. Budget information is presented as other supplementary information for the debt service fund.

17. Adopted Pronouncements

The Agency 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.

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
June 30, 2016

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

C. Financial Statement Elements, 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.

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
June 30, 2016

(2) Cash and Investments

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

| | 2016 |
|---|----------------|
| Cash and cash equivalents | \$ 95,514,059 |
| Cash and cash equivalents with fiscal agent | 5,506,906 |
| Investments | 105,808,961 |
| Total cash and investments | \$ 206,829,926 |

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

| | 2016 |
|--------------------------------------|----------------|
| Cash on hand | \$ 1,600 |
| Deposits with financial institutions | 20,042,194 |
| Investments and cash equivalents | 186,786,132 |
| Total cash and investments | \$ 206,829,926 |

Investments Authorized by the California Government Code and the Agency's Investment Policy

The table below identifies the investment types that are authorized by the Agency in accordance with the California Government Code (or the Agency's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the Agency's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the Agency, rather than the general provisions of the California Government Code or the Agency's investment policy.

| Authorized Investment Type | Maximum Maturity | Maximum Percentage Of Portfolio | Maximum Investment in One Issuer |
|--|-----------------------------|--|---|
| U.S. Treasury Obligations | 5 years | None | None |
| U.S. Government Agency and Sponsored Enterprise Securities | 5 years | None | None |
| Banker's Acceptances | 180 days | 30% | 5% |
| Medium-Term Notes | 5 years | 30% | 5% |
| Commercial Paper | 270 days | 10% | 5% |
| Certificates of Deposit and Time Deposits | 5 years | 30% | 10% |
| Municipal Obligations | 5 years | 30% | 5% |
| Repurchase agreements | 30 days | 10% | None |
| California Local Agency Investment Fund (LAIF) | N/A | None | None |
| Los Angeles County Pooled Investment Fund (LACPIF) | N/A | 30% | None |
| Investment Trust of California (CalTRUST) | N/A | 20% | None |
| Money Market Mutual Funds | N/A | 20% | 10% |

* Excluding amounts held by bond trustee that are not subject to California Government Code restrictions.

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Agency's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
June 30, 2016

(2) Cash and Investments, continued

| <u>Authorized Investment Type</u> | <u>Maximum Maturity</u> | <u>Maximum Percentage Of Portfolio</u> | <u>Maximum Investment in One Issuer</u> |
|---------------------------------------|-----------------------------|--|---|
| U.S. Treasury Obligations | None | None | None |
| U.S. Agency Securities | None | None | None |
| Banker's Acceptances | 180 days | None | None |
| Commercial Paper | 270 days | None | None |
| Money Market Mutual Funds | N/A | None | None |
| Investment Contracts | 30 years | None | None |

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 Agency'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 Agency 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 California Government Code; however, the collateralized securities are not held in the Agency's name.

Investment in State Investment Pool

The Agency is a voluntary participant in the Local Agency 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 Agency's investment in this pool is reported in the accompanying financial statements at amounts based upon the Agency'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 Agency'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 notice.
- Prior to funds transfer, an authorized person must call LAIF to do a verbal transaction.

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
June 30, 2016

(2) Cash and Investments, continued

Los Angeles County Pooled Investment Fund

The Los Angeles County Pooled Investment Fund (LACPIF) is a pooled investment fund program governed by the County of Los Angeles Board of Supervisors, and administered by the County of Los Angeles Treasurer and Tax Collector. Investments in LACPIF are highly liquid as deposits, and withdrawals can be made at anytime without penalty. LACPIF does not impose a maximum investment limit. The fair value of the Agency's investment in this pool is reported in the accompanying financial statements at amounts based upon the fair value provided by LACPIF for the Agency's LACPIF portfolio.

The Agency'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.
- No limit of transactions (combination of deposits and withdrawals) per month.
- Minimum transaction amount requirement rounded to the next highest dollar.
- Prior to funds transfer, an authorized person must complete a deposit or withdrawal form and fax to LACPIF.

The County of Los Angeles' bank deposits are either Federally insured or collateralized in accordance with the California Government Code. Pool detail is included in the County of Los Angeles's Comprehensive Annual Financial Report (CAFR). Copies of the CAFR may be obtained from the County of Los Angeles Auditor-Controller's Office – 500 West Temple Street – Los Angeles, CA 90012.

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. Information about the sensitivity of the fair values of the Agency's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Agency's investments by maturity date:

Maturities of investments and cash equivalents 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 |
| Federal Farm Credit Bank | \$ 22,006,405 | - | - | 22,006,405 |
| Federal National Mortgage Association | 20,511,283 | - | - | 20,511,283 |
| Federal Home Loan Bank | 7,514,125 | - | - | 7,514,125 |
| Federal Home Loan Mortgage Corp. | 28,258,459 | - | - | 28,258,459 |
| Local Agency Investment Fund (LAIF) | 63,314,133 | 63,314,133 | - | - |
| Los Angeles County Pooled Investment Fund (LACPIF) | 35,746,127 | 35,746,127 | - | - |
| Money market funds | 9,435,600 | 9,435,600 | - | - |
| Total | \$ <u>186,786,132</u> | <u>108,495,860</u> | <u>-</u> | <u>78,290,272</u> |

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

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
June 30, 2016

(2) Cash and Investments, continued

Credit Risk, continued

Credit ratings of investments and cash equivalents as of June 30, 2016 were as follows:

| Investment Types | Total | Minimum Legal Rating | Exempt From Disclosure | Rating as of Year End | |
|--|----------------|----------------------------|------------------------------|-----------------------|--------------|
| | | | | AA+ | Not Rated |
| Federal Farm Credit Bank | \$ 22,006,405 | N/A | \$ - | 22,006,405 | - |
| Federal National Mortgage Association | 20,511,283 | N/A | - | 20,511,283 | - |
| Federal Home Loan Bank | 7,514,125 | N/A | - | 7,514,125 | - |
| Federal Home Loan Mortgage Corp | 28,258,459 | N/A | - | 28,258,459 | - |
| Local Agency Investment Fund (LAIF) | 63,314,133 | N/A | - | - | 63,314,133 |
| Los Angeles County Pooled Investment Fund (LACPIF) | 35,746,127 | N/A | - | - | 35,746,127 |
| Money market funds | 9,435,600 | AAA | 9,435,600 | - | - |
| Total | \$ 186,786,132 | | \$ 9,435,600 | 78,290,272 | 99,060,260 |

Concentration of Credit Risk

The investment policy of the Agency contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than for U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total Agency investments are as follows:

| Issuer | Investment type | Amount |
|---------------------------------------|---------------------------|---------------|
| Federal Farm Credit Bank | Federal agency securities | \$ 22,006,405 |
| Federal National Mortgage Association | Federal agency securities | 20,511,283 |
| Federal Home Loan Bank | Federal agency securities | 7,514,125 |
| Federal Home Loan Mortgage Corp. | Federal agency securities | 28,258,459 |
| | | \$ 78,290,272 |

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 | Total | Fair Value Measurement Using | | |
|--|----------------|--|---|--|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Federal agencies | \$ 78,290,272 | 78,290,272 | - | - |
| Money market | 9,435,600 | 9,435,600 | - | - |
| Total investments measured at fair value | 87,725,872 | 87,725,872 | - | - |
| Investments measured at amortized cost: | | | | |
| Local Agency Investment Fund (LAIF) | 63,314,133 | | | |
| Los Angeles County Pooled Investment Fund (LACPIF) | 35,746,127 | | | |
| Total | \$ 186,786,132 | | | |

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
June 30, 2016

(3) Interfund Receivables and Payables

Due from/to Other Funds

| Receivable Fund | Payable Fund | Amount |
|------------------------|---------------------|---------------|
| Pledged Revenue | Debt Service | \$ 20,932,287 |
| | Total | \$ 20,932,287 |

Due from the Pledged Revenue Fund to the Debt Service Fund is to provide funds for next fiscal year's debt service payments.

Interfund Transfers

| Transfers From | Transfers to | Amount |
|-----------------------|---------------------|---------------|
| Debt Service | Capital Project | \$ 36,934,624 |
| Pledged Revenue | Debt Service | 21,542,471 |
| | Total | \$ 58,477,095 |

Transfers are used to move revenues received and recorded in the Pledged Revenue Fund to Debt Service Fund to provide funds to pay debt service payments as they become due. Transfers are used to move the proceeds from debt issuance received and recorded in Debt Service to Capital Project Fund.

(4) Compensated Absences

Compensated absences comprise unpaid vacation leave, sick leave, personal, and other leave which is accrued as earned. The Agency's liability for compensated absences is determined annually.

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

| Balance 2015 | Earned | Taken | Balance 2016 | Current Portion | Long-Term Portion |
|-------------------------|---------------|--------------|-------------------------|----------------------------|------------------------------|
| \$ 886,490 | 558,902 | 553,380 | 892,012 | 223,003 | 669,009 |

The changes to business-type compensated absences balance at June 30, were as follows:

| Balance 2015 | Earned | Taken | Balance 2016 | Current Portion | Long-Term Portion |
|-------------------------|---------------|--------------|-------------------------|----------------------------|------------------------------|
| \$ 450,519 | 301,330 | 282,212 | 469,637 | 117,409 | 352,228 |

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
June 30, 2016

(5) Capital Assets

Governmental Activities

Changes in capital assets for the year were as follows:

| | <u>Balance 2015</u> | <u>Additions/ Transfers</u> | <u>Deletions/ Transfers</u> | <u>Balance 2016</u> |
|--|-------------------------|---------------------------------|---------------------------------|-------------------------|
| Non-depreciable assets: | | | | |
| Land | \$ 28,372,111 | - | - | 28,372,111 |
| Construction-in-process | 15,637,363 | 22,623,258 | (23,915,291) | 14,345,330 |
| Total non-depreciable assets | <u>44,009,474</u> | <u>22,623,258</u> | <u>(23,915,291)</u> | <u>42,717,441</u> |
| Depreciable assets: | | | | |
| Contractual state water project rights | 137,978,812 | 2,954,706 | - | 140,933,518 |
| Contractual water rights - other agencies | 72,644,717 | 14,044,392 | - | 86,689,109 |
| Treatment plant | 166,003,372 | 1,486,021 | - | 167,489,393 |
| Water mains | 26,747,245 | - | - | 26,747,245 |
| Reservoirs and tanks | 1,649,965 | - | - | 1,649,965 |
| Reclaimed water | 4,638,901 | - | - | 4,638,901 |
| Control system | 157,722,301 | 10,539,294 | - | 168,261,595 |
| Castaic turnout | 398,243 | - | - | 398,243 |
| Services and meters | 153,965 | - | - | 153,965 |
| Maintenance facility | 188,310 | - | (188,310) | - |
| Large tools and equipment | 208,855 | - | (35,053) | 173,802 |
| Furniture and fixtures | 125,657 | 7,941 | (13,561) | 120,037 |
| Vehicles | 172,634 | 173,795 | - | 346,429 |
| Office equipment | 1,079,583 | 201,096 | (93,742) | 1,186,937 |
| Total depreciable assets | <u>569,712,560</u> | <u>29,407,245</u> | <u>(330,666)</u> | <u>598,789,139</u> |
| Accumulated depreciation and amortization: | | | | |
| Contractual state water project rights | (68,736,419) | (2,774,285) | - | (71,510,704) |
| Contractual water rights - other agencies | (16,375,846) | (3,540,176) | - | (19,916,022) |
| Treatment plant | (51,576,954) | (5,444,196) | - | (57,021,150) |
| Water mains | (10,078,701) | (534,945) | - | (10,613,646) |
| Reservoirs and tanks | (1,154,957) | (32,999) | - | (1,187,956) |
| Reclaimed water | (1,784,528) | (132,540) | - | (1,917,068) |
| Control system | (38,418,586) | (4,724,481) | - | (43,143,067) |
| Castaic turnout | (278,776) | (7,965) | - | (286,741) |
| Services and meters | (135,310) | (3,948) | - | (139,258) |
| Maintenance facility | (188,310) | - | 188,310 | - |
| Large tools and equipment | (119,025) | (25,188) | 35,053 | (109,160) |
| Furniture and fixtures | (70,633) | (18,241) | 13,561 | (75,313) |
| Vehicles | (71,803) | (76,524) | - | (148,327) |
| Office equipment | (789,328) | (257,313) | 93,742 | (952,899) |
| Total accum depr. and amort. | <u>(189,779,176)</u> | <u>(17,572,801)</u> | <u>330,666</u> | <u>(207,021,311)</u> |
| Total depreciable assets, net | <u>379,933,384</u> | <u>11,834,444</u> | <u>-</u> | <u>391,767,828</u> |
| Total capital assets, net | <u>\$ 423,942,858</u> | <u>34,457,702</u> | <u>(23,915,291)</u> | <u>434,485,269</u> |

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
June 30, 2016

(5) Capital Assets, continued

A significant portion of these additions were constructed by the Agency and/or sub-contractors and transferred out of construction-in-process upon completion of these various projects. Depreciation expenses under governmental activities, wholesale water agency, totaled \$17,572,801.

Business-Type Activities

Changes in capital assets for the year were as follows:

| | <u>Balance 2015</u> | <u>Additions/ Transfers</u> | <u>Deletions/ Transfers</u> | <u>Balance 2016</u> |
|---|-------------------------|---------------------------------|---------------------------------|-------------------------|
| Non-depreciable assets: | | | | |
| Land and land rights | \$ 640,837 | - | - | 640,837 |
| Construction-in-process | 7,368,535 | 6,330,228 | (10,495,796) | 3,202,967 |
| Total non-depreciable assets | <u>8,009,372</u> | <u>6,330,228</u> | <u>(10,495,796)</u> | <u>3,843,804</u> |
| Depreciable assets: | | | | |
| Transmission and distribution mains | 71,744,767 | 6,261,108 | - | 78,005,875 |
| Reservoirs and tanks | 27,368,084 | 377,373 | (42,975) | 27,702,482 |
| Services | 15,650,791 | 651,332 | - | 16,302,123 |
| Hydrants | 8,389,832 | 74,531 | - | 8,464,363 |
| Boosters | 10,096,284 | 840,156 | (98,682) | 10,837,758 |
| Meters | 5,196,286 | 1,101,463 | - | 6,297,749 |
| Wells | 2,544,263 | 373,893 | - | 2,918,156 |
| Structures and improvements | 7,349,946 | (69,981) | (18,412) | 7,261,553 |
| Machinery and equipment | 8,387,332 | 658,015 | - | 9,045,347 |
| Transportation equipment | 1,439,863 | 189,896 | (45,957) | 1,583,802 |
| General plant | 295,740 | 38,009 | (38,010) | 295,739 |
| Total depreciable assets | <u>158,463,188</u> | <u>10,495,795</u> | <u>(244,036)</u> | <u>168,714,947</u> |
| Accumulated depreciation and amortization: | | | | |
| Transmission and distribution mains | (17,790,266) | (1,036,445) | - | (18,826,711) |
| Reservoirs and tanks | (11,941,051) | (982,542) | 42,975 | (12,880,618) |
| Services | (7,066,874) | (435,548) | - | (7,502,422) |
| Hydrants | (4,454,407) | (231,241) | - | (4,685,648) |
| Boosters | (4,194,487) | (419,036) | 98,682 | (4,514,841) |
| Meters | (1,941,721) | (176,345) | - | (2,118,066) |
| Wells | (1,245,608) | (81,845) | - | (1,327,453) |
| Structures and improvements | (1,642,863) | (275,348) | 18,412 | (1,899,799) |
| Machinery and equipment | (3,404,858) | (508,210) | - | (3,913,068) |
| Transportation equipment | (937,683) | (112,099) | 45,957 | (1,003,825) |
| General plant | (282,800) | (40,363) | 38,010 | (285,153) |
| Total accumulated depreciation and amortization | <u>(54,902,618)</u> | <u>(4,299,022)</u> | <u>244,036</u> | <u>(58,957,604)</u> |
| Total depreciable assets, net | <u>103,560,570</u> | <u>6,196,773</u> | <u>-</u> | <u>109,757,343</u> |
| Total capital assets, net | <u>\$ 111,569,942</u> | <u>12,527,001</u> | <u>(10,495,796)</u> | <u>113,601,147</u> |

Major capital asset additions in the business-type activities area included developer contributions to the water retail enterprise's transmission and distribution system and various other projects. A significant portion of these additions were constructed by the Agency and/or sub-contractors and transferred out of construction-in-process upon completion of these various projects. Depreciation expenses under business-type activities, retail water enterprise, totaled \$4,299,022.

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
June 30, 2016

(5) Capital Assets, continued

Construction-In-Process

The Agency has been involved in various construction projects throughout the year. The balances of the various construction projects that comprise the construction-in-process balances at year-end are as follows:

Governmental Activities

| | | |
|---|----------------------|--------------------|
| The balance at June 30, consists of the following projects: | <u>2015</u> | <u>2016</u> |
| Rio Vista water treatment plant and expansion | \$ 6,358,799 | 2,235,809 |
| Recycled water project | 3,319,997 | 3,530,044 |
| Lateral extension and storage projects | 2,184,216 | 2,307,051 |
| Various minor projects | <u>3,774,351</u> | <u>6,272,426</u> |
| Construction-in-process | <u>\$ 15,637,363</u> | <u>14,345,330</u> |

Business-Type Activities

| | | |
|---|---------------------|--------------------|
| The balance at June 30, consists of the following projects: | <u>2015</u> | <u>2016</u> |
| Internal construction projects | \$ 1,722,550 | 808,621 |
| Developer on-site construction projects | <u>5,645,985</u> | <u>2,394,346</u> |
| Construction-in-process | <u>\$ 7,368,535</u> | <u>3,202,967</u> |

(6) Investment in the Stock of the Valencia Water Company

On December 12, 2012, the Agency acquired all of the stock of the Valencia Water Company (VWC) which comprised the total fair market value of the stock as of July 1, 2012. As of February 2013, the acquisition of VWC by the Agency has been challenged in court. The Agency has accounted for the investment in VWC under the equity method of accounting as adjusted for changes in net income and dividends paid during fiscal year. The Agency has recognized the equity in the earnings of VWC in the statement of activities as non-operating income. The financial statements of the Valencia Water Company dated December 31, 2015, were audited by another auditing firm who has issued an unmodified opinion dated April 7, 2016. As of June 30, 2016, the investment in Valencia Water Company was \$62,673,570.

Investment balance at June 30, 2016, consists of the following:

| | |
|---------------------------------------|----------------------|
| Fair-market value as of June 30, 2015 | \$ 63,106,550 |
| Adjustments to investment in VWC: | |
| Issuance of dividends to Agency* | (798,980) |
| VWC calendar year 2015 net income** | 366,000 |
| Total adjustments | <u>(432,980)</u> |
| Investment in VWC, June 30, 2016 | <u>\$ 62,673,570</u> |

* Recorded as interest earnings on governmental funds.

** From VWC calendar year 2015 audited financial statements.

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
June 30, 2016

(7) Long-Term Debt

The following is a summary of the Agency's Long-Term Debt as of June 30:

Governmental Activities

| | <u>Balance 2015</u> | <u>Additions</u> | <u>Payments/ Retirements</u> | <u>Balance 2016</u> |
|--|-------------------------|-------------------|----------------------------------|-------------------------|
| Certificates of Participation (COPs): | | | | |
| 1999 Series A Revenue COPs - Capital Appr. | \$ 56,531,369 | 3,314,940 | - | 59,846,309 |
| 2006 Series A Revenue Refunding COPs | 37,165,000 | - | (37,165,000) | - |
| Premium on issuance - 2006 Series A | 697,149 | - | (697,149) | - |
| 2008 Series A Revenue Refunding COPs | 32,925,000 | - | (4,950,000) | 27,975,000 |
| 2010 Series A Revenue Refunding COPs | 59,675,000 | - | (2,620,000) | 57,055,000 |
| Premium on issuance - 2010 Series A | 1,561,738 | - | (104,116) | 1,457,622 |
| Total | <u>188,555,256</u> | <u>3,314,940</u> | <u>(45,536,265)</u> | <u>146,333,931</u> |
| Less: Current Portion | <u>(9,180,000)</u> | | | <u>(7,890,000)</u> |
| Total Non-Current | <u>179,375,256</u> | | | <u>138,443,931</u> |
| Revenue Bonds: | | | | |
| 2014 Series A Revenue Refunding Bonds | 16,585,000 | - | (2,535,000) | 14,050,000 |
| Premium on issuance - 2014 Series A | 1,432,190 | - | (238,698) | 1,193,492 |
| 2015 Series A Revenue Refunding Bonds | 64,000,000 | - | (475,000) | 63,525,000 |
| Premium on issuance - 2015 Series A | 10,383,374 | - | (546,494) | 9,836,880 |
| 2016 Series A Refunding Revenue Bonds | - | 25,730,000 | - | 25,730,000 |
| Premium on issuance - 2016 Series A Ref | - | 5,379,495 | (358,633) | 5,020,862 |
| 2016 Series A New Revenue Bonds | - | 30,665,000 | - | 30,665,000 |
| Premium on issuance - 2016 Series A New | - | 6,429,074 | (214,302) | 6,214,772 |
| Total | <u>92,400,564</u> | <u>68,203,569</u> | <u>(4,368,127)</u> | <u>156,236,006</u> |
| Less: Current Portion | <u>(3,010,000)</u> | | | <u>(4,660,000)</u> |
| Total Non-Current | <u>89,390,564</u> | | | <u>151,576,006</u> |
| Total Governmental Activities | <u>\$ 280,955,820</u> | | | <u>302,569,937</u> |

Business-Type Activities

| | <u>Balance 2015</u> | <u>Additions</u> | <u>Payments/ Retirements</u> | <u>Balance 2016</u> |
|--|-------------------------|------------------|----------------------------------|-------------------------|
| Certificates of Participation (COPs): | | | | |
| 2010 Series B Revenue Refunding COPs | \$ 13,185,000 | - | (285,000) | 12,900,000 |
| Premium on issuance - 2010 Series B | 678,454 | - | (27,048) | 651,406 |
| Total | <u>13,863,454</u> | <u>-</u> | <u>(312,048)</u> | <u>13,551,406</u> |
| Less: Current Portion | <u>-</u> | | | <u>-</u> |
| Total Non-Current | <u>13,863,454</u> | | | <u>13,551,406</u> |
| Revenue Bonds: | | | | |
| 2011 Series A Revenue Bonds | 45,525,000 | - | (2,230,000) | 43,295,000 |
| Premium on issuance - 2011 Series B | 4,964,959 | - | (410,893) | 4,554,066 |
| Total | <u>50,489,959</u> | <u>-</u> | <u>(2,640,893)</u> | <u>47,849,066</u> |
| Less: Current Portion | <u>-</u> | | | <u>-</u> |
| Total Non-Current | <u>50,489,959</u> | | | <u>47,849,066</u> |
| Total Business-Type Activities | <u>\$ 64,353,413</u> | | | <u>61,400,472</u> |

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
June 30, 2016

(7) Long-Term Debt, continued

1994 Refunding Revenue Certificates of Participation

On June 1, 1990, the Corporation issued \$132,000,000 of certificates of participation to provide financing for the acquisition and construction of a second water treatment plant and related facilities (Project). On August 31, 1994, the Corporation issued \$124,600,000 of certificates of participation to provide funds to refund in advance the June 1, 1990 certificates of participation issued by the Agency. A portion of the issuance of debt from the certificates of participation issued in 1994 were placed in an escrow fund to provide the debt service on the 1990, certificates of participation through August 1, 2000, and the prepayment price for all certificates outstanding on August 1, 2000. The advance refunding met the requirements of an in-substance defeasance and the certificates of participation were removed from the Agency's long-term liabilities. The refunded 1990 certificates of participation were paid in full on August 1, 2000.

The 1994 certificates of participation are payable solely from installment payments to be made by the Agency. The Agency has pledged for payment of the installment payments from all revenue derived from the ownership of its water system, including existing portions, on or after June 1, 1990. These revenues are deposited into the Pledged Revenue Fund and after payment of operation and maintenance costs, including contingency reserves, the remaining reserves are to be used to pay the installment payments on the certificates. Management believes that the physical condition of the water system meets the stated requirements of the installment purchase agreements with the Corporation.

On May 5, 2004, the Agency refunded \$28,475,000 of the 1994 certificates (2004 Series A). On June 10, 2004, the Agency refunded \$37,350,000 of the 1994 certificates and concurrently entered into a variable-to-fixed swap agreement for \$40,000,000 (2004 Series B). On May 9, 2008, the Agency refunded all of the 2004B certificates (2008 Series A). In June 2014, the Agency refunded \$20,495,000 of the 2004A certificates (2014 A Revenue Bonds). The Certificates are payable by installment payments according to their respective Installment Agreements. Interest is payable semi-annually August 1 and February 1, and principal is due annually on August 1st. The outstanding balance at June 30, 2016, is \$42,025,000 as follows: No balance for the 1994 COP's or 2004A COP's as these were retired during FY 2013/14; \$27,975,000 for 2008 Series A; and \$14,050,000 for 2014 Series A. (See 2004 Series A, 2004 Series B, 2008 Series A Certificates of Participation and 2014 Series A for their respective debt service requirements.)

The last settlement for 1994 COP's was paid during FY 2013/14.

1999 Series A Revenue Certificates of Participation

In August 1999, the Corporation issued \$75,813,498 of certificates of participation to finance certain capital improvements to the Agency's wholesale water system and reimbursement of the Agency's cost of acquisition of certain state water project entitlements. The certificates are payable solely from installment payments to be made by the Agency. The Agency has pledged for payment of the installment payments all revenues derived from the ownership of its water system (which expressly excluded revenues derived from the retail sales of water). These revenues are deposited into the Pledged Revenue Fund and after payment of operation and maintenance costs, including contingency reserves, the remaining reserves are to be used to pay the installment payments on the certificates.

On December 7, 2006, the Agency refunded \$45,520,000 of the 1999 certificates (2006 Series A). A total of \$45,520,000 from the 2006 Series A COPs was used to pay off the outstanding principal of the 1999 Series A Revenue Certificates of Participation. As a result, the 1999 Series A Revenue Certificates of Participation are considered retired and the liability for those obligations has been removed from the financial statements. The Agency completed the advance refunding to reduce the Agency's total debt service payments over the next 24 years by achieving a 5.6% net present value savings.

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
June 30, 2016

(7) Long-Term Debt, continued

1999 Series A Revenue Certificates of Participation, continued

In May 2016, the Agency refunded all of the 2006A certificates of participation (2016 Series A Refunding). (See 2016 Series A Refunding for their respective debt service requirements.)

The Certificates are payable by installment payments according to their respective Installment Agreements. Interest is payable semi-annually August 1 and February 1 of each year, and principal is due annually on August 1. The outstanding balance at June 30, 2016, is \$59,846,309 as follows: \$59,846,309 Series 1999 remaining; and no balance for the Series 2006 A (refunded portion of 1999 Series A) as these were refunded during FY 2015/16 (2016A Refunded Revenue Bonds). (See 2006 Series A Certificates of Participation and 2016A Refunding Revenue Bonds for their respective debt service requirements.)

The par amount of the certificates is comprised of \$23,408,498 (original amount) capital appreciation certificates. No regular payments of interest are made on the capital appreciation certificates prior to maturity. Interest on the capital appreciation certificates is compounded semi-annually on February 1 and August 1 and is payable at maturity. The interest compounded annually is added to the principal amount outstanding.

The yield to maturity for the capital appreciation certificates ranges from 5.76% to 5.8%. Principal on the capital appreciation certificates matures annually on August 1 from 2021 through 2030. All the certificates are subject to extraordinary prepayment as a whole or in part on any date in order of maturity if the Agency makes prepaid installment payments from insurance proceeds or condemnation awards.

Below is a schedule of future annual principal to be issued that will be added to the capital appreciation certificate's current outstanding principal balance of \$59,846,309.

| | Fiscal Year | Principal Issued |
|-----------------------------|------------------------|-----------------------------|
| Balance as of June 30, 2016 | | \$ 59,846,309 |
| Annual principal issued: | 2017 | 3,509,326 |
| | 2018 | 3,715,111 |
| | 2019-2021 | 12,504,294 |
| | 2022-2024 | 12,012,799 |
| | 2025-2031 | 12,862,161 |
| | Total | \$ 104,450,000 |

2001 Series A Revenue Certificates of Participation

In February 2001, the Corporation issued \$80,000,000 of certificates of participation to finance certain capital improvements to the Agency's wholesale water system and reimbursement of the Agency's cost of acquisition of the outstanding stock of the Santa Clarita Water Company (the retail company). The certificates are payable solely from installment payments to be made by the Agency. By the first supplement dated June 13, 2001, to the installment agreement dated February 2001, between the Agency and the Corporation, the Agency agreed to apply solely to the acquisition of certain capital improvements the amount which could have been reimbursed to the Agency for the acquisition of the stock of the Company.

The certificates are payable solely from installment payments to be made by the Agency. The Agency has pledged for payment of the installment payments all revenues derived from the ownership or operation of its water system. These revenues are deposited into the Pledged Revenue Fund and after payment of operation and maintenance costs, including contingency reserves, the remaining reserves are to be used to pay the installment payments on the certificates.

On June 8, 2010, the Agency refunded all of the 2001A certificates (2010 Series A). (See 2010 Series A Certificates of Participation for their respective debt service requirements.)

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
June 30, 2016

(7) Long-Term Debt, continued

2004 Series A Revenue Refunding Certificates of Participation (Fixed Rate)

In May 2004, the Corporation issued \$29,085,000 of certificates of participation to provide funds to prepay \$28,475,000 of the Agency's outstanding 1994 Refunding Revenue Certificates of Participation, to acquire a reserve policy and pay certain costs of delivery. The certificates are payable solely from installment payments to be made by the Agency. Interest on the certificates is payable semi-annually on February 1 and August 1 of each year. Principal matures August 1 of each year through August 1, 2020. Certificates are in denominations of \$5,000 and bear interest from the date of issue to their maturity dates at rates ranging from 2.0% to 4.0% per annum.

In June 2014, the Agency refunded all of the 2004A certificates (2014 Series A). (See 2014 Series A for their respective debt service requirements.)

2006 Series A Revenue Refunding Certificates of Participation

In December 2006, the Corporation issued \$45,520,000 of certificates of participation to provide funds to prepay \$45,385,000 of the Agency's outstanding 1999 A Revenue Certificates of Participation. The certificates are payable solely from installment payments to be made by the Agency. Pursuant to the reserve requirement, \$3,317,609 was placed in a debt service reserve fund on the issuance date of the certificates. Interest on the certificates is payable semi-annually on February 1 and August 1. Principal matures August 1 of each year through August 1, 2030. Certificates are in denominations of \$5,000 and bear interest from the date of issue to their maturity dates at rates ranging from 3.35% to 5.00% per annum.

Premium on Issuance – 2006 A

The Series 2006 A Certificates of Participation are structured as serial bonds with maturities ranging from 2007 through 2023 and two term bonds maturing on 2026 and 2030 respectively. Yields for the serial bonds range from 3.35% to 4.08% (yields to call for maturities 2017 through 2023), with the term bonds yielding 4.41% and 4.46% (yields to call). Market conditions required that the maturities after 2016 be structured in a manner that resulted in the debt being priced to the August 1, 2016, par call date. The ultimate structure produced an original issue premium of \$1,145,317 that will be amortized over the life of the debt service.

In May 2016, the Agency refunded all of the 2006A certificates (2016 Series A Refunding). (See 2016 Series A Refunding for their respective debt service requirements.)

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
June 30, 2016

(7) Long-Term Debt, continued

2006 Series C Revenue Certificates of Participation

In December 2006, the Corporation issued \$89,830,000 of certificates of participation to finance certain capital improvements to the Agency's wholesale water system. The certificates are payable solely from installment payments to be made by the Agency. The Agency has pledged for payment of the installment payments all revenues derived from the ownership or operation of its water system. These revenues are deposited into the Pledged Revenue Fund and after payment of operation and maintenance costs, including contingency reserves, the remaining reserves are to be used to pay the installment payments on the certificates.

Premium on Issuance – 2006 C

The Series 2006 C Certificates of Participation are structured as serial bonds with maturities ranging from 2008 through 2026 and two term bonds maturing on 2030 and 2036, respectively. Yields for the serial bonds range from 3.40% to 4.14% (yields to call for maturities 2017 through 2026), with the term bonds yielding 4.16% and 4.20% (yields to call). Market conditions required that the maturities after 2016 be structured in a manner that resulted in the debt being price to the August 1, 2016, par call date. The ultimate structure produced an original issue premium of \$4,978,449 that will be amortized over the life of the debt service.

In April 2015, the Agency refunded all of the 2006C certificates (2015 Series A). (See 2015 Series A for their respective debt service requirements.)

2008 Series A Revenue Refunding Certificates of Participation

In May 2008, the Agency refunded all of the 2004B certificates; the swap agreement remained in effect until August 2014 for the 2008A certificates (2008 Series A). The certificates are payable solely from installment payments to be made by the Agency. Interest on the certificates is calculated weekly at rates for Weekly Interest Rate Periods and payable monthly. Principal matures August 1 of each year through August 1, 2020. Certificates are in denominations of \$100,000 and bear interest from the date of issue to their maturity. The interest rate on the refunding certificates is determined by the remarketing agent on Tuesday of each week during the Weekly Interest Rate Period.

Annual debt service requirements on the 2008 Series A Revenue Refunding Certificates of Participation are as follows:

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------|----------------------|------------------|-------------------|
| 2017 | \$ 5,150,000 | 353,570 | 5,503,570 |
| 2018 | 5,375,000 | 364,958 | 5,739,958 |
| 2019-2021 | <u>17,450,000</u> | <u>643,004</u> | <u>18,093,004</u> |
| Total | 27,975,000 | <u>1,361,532</u> | <u>29,336,532</u> |
| Less current portion | <u>(5,150,000)</u> | | |
| Total non-current | \$ <u>22,825,000</u> | | |

In June 2010, the Agency implemented GASB Statement No. 53, which established accounting and financial reporting standards for all state and local governments that enter into derivative instrument agreements. The analysis of the swap valuation is conducted annually to comply with the reporting requirement of the GASB Statement No. 53.

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
June 30, 2016

(7) Long-Term Debt, continued

2008 Series A Revenue Refunding Certificates of Participation, continued

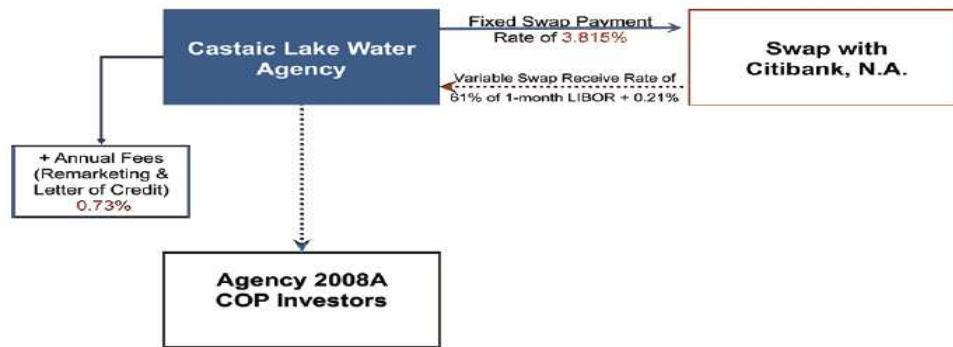
Discussion of Swap Valuation

The fair market value of the swap does not measure the effectiveness of the swap as a hedge, or take into account future expected payments on the Agency's variable rate Certificates. Provided that the variable-rates born by the 2008A Certificates are highly correlated to the swap payments from the Counterparty, the net rate of interest on the Certificates will remain hedged at 3.815%, irrespective of changes in the fair market value of the swap.

When an interest rate swap was first entered into it has a fair market value of \$0.00 to both parties. This was because the fixed rate on the swap was set on that date so that the net present value of the future fixed rate and the expected variable rate payments between the two parties were equal. However, the market's expectations of the future variable rates changed daily. As these expectations changed, the expected variable rate payments due under the swap changed, resulting in either an expected net present value gain or loss for both parties.

In June 2004, the Agency entered into an interest rate swap agreement in connection with the 2004 Series B Refunding Certificates of Participation. In May 2008, the Agency refunded all of the 2004B certificates (2008 Series A); the swap agreement was amended and restated in May 2008, to relate to the 2008A certificates.

Objective: The objective of the interest rate swap is to lower the Agency's borrowing costs when compared against fixed-rate certificates. The swap is structured with the expectation that the Agency's variable interest rate on the certificates will be hedged to produce a synthetic fixed rate of 3.815%.



Terms of the Swap: In June 2004, the Agency and Citibank, N.A. entered into an interest rate swap agreement pursuant to which the Agency pays Citibank a fixed interest rate of 3.815%. The Agency received a variable interest payment from Citibank expected to closely match the variable interest payments on the certificates. The notional amount of the swap, on which the interest payments from both parties were calculated, declines in tandem with the principal amount of the certificates. This interest rate swap agreement was accounted for as a hedge, and the associated interest rate differential paid or received was charged to interest expense of the certificates. The swap agreement was in effect to August 1, 2020.

In August 2014, the Agency terminated the swap agreement with Citibank, N.A.

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
June 30, 2016

(7) Long-Term Debt, continued

2010 Series A Revenue Refunding Certificates of Participation

In June 2010, the Corporation issued \$70,595,000 of certificates of participation to provide funds to prepay \$68,520,000 of the Agency's outstanding 2001 A Revenue Certificates of Participation. The certificates are payable solely from installment payments to be made by the Agency. Pursuant to the reserve requirement, \$5,349,556 was placed in a debt service reserve fund on the issuance date of the certificates. Interest on the certificates is payable semi-annually on February 1 and August 1. Principal matures August 1 of each year through August 1, 2030. Certificates are in denominations of \$5,000 and bear interest from the date of issue to their maturity dates at rates ranging from 2.00% to 5.00% per annum. Annual debt service requirements on the 2010 Series A Revenue Certificates of Participation are as follows:

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------|----------------------|-------------------|-------------------|
| 2017 | \$ 2,740,000 | 2,542,606 | 5,282,606 |
| 2018 | 2,865,000 | 2,413,906 | 5,278,906 |
| 2019-2021 | 9,370,000 | 6,462,243 | 15,832,243 |
| 2022-2025 | 14,630,000 | 6,402,099 | 21,032,099 |
| 2026-2028 | 12,830,000 | 2,915,453 | 15,745,453 |
| 2029-2031 | 14,620,000 | 1,069,829 | 15,689,829 |
| Total | 57,055,000 | <u>21,806,136</u> | <u>78,861,136</u> |
| Less current portion | <u>(2,740,000)</u> | | |
| Total non-current | \$ <u>54,315,000</u> | | |

Premium on Issuance – 2010 A

The Series 2010 A Certificates of Participation are structured as serial bonds with maturities ranging from 2011 through 2031. Yields for the serial bonds range from 2.00% to 5.00% and market conditions required that the Certificates be structured in a manner that resulted in an original issue premium of \$2,082,316 that will be amortized over the life of the debt service.

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
June 30, 2016

(7) Long-Term Debt, continued

2010 Series B Revenue Certificates of Participation

In May 2010, the Santa Clarita Water Division (Retail) of the Agency issued \$14,475,000 of certificates of participation to provide funds to acquire the new Administration Office Building, several reservoir tanks and well. The certificates are payable by installment payments according to the Installment Purchase Agreement. Interest is payable semi-annually August 1 and February 1, and the principal is due annually on August 1. In June 2016, the fiscal year 2017 principal was defeased. The balance at the end of the FY 2015/16 is \$12,900,000.

Annual debt service requirements on the 2010 Series B Revenue Certificates of Participation are as follows:

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------|----------------------|-------------------|-------------------|
| 2017 | \$ - | 676,288 | 676,288 |
| 2018 | 290,000 | 666,238 | 956,238 |
| 2019-2022 | 1,295,000 | 2,540,106 | 3,835,106 |
| 2023-2027 | 2,010,000 | 2,766,494 | 4,776,494 |
| 2028-2032 | 2,585,000 | 2,168,694 | 4,753,694 |
| 2033-2037 | 3,340,000 | 1,394,312 | 4,734,312 |
| 2038-2041 | <u>3,380,000</u> | <u>384,176</u> | <u>3,764,176</u> |
| Total | 12,900,000 | <u>10,596,308</u> | <u>23,496,308</u> |
| Less current portion | - | | |
| Total non-current | <u>\$ 12,900,000</u> | | |

Premium on Issuance – 2010 B

The Series 2010 A Certificates of Participation are structured as serial bonds with maturities ranging from 2011 through 2040. Yields for the serial bonds range from 2.00% to 5.50%, and market conditions required that the Certificates be structured in a manner that resulted in an original issue premium of \$818,202 that will be amortized over the life of the debt service.

2011 Series A Revenue Bonds

In September 2011, the Retail division issued \$52,290,000 of Revenue Bonds through Upper Santa Clara Valley Joint Powers Authority, a Joint Powers Authority created on June 8, 2011 between the Castaic Lake Water Agency (the “Agency”) and Devil’s Den Water District (the “District”), to provide funds to prepay the outstanding interfund loan balance payable by Retail to the Agency. The Interfund Loan was established in September 1999 as a repayment of acquisition when the Agency acquired Santa Clarita Water Company’s (SCWC) stock for \$63 million. The bonds are payable by installment payments according to the Installment Purchase Agreement. Interest is payable semi-annually August 1 and February 1, and the principal is due annually on August 1. In June 2016, the fiscal year 2017 principal was defeased. The balance at the end of the FY 2015/16 is \$43,295,000.

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
June 30, 2016

(7) Long-Term Debt, continued

2011 Series A Revenue Bonds, continued

Annual debt service requirements on the 2011 Series A Revenue Bonds are as follows:

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------|----------------------|-------------------|-------------------|
| 2017 | \$ - | 2,183,113 | 2,183,113 |
| 2018 | 2,455,000 | 2,077,137 | 4,532,137 |
| 2019-2023 | 16,140,000 | 8,337,064 | 24,477,064 |
| 2024-2028 | <u>24,700,000</u> | <u>3,437,131</u> | <u>28,137,131</u> |
| Total | 43,295,000 | <u>16,034,445</u> | <u>59,329,445</u> |
| Less current portion | - | | |
| Total non-current | <u>\$ 43,295,000</u> | | |

Premium on Issuance – 2011 A

The Series 2011 A Revenue Bonds are structured as serial bonds with maturities ranging from 2013 through 2028. Yields for the serial bonds range from 3.00% to 5.25% and market conditions required that the Bonds be structured in a manner that resulted in an original issue premium of \$6,540,049 that will be amortized over the life of the debt service.

2014 Series A Revenue Refunding Bonds

In June 2014, the Agency issued \$16,750,000 of revenue bonds to provide funds to prepay \$20,495,000 of the Agency's outstanding 2004 A Revenue Certificates of Participation. The aggregate difference between the refunding debt and the refunded debt is \$2,055,250. This amount is being netted against the new debt and amortized over the life of the refunding debt. The Agency completed the refunding to reduce the Agency's total debt service payments over the next 6 years by achieving a \$2,147,813 savings, 10.48% net present value savings. The bonds are payable solely from installment payments to be made by the Agency. Interest on the certificates is payable semi-annually on February 1 and August 1. Principal matures August 1 of each year through August 1, 2020. Bonds are in denominations of \$5,000 and bear interest from the date of issue to their maturity dates at rates ranging from 2.00% to 5.00% per annum.

Annual debt service requirements on the 2014 Series A Revenue Refunding Bonds are as follows:

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------|----------------------|------------------|-------------------|
| 2017 | \$ 2,595,000 | 557,025 | 3,152,025 |
| 2018 | 2,685,000 | 464,400 | 3,149,400 |
| 2019-2021 | <u>8,770,000</u> | <u>658,350</u> | <u>9,428,350</u> |
| Total | 14,050,000 | <u>1,679,775</u> | <u>15,729,775</u> |
| Less current portion | <u>(2,595,000)</u> | | |
| Total non-current | <u>\$ 11,455,000</u> | | |

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
June 30, 2016

(7) Long-Term Debt, continued

2015 Series A Revenue Refunding Bonds

In April 2015, the Agency issued \$64,000,000 of Revenue Bonds through Upper Santa Clara Valley Joint Powers Authority, a Joint Powers Authority created on June 8, 2011 between the Castaic Lake Water Agency (the “Agency”) and Devil’s Den Water District (the “District”), to provide funds to prepay \$77,685,000 of the Agency’s outstanding 2006 C Revenue Certificates of Participation. The difference between the net carrying amount and the reacquisition price is considered immaterial and recognized upon refunding. The Agency completed the refunding to reduce the Agency’s total debt service payments over the next 20 years by achieving a \$10,311,149 savings, 13.27% net present value savings. The bonds are payable by installment payments according to the Installment Purchase Agreement. Interest is payable semi-annually August 1 and February 1, and the principal is due annually on August 1.

Annual debt service requirements on the 2015 Series A Revenue Refunding Bonds are as follows:

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------|----------------------|-------------------|-------------------|
| 2017 | \$ 2,065,000 | 2,983,950 | 5,048,950 |
| 2018 | 2,105,000 | 2,931,725 | 5,036,725 |
| 2019-2024 | 14,445,000 | 15,627,175 | 30,072,175 |
| 2025-2031 | 22,965,000 | 11,923,625 | 34,888,625 |
| 2032-2036 | <u>21,945,000</u> | <u>2,849,625</u> | <u>24,794,625</u> |
| Total | 63,525,000 | <u>36,316,100</u> | <u>99,841,100</u> |
| Less current portion | <u>(2,065,000)</u> | | |
| Total non-current | \$ <u>61,460,000</u> | | |

2016 Series A Revenue Refunding Bonds

In May 2016, the Agency issued \$56,395,000 of Revenue Bonds through Upper Santa Clara Valley Joint Powers Authority, a Joint Powers Authority created on June 8, 2011 between the Castaic Lake Water Agency (the “Agency”) and Devil’s Den Water District (the “District”), to provide funds to prepay \$35,555,000 of the Agency’s outstanding 2006 A Revenue Certificates of Participation (2016 Series A Refunding) and to provide \$30,665,000 new funds (2016 Series A New) to acquire certain capital improvements to the Agency’s Wholesale System. The difference between the net carrying amount and the reacquisition price is considered immaterial and recognized upon refunding. The Agency completed the refunding portion to reduce the Agency’s total debt service payments over the next 15 years by achieving a \$5,909,717 savings, 16.62% net present value savings. The bonds are payable by installment payments according to the Installment Purchase Agreement. Interest is payable semi-annually August 1 and February 1, and the principal is due annually on August 1.

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
June 30, 2016

(7) Long-Term Debt, continued

2016 Series A Revenue Refunding Bonds

Annual debt service requirements on the 2016 Series A Revenue Refunding Bonds are as follows:

2016 Series A Refunding 2006A

| Fiscal Year | Principal | Interest | Total |
|----------------------|----------------------|-------------------|-------------------|
| 2017 | \$ - | 836,498 | 836,498 |
| 2018 | 1,380,000 | 1,148,900 | 2,528,900 |
| 2019-2023 | 7,675,000 | 4,928,625 | 12,603,625 |
| 2024-2028 | 9,700,000 | 2,880,050 | 12,580,050 |
| 2029-2031 | 6,975,000 | 534,625 | 7,509,625 |
| Total | 25,730,000 | <u>10,328,698</u> | <u>36,058,698</u> |
| Less current portion | <u>-</u> | | |
| Total non-current | \$ <u>25,730,000</u> | | |

2016 Series A New Funds

| Fiscal Year | Principal | Interest | Total |
|----------------------|----------------------|-------------------|-------------------|
| 2017 | \$ - | 1,072,116 | 1,072,116 |
| 2018 | 475,000 | 1,485,450 | 1,960,450 |
| 2019-2029 | 6,865,000 | 14,752,475 | 21,617,475 |
| 2030-2040 | 11,715,000 | 9,899,375 | 21,614,375 |
| 2041-2047 | 11,610,000 | 2,147,250 | 13,757,250 |
| Total | 30,665,000 | <u>29,356,666</u> | <u>60,021,666</u> |
| Less current portion | <u>-</u> | | |
| Total non-current | \$ <u>30,665,000</u> | | |

Commercial Paper Notes

In September 2011, the Agency authorized Citigroup Global Markets, Inc., as commercial paper dealer for the sale from time-to-time of the Upper Santa Clara Valley Joint Powers Authority Castaic Lake Water Agency Commercial Paper Notes in an aggregate principal amount of not to exceed \$50,000,000 at any one time outstanding. The proceeds of the Commercial Paper Notes would be used to pay for the Castaic Lake Water Agency's capital expenditures as permitted by the Authorizing Act. The Commercial Paper Notes would be issued from time-to-time in denominations of \$100,000 and integral multiples of \$1,000 in excess of such amount, and would mature in not more than 270 days from the date of issue. The interest on the Commercial Paper Notes may not exceed 12% per annum. The Commercial Paper Notes were supported by the Citibank NA Letter of Credit for 50 basis points. There is no outstanding commercial paper note during the fiscal year and in April 2016 the Agency terminated the Commercial Paper Program.

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
June 30, 2016

(8) Deferred Outflows of Resources

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

| | <u>Balance 2015</u> | <u>Additions</u> | <u>Amortization</u> | <u>Balance 2016</u> |
|--------------------------------------|-------------------------|------------------|---------------------|-------------------------|
| Deferred outflows of resources: | | | | |
| Deferred outflows | \$ 1,138,635 | 1,322,097 | (1,165,427) | 1,295,305 |
| Total deferred outflows of resources | <u>\$ 1,138,635</u> | <u>1,322,097</u> | <u>(1,165,427)</u> | <u>1,295,305</u> |

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

| | <u>Balance 2014</u> | <u>Additions</u> | <u>Amortization</u> | <u>Balance 2015</u> |
|--------------------------------------|-------------------------|------------------|---------------------|-------------------------|
| Deferred outflows of resources: | | | | |
| Deferred outflows | \$ 490,031 | 1,138,635 | (490,031) | 1,138,635 |
| Total deferred outflows of resources | <u>\$ 490,031</u> | <u>1,138,635</u> | <u>(490,031)</u> | <u>1,138,635</u> |

(9) Deferred Inflows of Resources

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

| | <u>Balance 2015</u> | <u>Additions</u> | <u>Amortization</u> | <u>Balance 2016</u> |
|-------------------------------------|-------------------------|------------------|---------------------|-------------------------|
| Deferred inflows of resources: | | | | |
| Deferred inflows | \$ 2,232,306 | 931,426 | (2,133,360) | 1,030,372 |
| Total deferred inflows of resources | <u>\$ 2,232,306</u> | <u>931,426</u> | <u>(2,133,360)</u> | <u>1,030,372</u> |

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

| | <u>Balance 2014</u> | <u>Additions</u> | <u>Amortization</u> | <u>Balance 2015</u> |
|-------------------------------------|-------------------------|------------------|---------------------|-------------------------|
| Deferred inflows of resources: | | | | |
| Deferred inflows | \$ - | 2,814,454 | (582,148) | 2,232,306 |
| Total deferred inflows of resources | <u>\$ -</u> | <u>2,814,454</u> | <u>(582,148)</u> | <u>2,232,306</u> |

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
June 30, 2016

(10) Net Investment in Capital Assets

This component of net position consists of capital assets, net of accumulated depreciation and reduced by any outstanding debt outstanding against the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds. At June 30, 2016, the net investment in capital assets for governmental activities was \$173,702,698 and the net investment in capital assets for business-type activities was \$52,200,675.

| The balance consists of the following: | Governmental Activities | Business-type Activities | Total |
|--|----------------------------|-----------------------------|--------------------|
| Capital assets, net | \$ 434,485,269 | 113,601,147 | 548,086,416 |
| Long-term debt payable | (302,569,937) | (61,400,472) | (363,970,409) |
| Adjustments on long-term debt payable: | | | |
| 1999 Series A cap appreciation bonds accreration since issuance | 36,437,810 | - | 36,437,810 |
| 2010 Series A reserve fund | 5,349,556 | - | 5,349,556 |
| Total | <u>\$ 173,702,698</u> | <u>52,200,675</u> | <u>225,903,373</u> |

(11) Fund Balances

In May 2011, the Agency adopted a fund balance policy based on the published Governmental Accounting Standards Board (GASB) Statement No. 54, which established accounting and financial reporting standards for all governments that report governmental funds. This statement divides the fund balance into five classifications: (1) non-spendable – accounts for fund balances that are not in “spendable” form, such as inventories and prepaid amounts; (2) restricted – accounts for fund balances that are restricted by debt covenants and laws; (3) committed – accounts for fund balances that are committed for specific purposes by formal action of the Board of Directors of the Agency; (4) assigned – accounts for fund balances that are constrained by the Agency’s “intent” to be used for specific purposes, but are neither restricted nor committed except for stabilization arrangements; and (5) unassigned – accounts for fund balances that have not been assigned to other funds and that has not been restricted, committed or assigned to specific purposes. At June 30, 2016, fund balances are as follows:

| | General Fund | Pledged Revenue | State Water Contract | Capital Project | Debt Service | Total Governmental Funds |
|--|----------------------|--------------------|----------------------------|--------------------|------------------|--------------------------------|
| Fund Balances: | | | | | | |
| Non-spendable (prepaid items) | \$ 13,996 | - | 174,060 | - | - | 188,056 |
| Restricted | - | - | 40,160,220 | 36,612,643 | 5,477,637 | 82,250,500 |
| Committed: | | | | | | |
| Reserve policy | 5,707,000 | 68,749,200 | - | - | - | 74,456,200 |
| Investment in the stock of the Valencia Water Co. | - | 62,673,570 | - | - | - | 62,673,570 |
| Assigned: | | | | | | |
| Capital projects | - | 4,051,604 | - | - | - | 4,051,604 |
| Operations | 4,556,813 | - | - | - | - | 4,556,813 |
| Total | <u>\$ 10,277,809</u> | <u>135,474,374</u> | <u>40,334,280</u> | <u>36,612,643</u> | <u>5,477,637</u> | <u>228,176,743</u> |

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
June 30, 2016

(11) Fund Balances, continued

Restricted:

State Water Contract – The Burns-Porter Act (Act) was approved by voters in 1960 to assist in the construction of a State Water Resources Development System for the State of California. The right to levy taxes for this purpose is included in the provisions of Section 11652 of the Water Code governing Central Valley Project, which are incorporated by reference into the Act. This law authorized the Agency to levy property taxes, but only for payment of the Agency's State Water Project obligation or debt services on general obligations bonds.

Capital Project – fund to account for major capital projects, acquisition and improvements to the Agency's wholesale water system.

Debt Service – funds held by US Bank, the trustee, for various debt reserve requirements.

Committed:

Reserve Policy – Agency Board approved reserve amount.

Investment in the stock of the Valencia Water Company – Agency Board approved the acquisition of the stock of the Valencia Water Company.

Assigned:

General Fund – intended for the Agency's operations and maintenance expenditures.

Pledged Revenue – intended for the Agency's minor capital projects, planning studies and administration, new equipment, repair and replacement program and compensated absences.

(12) Deferred Compensation Savings Plans

457 Deferred Compensation Savings Plan

For the benefit of its employees, the Agency participates in a 457 Deferred Compensation Program (Program). 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 unforeseeable 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 Agency is in compliance with this legislation. Therefore, these assets are not the legal property of the Agency, and are not subject to claims of the Agency's general creditors. Market value of all plan assets held in trust by Lincoln Financial Services at June 30, 2016, was \$11,836,662.

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

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
June 30, 2016

(13) Defined Benefit Plan

401(a) Defined Benefit Plan

Also, for the benefit of its employees, the Agency participates in a 401(a) Defined Benefit Program (401(a) Program). The purpose of this 401(a) Program is to provide a defined benefit for public employees who fully contribute to their 457 Program. Generally, the Agency will match up to a certain amount for employees who fully contribute to their 457 Plan for the year. Until the funds are paid or otherwise made available to the employee, the employee is not obligated to report the defined benefit for income tax purposes.

Federal law requires defined benefit assets to be held in trust for the exclusive benefit of the participants. Accordingly, the Agency is in compliance with this legislation. Therefore, these assets are not the legal property of the Agency, and are not subject to claims of the Agency's general creditors. Market value of all plan assets held in trust by Lincoln Financial Services at June 30, 2016, was \$628,857.

(14) Defined Benefit Pension Plan

Plan Description

All qualified permanent and probationary employees are eligible to participate in the Agency's separate Miscellaneous Employee Pension Plans, cost-sharing multi-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 Agency's CalPERS 2% at 55 Risk Pool Retirement Plan to new employee entrants effective December 31, 2012. All employees hired on or after January 1, 2013 are eligible for the Agency's CalPERS 2.0% at 62 Retirement Plan under PEPRA.

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
June 30, 2016

(14) Defined Benefit Pension Plan, continued

The following plan groups are as follows:

Classic Members - employees hired before January 1, 2013, are enrolled in the CalPERS Local Miscellaneous 2% at 55 Plan.

New Members - in accordance with the PEPRA, employees hired on or after January 1, 2013, are enrolled in the CalPERS Local Miscellaneous 2% at 62 Plan.

The Plan's provisions and benefits in effect at June 30, 2016, are summarized as follow:

| | Miscellaneous Plan | |
|---|--|---|
| | Classic Members Prior to January 1, 2013 | New Members On or after January 1, 2013 |
| Hire date | | |
| Benefit formula | 2% @ 55 | 2% @ 62 |
| Benefit vesting schedule | 5 years service | 5 years service |
| Benefit payments | monthly for life | monthly for life |
| Retirement age | 50-55 | 52-62 |
| Monthly benefits, as a % of eligible compensation | 1.426% to 2.418% | 1% to 2.5% |
| Required employee contribution rates | 7% | 6.50% |
| Required employer contribution rates | 11.90% | 6.73% |

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 the July 1 following notice of change in the rate. Funding contributions for both Plans are determined annually on 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 employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

Contributions recognized as part of pension expense at June 30 were as follows:

| | Miscellaneous Plan | |
|--------------------------|--------------------|---------|
| | 2016 | 2015 |
| Contributions - employer | \$ 1,145,764 | 883,949 |

Net Pension Liability

As of the fiscal year ended June 30, 2016 and 2015, the Agency reported net pension liabilities for its proportionate share of the net pension liability of the Plan as follows:

| | Proportionate Share of Net Pension Liability | |
|--------------------|---|-----------|
| | 2016 | 2015 |
| Miscellaneous Plan | \$ 6,187,106 | 5,974,266 |

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
June 30, 2016

(14) Defined Benefit Pension Plan, continued

Net Pension Liability, continued

The Agency'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 (the measurement dates), 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 (the valuation dates), rolled forward to June 30, 2015 and 2014, using standard update procedures. The Agency's proportion of the net pension liability was based on a projection of the Agency's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

The Agency's proportionate share of the net pension liability for the Plan as of the measurement dates June 30, 2015 and 2014, were as follows:

| | <u>Miscellaneous Plan</u> | | <u>Miscellaneous Plan</u> |
|------------------------------|---------------------------|------------------------------|---------------------------|
| Proportion – June 30, 2014 | 0.09601% | Proportion – June 30, 2013 | 0.10127% |
| Proportion – June 30, 2015 | <u>0.09014%</u> | Proportion – June 30, 2014 | <u>0.09601%</u> |
| Change – Increase (Decrease) | <u><u>-0.00587%</u></u> | Change – Increase (Decrease) | <u><u>-0.00526%</u></u> |

Deferred Pension Outflows (Inflows) of Resources

For the fiscal years ended June 30, 2016 and 2015, the Agency recognized pension expense of \$1,145,764 and \$883,949, respectively.

At June 30, 2016, the Agency reported deferred outflows of resources and deferred inflow of resources related to pensions from the following sources:

| <u>Description</u> | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Pension contributions subsequent to the measurement date | \$ 1,140,043 | - |
| Differences between actual and expected experience | 72,542 | - |
| Changes in assumptions | - | 686,314 |
| Net differences between projected and actual earnings on plan investments | - | 344,058 |
| Differences between actual contribution and proportionate share of contribution | 20,294 | - |
| Net adjustment due to differences in proportions of net pension liability | <u>62,426</u> | <u>-</u> |
| Total | <u>\$ 1,295,305</u> | <u>1,030,372</u> |

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
June 30, 2016

(14) Defined Benefit Pension Plan, continued

Deferred Pension Outflows (Inflows) of Resources, continued

At June 30, 2015, the Agency 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 | \$ 1,138,635 | - |
| Net differences between projected and actual earnings on plan investments | - | 2,007,631 |
| Net adjustment due to differences in proportions of net pension liability | - | 224,675 |
| Total | \$ <u>1,138,635</u> | <u>2,232,306</u> |

As of June 30, 2016 and 2015, \$1,140,043 and \$1,138,635, respectively were reported as deferred outflows of resources related to contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2017 and 2016, respectively.

At June 30, 2016, other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows.

| Fiscal Year Ending June 30, | Deferred Net Outflows/(Inflows) of Resources |
|-----------------------------------|--|
| 2017 | \$ (429,811) |
| 2018 | (413,763) |
| 2019 | (321,954) |
| 2020 | 290,417 |
| 2021 | - |

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
June 30, 2016

(14) Defined Benefit Pension Plan, continued

Deferred Pension Outflows (Inflows) of Resources, continued

At June 30, 2015, other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows.

| Fiscal Year Ending June 30, | Deferred Net Outflows/(Inflows) of Resources |
|-----------------------------------|--|
| 2016 | \$ (582,148) |
| 2017 | (582,148) |
| 2018 | (566,100) |
| 2019 | (501,910) |

Actuarial Assumptions

The total pension liabilities in the June 30, 2015 and 2014 actuarial valuation reports were 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 | 7.65% 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* | 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 rate used was developed based on CalPERS' specific data. The mortality rate includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on mortality rate, please refer to the 2014 Experience Study report. Further details of the Experience Study can be found on the CalPERS website.

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
June 30, 2016

(14) Defined Benefit Pension Plan, continued

Discount rate

For the June 30, 2015 and 2014 valuation reports, the discount rate used to measure the total pension liability was 7.65% and 7.50% for the Plan, respectively. 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 7.65% discount rate used is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65% 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 determine 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 calculates 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.

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
June 30, 2016

(14) 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 Years 11+ ** |
|-------------------------------|-----------------------------|-----------------------------|-----------------------------|
| Global equity | 47.00% | 5.25% | 5.71% |
| Global fixed income | 19.00% | 0.99% | 2.43% |
| Inflation sensitive | 6.00% | 0.45% | 3.36% |
| Private equity | 12.00% | 6.83% | 6.95% |
| Real estate | 11.00% | 4.50% | 5.13% |
| Infrastructure and forestland | 3.00% | 4.50% | 5.09% |
| Liquidity | 2.00% | -0.55% | -1.05% |
| Total | <u>100.00%</u> | | |

* 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 the Net Pension Liability to Changes in the Discount Rate

The following presents the Agency's proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what the Agency's proportionate share of net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage higher than the current rate:

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

| | Discount Rate - 1% | Current Discount Rate | Discount Rate + 1% |
|--------------------------------|-------------------------------|--------------------------------------|-------------------------------|
| | <u>6.65%</u> | <u>7.65%</u> | <u>8.65%</u> |
| Agency's Net Pension Liability | \$ <u>12,022,504</u> | <u>6,187,106</u> | <u>3,161,423</u> |

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

| | Discount Rate - 1% | Current Discount Rate | Discount Rate + 1% |
|--------------------------------|-------------------------------|--------------------------------------|-------------------------------|
| | <u>6.50%</u> | <u>7.50%</u> | <u>8.50%</u> |
| Agency's Net Pension Liability | \$ <u>10,644,295</u> | <u>5,974,266</u> | <u>2,098,586</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 70 through 71 for the Required Supplementary Schedules.

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
June 30, 2016

(14) Defined Benefit Pension Plan, continued

Pension Plan Basis of Presentation and Basis of Accounting

Employers participating in the Plan are required to report pension information in their financial statements in accordance with Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*. The Schedules of Employer Allocations by Rate Plan of the miscellaneous and safety risk pools and Schedule of Collective Pension Amounts (the Schedules) provide employers with certain required information for financial reporting related to CalPERS pensions.

The plan fiduciary net position disclosed in the GASB 68 accounting valuation report may differ from the plan assets reported in the funding actuarial valuation report due to several reasons. First, for the accounting valuations, CalPERS must keep items such as deficiency reserves, fiduciary self-insurance and OPEB expense included in fiduciary net position. These amounts are excluded for rate setting purposes in the funding actuarial valuation. In addition, differences may result from early CAFR closing and final reconciled reserves.

Detailed information about the pension plan's fiduciary net position is available in separately issued CalPERS financial reports. See pages 64 to 65 for the Required Supplementary Schedules.

Allocation of Pension Amounts to Individual Plans

CalPERS has prepared separate GASB 68 Accounting Valuation Reports for the miscellaneous risk pool and the safety risk pool. The schedules of employer allocations provide allocation factors by rate plan for rate plans within the miscellaneous and safety risk pools based on the following allocation methodology:

The schedules of employer allocation by rate plan include three ratios:

- 1) Actuarial accrued liability – determined based on the actuarial accrued liability from the most recent Actuarial Valuation Report as of June 30, 2014 used for funding purposes.
- 2) Market Value of Assets – determined based on the sum of the Market Value of Assets (MVA) from the most recent Actuarial Valuation as of June 30, 2014 used for funding purposes plus supplemental payments made by employers during the current measurement period to reduce their unfunded actuarial accrued liabilities.
- 3) Contributions – determined based on the legally or statutorily required employer contributions for the fiscal year ended June 30, 2015, including reported contribution adjustments and suspended payroll information. Legally or statutorily required employer contributions were determined by multiplying the employer's contribution rate by the annual benefit compensation (payroll) for the fiscal year and excluding payments for benefit improvements known as Golden Handshakes, which CalPERS considers to be separately finance employer-specific liabilities.

Allocation of Pension Amounts to Individual Plans

When applying the allocation methodology to the collective miscellaneous or safety risk pool pension amounts, employers should determine the proportionate shares for individual rate plans using the employer rate plan allocation factors as follows:

- 1) Total pension liability (TPL) – allocate based on the rate plan's share of the Actuarial Accrued Liability.
- 2) Fiduciary Net Position (FNP) – allocate based on the rate plan's share of the Market Value of Assets.
- 3) Net Pension Liability – after completing the above calculations, subtract (or deduct) FNP from TPL to calculate the individual rate plan's Net Pension Liability.

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
June 30, 2016

(14) Defined Benefit Pension Plan, continued

Allocation of Pension Amounts to Individual Plans, continued

- 4) Deferred Outflows of Resources, Deferred Inflows of Resources, and Pension Expense – allocate based on the rate plan’s share of Contributions.

Employers should add the proportionate share percentages of their miscellaneous and safety rate plans to determine the employer’s total proportion of the related miscellaneous and safety risk pools, and apply those proportionate share percentages to the appropriate pension amounts reported in the Schedule of Collective Pension Amounts.

The preparation of the Schedules in conformity with U.S. generally accepted accounting principles requires management to make significant estimates and assumptions that affect the reported amounts during the reporting period. Actual results could differ from those estimates.

(15) Other Post-Employment Benefits Assets

The Agency provides other post-employment benefits (OPEB) to qualified employees who retire from the Agency and meet the Agency’s vesting requirements. The Agency participates in CalPERS California Employer’s Retiree Benefit Trust Program (CERBT), a Prefunding Plan trust fund intended to perform an essential government function within the meaning of Section 115 of the Internal Revenue Code as an agent multiple-employer plan as defined in GASB Statement No. 45. Copies of CalPERS CERBT audited financial report may be obtained from their executive Office: 400 P Street, Sacramento, CA 95814. The new reporting requirements for these benefit programs as they pertain to the Agency are set forth below.

Plan Description – Eligibility

The following requirements must be satisfied in order to be eligible for post employment medical and dental benefits:

Full time employees hired before January 1, 2009, – attainment of age 55 and retirement from the Agency (the Agency must be the last employer prior to retirement).

Full time employees hired on or after January 1, 2009, – attainment of age 55 and requires at least five years of CalPERS-eligible service earned through employment with the Agency. The amount of benefit is based on the number of CalPERS credited years ranging from 50% to 100% of premium paid by the Agency. The maximum benefit amounts are set by the State each year as provided by Government Code Section 22825.2(1).

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

| | 2016 | 2015 | 2014 |
|---|-------------|-------------|-------------|
| Active plan members | 121 | 110 | 111 |
| Retirees and beneficiaries receiving benefits | 37 | 37 | 33 |
| Separated plan members entitled to but not yet receiving benefits | - | - | - |
| Total plan membership | 158 | 147 | 144 |

Plan Description – Benefits

The Agency 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 Agency’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.

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
June 30, 2016

(15) Other Post-Employment Benefits Assets, continued

Funding Policy

The Agency is required to contribute 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 fiscal year 15/16 ARC rate is 7% of the annual covered payroll.

Annual Cost

For the year ended June 30, 2016, the Agency's ARC cost is \$631,790. The Agency's net OPEB asset amounted to \$5,069,859 for the year ended June 30, 2016. The Agency contributed \$685,796 and \$411,585 in adjustment contributions for current retiree OPEB premiums for the year ended June 30, 2016.

| | | | |
|--|-----------------------|--------------------|--------------------|
| The balance at June 30, consists of the following: | <u>2016</u> | <u>2015</u> | <u>2014</u> |
| Annual OPEB expense: | | | |
| Annual required contribution (ARC) | \$ 631,790 | 631,795 | 638,000 |
| Interest on net OPEB obligation | (109,332) | 4,478 | (1,025,359) |
| Adjustment to annual required contribution | <u>4,011</u> | <u>7,785</u> | <u>8,440</u> |
| Total annual OPEB expense | 526,469 | 644,058 | (378,919) |
| Change in net OPEB payable obligation: | | | |
| Age adjusted contributions made | (411,585) | (363,378) | (352,917) |
| Contributions to irrevocable trust | <u>(685,796)</u> | <u>(658,893)</u> | <u>(1,134,989)</u> |
| Total change in net OPEB payable obligation | (1,097,381) | (1,022,271) | (1,487,906) |
| OPEB payable - beginning of year | <u>(4,498,947)</u> | <u>(4,120,734)</u> | <u>(2,253,909)</u> |
| OPEB payable (asset) - end of year | <u>\$ (5,069,859)</u> | <u>(4,498,947)</u> | <u>(4,120,734)</u> |

The Agency'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 two preceding years were as follows:

Three-Year History of Net OPEB Obligation/Assets

| Fiscal Year Ended | Annual Required Contribution | Interest On Net OPEB | Adjustment to ARC | Annual OPEB Cost | Age Adjusted Contribution | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation Payable (Assets) |
|--------------------------|-------------------------------------|-----------------------------|--------------------------|-------------------------|----------------------------------|---|---|
| 2016 | \$ 631,790 | 109,332 | (4,011) | 526,469 | 1,097,381 | 208.44% | 5,069,859 |
| 2015 | 631,795 | (4,478) | (7,785) | 644,058 | 1,022,271 | 158.72% | 4,498,947 |
| 2014 | 638,000 | 1,025,359 | (8,440) | (378,919) | 1,487,906 | 392.67% | 4,120,734 |

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
June 30, 2016

(15) Other Post-Employment Benefits Assets, continued

Funded Status and Funding Progress of the Plan

The most recent valuation (dated July 1, 2015) includes an Actuarial Accrued Liability of \$15,712,218. The covered payroll (annual payroll of active employees covered by the plan) for the year ended June 30, 2016, was \$9,797,086. The ratio of the unfunded actuarial accrued liability to annual covered payroll is 68.89%. See the actuarially determined Schedule of Funding Progress on page 72.

Actuarial Methods and Assumptions

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

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

| | |
|-------------------------------|---------------------------------------|
| Valuation date | July 1, 2015 |
| Actuarial cost method | Entry age normal cost method |
| Amortization method | Level percent of payroll amortization |
| Amortization period | Open |
| Remaining amortization period | 30 Years as of the valuation date |
| Asset valuation method | 5 Year smoothed market |
| Actuarial assumptions: | |
| Investment rate of return | 7.28% |
| Projected salary increase | 3.00% |
| Healthcare - discount rate | 10.50% |
| Inflation - discount rate | 7.28% |
| Individual salary growth | Agency bi-annual salary survey |

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
June 30, 2016

(16) Risk Management

The Agency 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 Agency 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. As of June 30, 2016, the Agency limits and deductibles for liability, property, and workers compensation programs of the ACWA/JPIA are as follows:

- General and auto liability, public officials and employees' errors and omissions: Total risk financing self-insurance limits of \$1,000,000, combined single limit per occurrence. The ACWA/JPIA purchased additional excess coverage layers: \$59 million for general, auto and public officials liability, which increases the limits on the insurance coverage noted above.
- Property loss is paid at the replacement cost for buildings, fixed equipment, and personal property on file, if replaced within two years after the loss, otherwise paid on actual cash value basis, subject to a \$5,000 deductible per loss; and actual cash value for mobile equipment, subject to a \$1,000 deductible per loss, and licensed vehicles, subject to a \$500 deductible per loss. ACWA/JPIA purchased excess coverage for a combined total of \$100 million per occurrence.
- Boiler and machinery coverage for the replacement cost up to \$100 million per occurrence, subject to various deductibles depending on the type of equipment.
- Workers compensation insurance up to California statutory limits for all work related injuries/illnesses covered by California law, and Employer's Liability Coverage up to \$4 million. The Authority is self-insured up to \$2 million and excess loss insurance has been purchased.

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

- Crime coverage up to \$1,000,000 per loss includes public employee dishonesty, including Public Officials who are required by law to give bonds for the faithful performance of their service, forgery or alteration and computer fraud, subject to a \$1,000 deductible.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years. There were no reductions in insurance coverage in fiscal year 2016. 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.

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
June 30, 2016

(17) 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 Agency’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 Agency’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 Agency’s financial statements.

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
June 30, 2016

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

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 Agency’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 Agency’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 Agency’s financial statements.

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
June 30, 2016

(18) Commitments and Contingencies

Department of Water Resources (DWR) Water Contract Commitment

On April 30, 1963, a contract was entered into between the State of California acting by and through its Department of Water Resources and the Agency (the Contract), pursuant to the provisions of the California Water Resources Development Bond Act, the State Central Valley Project Act, and other applicable laws of the State of California. The contract provides for a maximum annual water entitlement for the Agency of up to 41,500 acre feet. As amended, on January 1, 1991, the Agency began receiving the Devil's Den agricultural entitlement of 12,700 acre feet. In March 1999, the Agency purchased an additional 41,000 acre feet from Wheeler Ridge-Maricopa Water Storage District, bringing the total maximum entitlement to 95,200 acre feet. The agreement contemplated water delivery of 20,100 acre feet beginning in 1981, with increasing deliveries through the years until the maximum entitlement was reached in 1991. However, as of June 30, 2003, the water delivery objectives of the Contract cannot be achieved unless additional conservation features are constructed. The term of the Contract is for the project re-payment period or 75 year, whichever is longer, and provides for a pledge of certain Agency revenues to the bondholders of the State under the Bond Act.

Provision is made in the Contract for two general charges: (1) a Delta water charge and (2) a transportation charge, which are divided into components. The Delta water charge is intended to return to the State all costs of project conservation facilities including capital, maintenance, operation and replacement components, and is charged to the Agency on the basis of water entitlement and/or delivery. The transportation charge is for facilities necessary to deliver water to the contractors and also includes a capital, maintenance, operation and replacement component.

At June 30, 2016, the remaining estimated commitment for these charges is as follows:

| <u>Calendar year ending December 31</u> | <u>Amount</u> |
|---|-----------------------|
| 2016 | \$ 24,898,291 |
| 2017 | 25,573,156 |
| 2018 | 28,917,776 |
| 2019-2022 | 116,049,651 |
| 2023-2026 | 115,227,369 |
| 2027-2030 | 114,667,696 |
| 2031-2035 | <u>144,259,431</u> |
| Total | <u>\$ 569,593,370</u> |

Buena Vista/Rosedale-Rio Bravo (BVRRB) Water Acquisition Commitment

On May 22, 2007, the Agency entered into a 30-year agreement with the Buena Vista Water Storage District and Rosedale-Rio Bravo Water Storage District for the acquisition of 11,000 acre-feet (AF) of water supply per year for a 30-year period. The purchase price was established in FY 2006/07 at \$486.85 per AF, or \$5,335,350. The purchase price will be adjusted each calendar year by Consumer Price Index (All Urban Consumers – All Items – Southern California Area). The current purchase price is \$566.10 per AF.

Payments due under the DWR and BVRRB agreements are similar in nature to a long-term operating lease, since the Agency does not take title to any assets of the DWR and BVRRB at the end of the water delivery period. Accordingly, no liability under this contract is recorded in the Statement of Net Assets.

Castaic Lake Water Agency
Notes to the Basic Financial Statements, continued
June 30, 2016

(18) Commitments and Contingencies, continued

Litigation

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

Grant Awards

Grant funds received by the Agency are subject to audit by the grantor agencies. Such audit could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grant. Management of the Agency believes that such disallowances, if any, would not be significant.

Construction Contracts

The Agency has a variety of agreements with private parties relating to the installation, improvement or modification of water facilities and distribution systems and other Agency activities. The financing of such contracts is being provided primarily from the Agency's replacement reserves and advances for construction. The Agency has committed to approximately \$1,214,829 of open construction contracts as of June 30, 2016. The contracts outstanding include:

| <u>Project Name</u> | <u>Contractor</u> | <u>Total Approved Contract</u> | <u>Construction Costs to Date</u> | <u>Balance to Complete</u> |
|--|---------------------|--|---|------------------------------------|
| <i>Governmental activities:</i> | | | | |
| Earl Smith Intake Pump Station Additional Pump | GSE Construction | \$ 543,600 | - | 543,600 |
| Sub-Total | | <u>543,600</u> | <u>-</u> | <u>543,600</u> |
| <i>Business-type activities:</i> | | | | |
| Pardee Homes - Golden Valley Ranch | STAATS Construction | 634,056 | 589,609 | 44,447 |
| Brookfield Homes Keystone - Tract 60258 | Mesa Engineering | 1,213,598 | 623,401 | 590,197 |
| Placerita Booster SC - 12 | Vertex Survey, Inc. | 4,080 | - | 4,080 |
| Vista Canyon Ranch - Tract 69164 | Mesa Engineering | 220,776 | 212,227 | 8,549 |
| Via Princessa Pipeline Relocation | STAATS Construction | 98,620 | 74,664 | 23,956 |
| Sub-Total | | <u>2,171,130</u> | <u>1,499,901</u> | <u>671,229</u> |
| Total | | <u>\$ 2,714,730</u> | <u>1,499,901</u> | <u>1,214,829</u> |

(19) Subsequent Events

Events occurring after June 30, 2016 have been evaluated for possible adjustment to the financial statements or disclosure as of November 1, 2016, which is the date the financial statements were made available to be issued.

Required Supplementary Information

Castaic Lake Water Agency
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual – General Fund
For the Year Ended June 30, 2016

| | Original and Final Budgeted Amounts | Actual Amounts | Variance Positive (Negative) |
|---|--|---------------------------|---|
| Revenues | | | |
| Water sales – Agency | \$ 19,091,900 | 17,660,871 | (1,431,029) |
| Laboratory fees | 106,000 | 102,884 | (3,116) |
| Interest and investment earnings | 91,200 | 86,386 | (4,814) |
| Other | 2,439,300 | 2,579,834 | 140,534 |
| Total revenues | 21,728,400 | 20,429,975 | (1,298,425) |
| Expenditures: | | | |
| Water treatment operations | 5,537,200 | 4,954,109 | 583,091 |
| Water resources | 5,872,500 | 5,072,042 | 800,458 |
| Maintenance | 3,142,100 | 3,082,075 | 60,025 |
| Water quality and regulatory affairs | 976,100 | 941,920 | 34,180 |
| Administration | 4,557,900 | 4,230,738 | 327,162 |
| Management | 1,795,100 | 1,740,920 | 54,180 |
| Engineering | 947,100 | 894,863 | 52,237 |
| Total expenditures | 22,828,000 | 20,916,667 | 1,911,333 |
| Excess of revenues (under) expenditures | (1,099,600) | (486,692) | 612,908 |
| Net change in fund balance | (1,099,600) | (486,692) | 612,908 |
| Fund balance – beginning of period | 10,764,501 | 10,764,501 | |
| Fund balance – end of period | \$ 9,664,901 | 10,277,809 | |

Castaic Lake Water Agency
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual – Pledged Revenue Fund
For the Year Ended June 30, 2016

| | Original and Final Budgeted Amounts | Actual Amounts | Variance Positive (Negative) |
|---|--|---------------------------|---|
| Revenues: | | | |
| Property taxes | \$ 23,058,300 | 22,648,707 | (409,593) |
| Facility capacity fee | 9,250,000 | 6,747,047 | (2,502,953) |
| Interest and investment earnings | 1,549,000 | 1,364,794 | (184,206) |
| Other | <u>2,072,100</u> | <u>1,349,732</u> | <u>(722,368)</u> |
| Total revenues | <u>35,929,400</u> | <u>32,110,280</u> | <u>(3,819,120)</u> |
| Expenditures: | | | |
| Capital outlay | <u>15,576,000</u> | <u>13,133,408</u> | <u>2,442,592</u> |
| Total expenditures | <u>15,576,000</u> | <u>13,133,408</u> | <u>2,442,592</u> |
| Excess of revenues (under) expenditures | <u>20,353,400</u> | <u>18,976,872</u> | <u>(1,376,528)</u> |
| Other financing sources: | | | |
| Transfers out | <u>(22,208,844)</u> | <u>(21,542,471)</u> | <u>(666,373)</u> |
| Total other financing sources | <u>(22,208,844)</u> | <u>(21,542,471)</u> | <u>(666,373)</u> |
| Net change in fund balance | <u>(1,855,444)</u> | <u>(2,565,599)</u> | <u>(710,155)</u> |
| Fund balance - beginning of period | <u>138,039,973</u> | <u>138,039,973</u> | |
| Fund balance - end of period | <u>\$ 136,184,529</u> | <u>135,474,374</u> | |

Castaic Lake Water Agency
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual – State Water Contract Fund
For the Year Ended June 30, 2016

| | Original and Final Budgeted Amounts | Actual Amounts | Variance Positive (Negative) |
|---|--|---------------------------|---|
| Revenues | | | |
| Property taxes | \$ 27,809,800 | 27,099,354 | (710,446) |
| Interest and investment earnings | 234,300 | 296,869 | 62,569 |
| Other | <u>1,000,000</u> | <u>2,832,107</u> | <u>1,832,107</u> |
| Total revenues | <u>29,044,100</u> | <u>30,228,330</u> | <u>1,184,230</u> |
| Expenditures: | | | |
| State water contract payments | 26,770,000 | 21,799,974 | 4,970,026 |
| Capital Outlay | <u>3,500,000</u> | <u>2,954,706</u> | <u>545,294</u> |
| Total expenditures | <u>30,270,000</u> | <u>24,754,680</u> | <u>5,515,320</u> |
| Excess of revenues (under) expenditures | <u>(1,225,900)</u> | <u>5,473,650</u> | <u>6,699,550</u> |
| Net change in fund balance | <u>(1,225,900)</u> | <u>5,473,650</u> | <u>6,699,550</u> |
| Fund balance – beginning of period | <u>34,860,630</u> | <u>34,860,630</u> | |
| Fund balance – end of period | <u>\$ 33,634,730</u> | <u>40,334,280</u> | |

Castaic Lake Water Agency
Notes to the Required Supplementary Information
June 30, 2016

Basis of Budgeting

The Agency follows specific procedures in establishing the budgetary data reflected in the financial statements. Each April, the Agency's General Manager and Administrative Services Manager prepare and submit a capital and operating budget to the Board of Directors and adopted no later than June of each year. Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all government and proprietary funds. Annual budgets are adopted on the modified accrual basis of accounting for government fund types and accrual basis for the proprietary fund. The adopted budget becomes operative on July 1.

The Board of Directors must approve all supplemental appropriations to the budget and transfers between major funds. The legal level of budgetary control is at the fund level. Budget information is presented as required supplementary information for the general fund, pledged revenue fund and state water contract fund.

Castaic Lake Water Agency
Schedule of the Agency's Proportionate Share of the Net Pension Liability
As of June 30, 2016
Last 10 Fiscal Years*

| | Measurement Date 6/30/2014 | Measurement Date 6/30/2015 |
|---|---|---|
| Agency's Proportion of the Net Pension Liability (Asset) | 0.09601% | 0.09014% |
| Agency's Proportionate Share of the Net Pension Liability (Asset) \$ | 5,974,266 | 6,187,106 |
| Agency's Covered-Employee Payroll \$ | 8,961,588 | 9,507,349 |
| Agency's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll | 66.67% | 65.08% |
| Plan's Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability | 83.03% | 83.87% |
| Plan's Proportionate Share of Aggregate Employer Contribution \$ | 790,373 | 1,138,635 |

Notes: * GASB 68 and 71 were implemented in fiscal year 2015 (measurement date 2014), therefore only two years are shown.

Source: CalPERS Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan Schedules of Employer Allocations By Rate Plan and Collective Pension Amounts.

**Castaic Lake Water Agency
Schedule of Pension Plan Contributions
As of June 30, 2016
Last 10 Fiscal Years***

| | Measurement Date 6/30/2014 | Measurement Date 6/30/2015 |
|--|---|---|
| Actuarially determined contribution | \$ 1,049,369 | 1,112,501 |
| Contributions in relation to the actuarially determined contribution | (1,049,369) | (1,140,043) |
| | - | (27,542) |
| Covered-employee payroll | \$ 8,961,588 | 9,507,349 |
| Contributions as a percentage of covered-employee payroll | 11.71% | 11.99% |

Notes: * GASB 68 and 71 were implemented in fiscal year 2015 (measurement date 2014), therefore only two years are shown.

Source: CalPERS Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan Schedules of Employer Allocations By Rate Plan and Collective Pension Amounts.

**Castaic Lake Water Agency
Schedule of Funding Progress – Other Post-Employment Benefits Plan (OPEB)
For the Year Ended June 30, 2016**

The schedule of funding progress below shows the Agency’s actuarial value of plan assets, actuarial accrued liability, unfunded actuarial accrued liability, their relationship, and the relationship of the unfunded actuarial accrued liability to payroll.

| Fiscal Year | Actuarial Valuation Date | Actuarial Value of Plan 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) |
|--------------------|---------------------------------|---|--|--|---------------------------|----------------------------|--|
| 2014 | 7/1/2013 | 7,524,921 | 10,139,000 | 2,614,079 | 74.22% | 9,079,904 | 28.79% |
| 2015 | 7/1/2013 | 8,171,551 | 10,926,467 | 2,754,916 | 74.79% | 9,412,753 | 29.27% |
| 2016 | 7/1/2015 | 8,962,671 | 15,712,218 | 6,749,547 | 57.04% | 9,797,086 | 68.89% |



Other Supplementary Information

Castaic Lake Water Agency
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual – Capital Projects Fund
For the Year Ended June 30, 2016

| | Original and Final Budgeted Amounts | Actual Amounts | Variance Positive (Negative) |
|---|--|---------------------------|---|
| Revenues: | | | |
| Bond Proceeds | \$ 13,910,713 | 36,934,624 | 23,023,911 |
| Interest and investment earnings | 5,000 | 64,141 | 59,141 |
| Others | 11,273,900 | 8,217,741 | (3,056,159) |
| Total revenues | <u>25,189,613</u> | <u>45,216,506</u> | <u>20,026,893</u> |
| Expenditures: | | | |
| Capital outlay | 32,713,000 | 16,395,245 | 16,317,755 |
| Total expenditures | <u>32,713,000</u> | <u>16,395,245</u> | <u>16,317,755</u> |
| Excess of revenues (under) expenditures | <u>(7,523,387)</u> | <u>28,821,261</u> | <u>36,344,648</u> |
| Net change in fund balance | <u>(7,523,387)</u> | <u>28,821,261</u> | <u>36,344,648</u> |
| Fund balance - beginning of period | <u>7,791,382</u> | <u>7,791,382</u> | |
| Fund balance - end of period | <u>\$ 267,995</u> | <u>36,612,643</u> | |

Castaic Lake Water Agency
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual – Debt Service Fund
For the Year Ended June 30, 2016

| | Original and Final Budgeted Amounts | Actual Amounts | Variance Positive (Negative) |
|---|--|---------------------------|---|
| Revenues: | \$ | | |
| Interest and investment earnings | 246,000 | 247,527 | 1,527 |
| Total revenues | <u>246,000</u> | <u>247,527</u> | <u>1,527</u> |
| Expenditures: | | | |
| Interest expense | 8,552,054 | 7,938,309 | 613,745 |
| Principal payments expense | 13,865,000 | 13,865,000 | - |
| Cost of issuance | - | 270,718 | (270,718) |
| Total expenditures | <u>22,417,054</u> | <u>22,074,027</u> | <u>343,027</u> |
| Excess of revenues (under) expenditures | <u>(22,171,054)</u> | <u>(21,826,500)</u> | <u>344,554</u> |
| Other financing sources: | | | |
| Transfers in | 22,417,054 | 21,542,471 | (874,583) |
| Transfers out | - | (36,934,624) | (36,934,624) |
| Refund bond issued | - | 56,395,000 | (56,395,000) |
| Payment to refunded bond escrow | - | (34,393,791) | 34,393,791 |
| Premium on refunding bond issue | - | 11,808,569 | (11,808,569) |
| Total other financing sources | <u>22,417,054</u> | <u>18,417,625</u> | <u>(71,618,985)</u> |
| Net change in fund balance | 246,000 | (3,408,875) | <u>(71,274,431)</u> |
| Fund balance - beginning of period | <u>8,886,512</u> | <u>8,886,512</u> | |
| Fund balance - end of period | <u>\$ 9,132,512</u> | <u>5,477,637</u> | |



Statistical Section

**Castaic Lake Water Agency
Statistical Section**

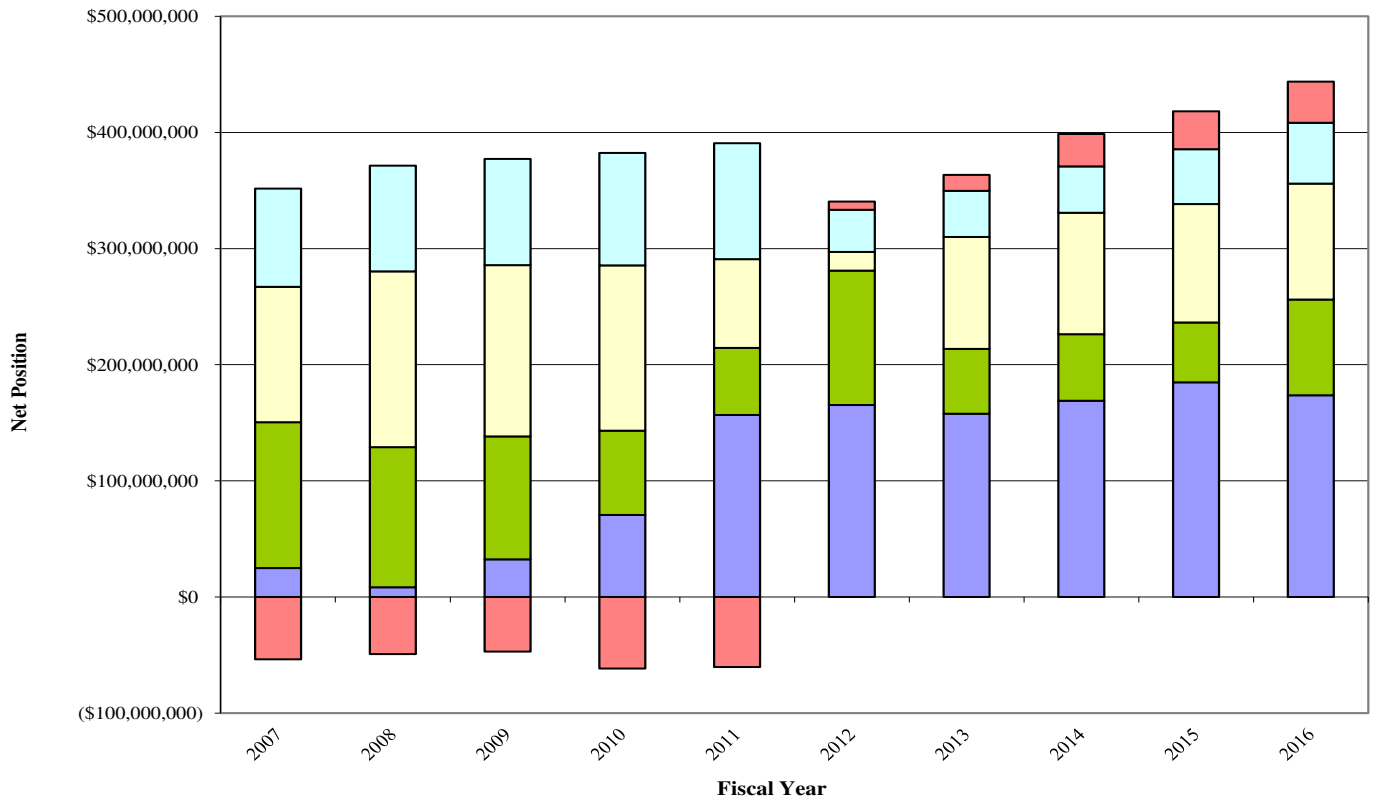
This part of the Agency’s comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Agency’s overall financial health.

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| Debt Capacity These schedules present information to help the reader assess the affordability of the Agency’s current levels of outstanding debt and the Agency’s ability to issue additional debt in the future. | 92 |
| Demographic Information This schedule offers demographic indicators to help the reader understand the environment within which the Agency’s financial activities take place. | 96 |
| Operating Information This schedule contains service and infrastructure data to help the reader understand how the information in the Agency’s financial report relates to the service the Agency provides. | 98 |

Castaic Lake Water Agency Net Position by Component Last Ten Fiscal Years

| | Fiscal Year | | | | |
|--|-----------------------|--------------------|--------------------|--------------------|--------------------|
| | 2007 | 2008 | 2009 | 2010 | 2011 |
| Governmental activities | | | | | |
| Invested in capital assets, net of related debt | \$ 24,985,031 | 8,519,004 | 32,533,377 | 70,579,699 | 156,643,758 |
| Restricted | 125,437,488 | 120,596,282 | 105,758,118 | 72,605,463 | 57,911,515 |
| Unrestricted | 116,680,092 | 151,323,567 | 147,449,404 | 142,428,175 | 76,256,980 |
| Total governmental activities net position | 267,102,611 | 280,438,853 | 285,740,899 | 285,613,337 | 290,812,253 |
| Business-type activities | | | | | |
| Invested in capital assets, net of related debt | \$ 84,453,333 | 90,863,292 | 91,383,684 | 96,749,019 | 99,974,771 |
| Restricted | - | - | - | 12,238,117 | 10,692,889 |
| Unrestricted | (53,562,143) | (49,098,684) | (46,884,101) | (61,505,829) | (60,249,188) |
| Total business-type activities net position | 30,891,190 | 41,764,608 | 44,499,583 | 47,481,307 | 50,418,472 |
| Primary government | | | | | |
| Invested in capital assets, net of related debt | \$ 109,438,364 | 99,382,296 | 123,917,061 | 167,328,718 | 256,618,529 |
| Restricted | 125,437,488 | 120,596,282 | 105,758,118 | 72,605,463 | 57,911,515 |
| Unrestricted | 63,117,949 | 102,224,883 | 100,565,303 | 80,922,346 | 16,007,792 |
| Total primary government net position | \$ 297,993,801 | 322,203,461 | 330,240,482 | 320,856,527 | 330,537,836 |

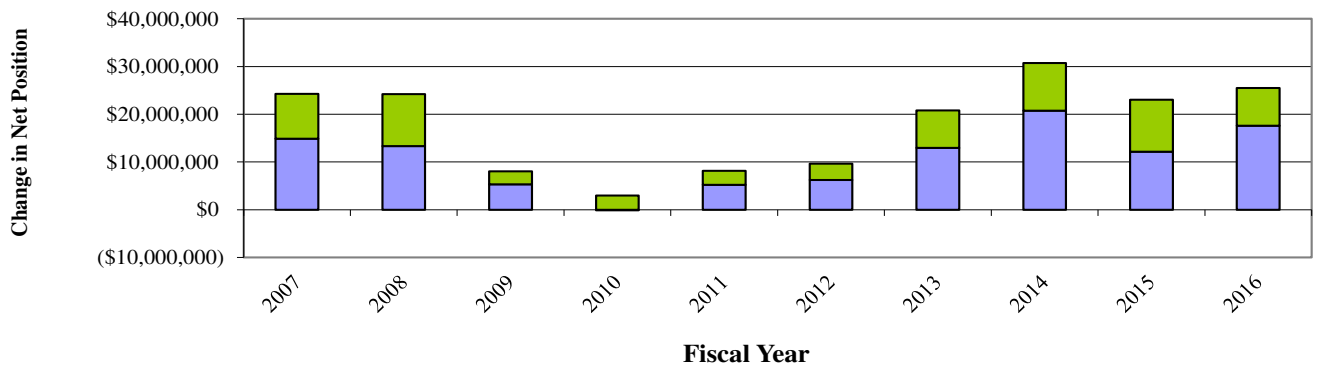


Source: Castaic Lake Water Agency audited financial statements

| Fiscal Year | | | | |
|--------------------|--------------------|--------------------|--------------------|--------------------|
| 2012 | 2013 | 2014 | 2015 | 2016 |
| 165,223,050 | 157,758,346 | 168,967,912 | 184,777,073 | 173,702,698 |
| 115,753,427 | 55,760,793 | 57,396,285 | 51,538,524 | 82,424,560 |
| 16,080,166 | 96,518,251 | 104,442,481 | 102,073,443 | 99,873,852 |
| <u>297,056,643</u> | <u>310,037,390</u> | <u>330,806,678</u> | <u>338,389,040</u> | <u>356,001,110</u> |
| 36,339,546 | 39,583,851 | 39,893,716 | 47,216,529 | 52,200,675 |
| 10,451,190 | 8,307,214 | 3,835,076 | - | - |
| 7,027,088 | 13,743,212 | 27,866,509 | 32,487,657 | 35,401,664 |
| <u>53,817,824</u> | <u>61,634,277</u> | <u>71,595,301</u> | <u>79,704,186</u> | <u>87,602,339</u> |
| 201,562,596 | 197,342,197 | 208,861,628 | 231,993,602 | 225,903,373 |
| 126,204,617 | 64,068,007 | 61,231,361 | 51,538,524 | 82,424,560 |
| 23,107,254 | 110,261,463 | 132,308,990 | 134,561,100 | 135,275,516 |
| <u>350,874,467</u> | <u>371,671,667</u> | <u>402,401,979</u> | <u>418,093,226</u> | <u>443,603,449</u> |

Castaic Lake Water Agency Changes in Net Position Last Ten Fiscal Years

| | Fiscal Year | | | | |
|---|----------------------|---------------------|---------------------|---------------------|---------------------|
| | 2007 | 2008 | 2009 | 2010 | 2011 |
| Expenses | | | | | |
| Governmental activities: | | | | | |
| Wholesale water operations | \$ 34,087,974 | 38,557,149 | 51,285,178 | 47,922,365 | 49,539,982 |
| Interest on long-term debt | 17,174,794 | 18,929,576 | 17,021,922 | 19,341,062 | 15,492,620 |
| Total governmental activities expenses | <u>51,262,768</u> | <u>57,486,725</u> | <u>68,307,100</u> | <u>67,263,427</u> | <u>65,032,602</u> |
| Business-type activities: | | | | | |
| Water enterprise | 19,475,839 | 18,620,416 | 20,503,320 | 21,669,243 | 23,447,992 |
| Total primary government expenses | <u>70,738,607</u> | <u>76,107,141</u> | <u>88,810,420</u> | <u>88,932,670</u> | <u>88,480,594</u> |
| Program Revenues | | | | | |
| Governmental activities: | | | | | |
| Charges for services – wholesale water operations | 9,243,448 | 10,151,507 | 9,933,606 | 11,172,749 | 14,433,782 |
| Capital grants and contributions | 12,192,365 | 9,197,376 | 1,824,712 | 4,016,683 | 3,220,225 |
| Total governmental activities program revenues | <u>21,435,813</u> | <u>19,348,883</u> | <u>11,758,318</u> | <u>15,189,432</u> | <u>17,654,007</u> |
| Business-type activities: | | | | | |
| Charges for services – water enterprise | 18,118,199 | 19,649,755 | 21,462,927 | 22,058,050 | 25,139,755 |
| Capital grants and contributions | 9,375,529 | 6,417,457 | 1,267,966 | 2,031,072 | 536,066 |
| Total business-type activities program revenues | <u>27,493,728</u> | <u>26,067,212</u> | <u>22,730,893</u> | <u>24,089,122</u> | <u>25,675,821</u> |
| Net (Expense)/Revenue | | | | | |
| Governmental activities | (29,826,955) | (38,137,842) | (56,548,782) | (52,073,995) | (47,378,595) |
| Business-type activities | 8,017,889 | 7,446,796 | 2,227,573 | 2,419,879 | 2,227,829 |
| Total primary government net expense | <u>(21,809,066)</u> | <u>(30,691,046)</u> | <u>(54,321,209)</u> | <u>(49,654,116)</u> | <u>(45,150,766)</u> |
| General Revenues and Other Changes in Net Position | | | | | |
| Governmental activities: | | | | | |
| Property taxes | 31,166,802 | 33,964,175 | 35,692,587 | 40,461,183 | 43,220,544 |
| Investment income | 10,289,735 | 12,131,840 | 9,197,675 | 5,393,873 | 4,027,026 |
| Other income | 3,272,237 | 5,378,069 | 16,960,566 | 6,091,377 | 5,329,941 |
| Total governmental activities | <u>44,728,774</u> | <u>51,474,084</u> | <u>61,850,828</u> | <u>51,946,433</u> | <u>52,577,511</u> |
| Business-type activities: | | | | | |
| Investment income | 589,923 | 573,857 | 294,234 | 94,742 | 154,699 |
| Other income | 763,201 | 2,852,765 | 213,168 | 467,103 | 554,637 |
| Total business-type activities | <u>1,353,124</u> | <u>3,426,622</u> | <u>507,402</u> | <u>561,845</u> | <u>709,336</u> |
| Total primary government | <u>46,081,898</u> | <u>54,900,706</u> | <u>62,358,230</u> | <u>52,508,278</u> | <u>53,286,847</u> |
| Changes in Net Position | | | | | |
| Governmental activities | 14,901,819 | 13,336,242 | 5,302,046 | (127,562) | 5,198,916 |
| Business-type activities | 9,371,013 | 10,873,418 | 2,734,975 | 2,981,724 | 2,937,165 |
| Total primary government | <u>\$ 24,272,832</u> | <u>24,209,660</u> | <u>8,037,021</u> | <u>2,854,162</u> | <u>8,136,081</u> |

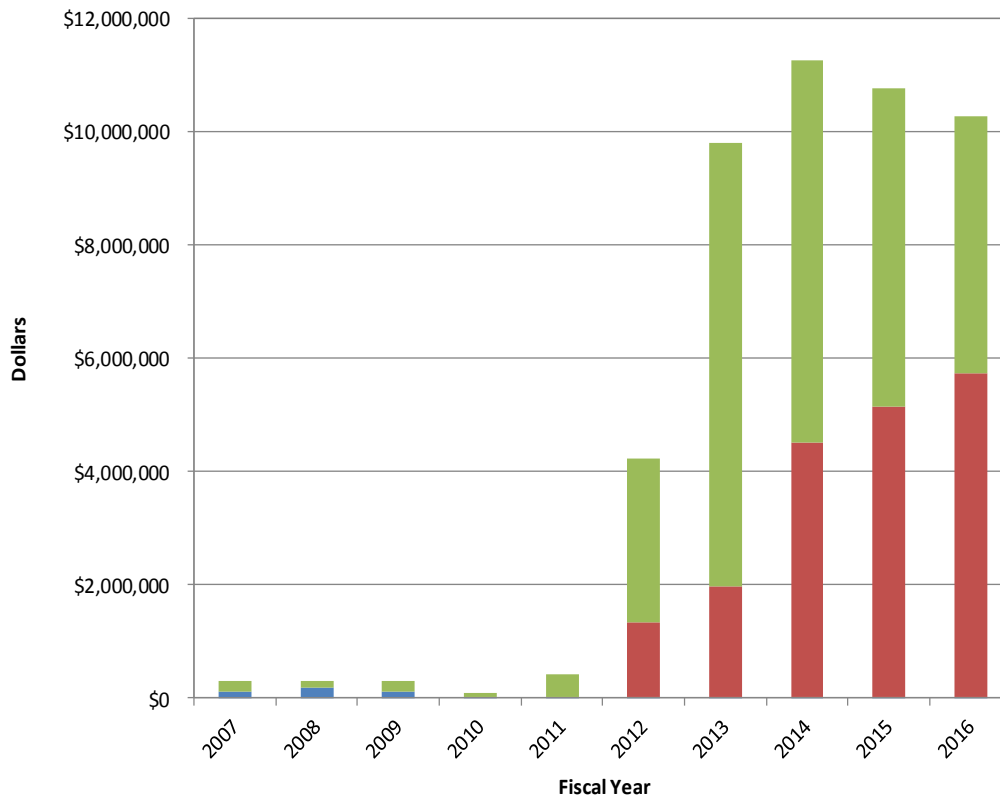


Source: Castaic Lake Water Agency audited financial statements

| Fiscal Year | | | | |
|--------------------|--------------|--------------|--------------|--------------|
| 2012 | 2013 | 2014 | 2015 | 2016 |
| 52,630,577 | 51,835,649 | 54,000,193 | 52,647,241 | 61,412,484 |
| 15,227,580 | 14,755,927 | 14,451,234 | 17,160,001 | 12,273,440 |
| 67,858,157 | 66,591,576 | 68,451,427 | 69,807,242 | 73,685,924 |
| 27,114,494 | 26,116,807 | 25,243,032 | 26,569,328 | 26,754,793 |
| 94,972,651 | 92,708,383 | 93,694,459 | 96,376,570 | 100,440,717 |
| 17,056,699 | 19,578,749 | 18,093,049 | 17,255,485 | 17,763,755 |
| 5,986,620 | 7,914,109 | 8,695,534 | 8,193,540 | 6,747,047 |
| 23,043,319 | 27,492,858 | 26,788,583 | 25,449,025 | 24,510,802 |
| 28,697,456 | 31,031,943 | 32,504,936 | 28,872,861 | 28,624,712 |
| 1,156,504 | 2,201,830 | 1,869,487 | 7,566,266 | 4,536,624 |
| 29,853,960 | 33,233,773 | 34,374,423 | 36,439,127 | 33,161,336 |
| (44,814,838) | (39,098,718) | (41,662,844) | (44,358,217) | (49,175,122) |
| 2,739,466 | 7,116,966 | 9,131,391 | 9,869,799 | 6,406,543 |
| (42,075,372) | (31,981,752) | (32,531,453) | (34,488,418) | (42,768,579) |
| 42,433,421 | 42,630,692 | 44,114,076 | 47,688,819 | 49,748,061 |
| 4,086,199 | 3,083,860 | 3,564,264 | 2,315,574 | 2,059,717 |
| 4,539,608 | 6,364,913 | 14,753,792 | 6,507,210 | 14,979,414 |
| 51,059,228 | 52,079,465 | 62,432,132 | 56,511,603 | 66,787,192 |
| 162,957 | 132,653 | 148,852 | 280,151 | 381,434 |
| 496,930 | 566,834 | 680,781 | 760,534 | 1,110,176 |
| 659,887 | 699,487 | 829,633 | 1,040,685 | 1,491,610 |
| 51,719,115 | 52,778,952 | 63,261,765 | 57,552,288 | 68,278,802 |
| 6,244,390 | 12,980,747 | 20,769,288 | 12,153,386 | 17,612,070 |
| 3,399,353 | 7,816,453 | 9,961,024 | 10,910,484 | 7,898,153 |
| 9,643,743 | 20,797,200 | 30,730,312 | 23,063,870 | 25,510,223 |

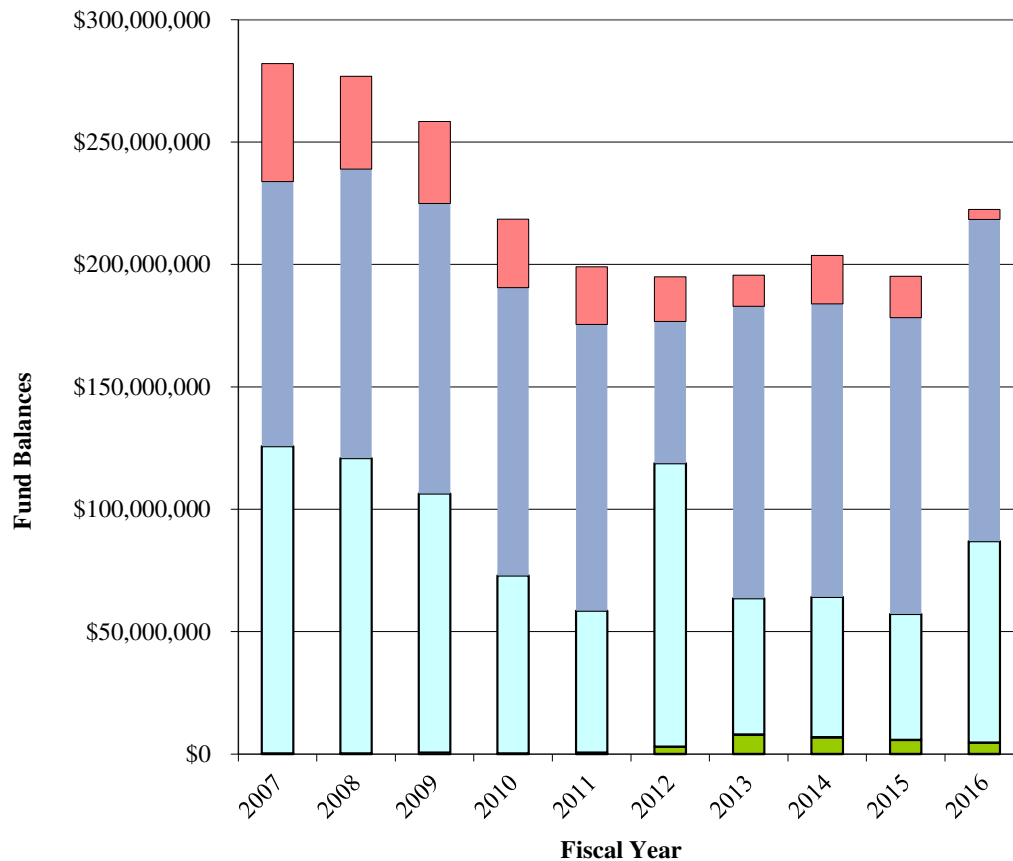
Castaic Lake Water Agency Fund Balances – Governmental Funds Last Ten Fiscal Years

| | Fiscal Year | | | | |
|---|-----------------------|--------------------|--------------------|--------------------|--------------------|
| | 2007 | 2008 | 2009 | 2010 | 2011 |
| General Fund | | | | | |
| Nonspendable | \$ 108,986 | 196,871 | 109,339 | 17,135 | 13,480 |
| Committed | - | - | - | - | - |
| Assigned | 191,014 | 103,129 | 190,661 | 82,865 | 413,805 |
| Total general fund | \$ 300,000 | 300,000 | 300,000 | 100,000 | 427,285 |
| All Other Governmental Funds | | | | | |
| Nonspendable | \$ 3,712 | 17,125 | 345,432 | 228,391 | 159,935 |
| Restricted | 125,437,488 | 120,596,282 | 105,758,118 | 72,605,463 | 57,911,515 |
| Committed | 108,144,571 | 118,003,551 | 118,551,071 | 117,581,148 | 116,948,896 |
| Assigned | 48,202,445 | 37,971,867 | 33,414,877 | 27,931,828 | 23,557,711 |
| Unassigned | - | - | - | - | - |
| Total all other governmental funds | \$ 281,788,216 | 276,588,825 | 258,069,498 | 218,346,830 | 198,578,057 |



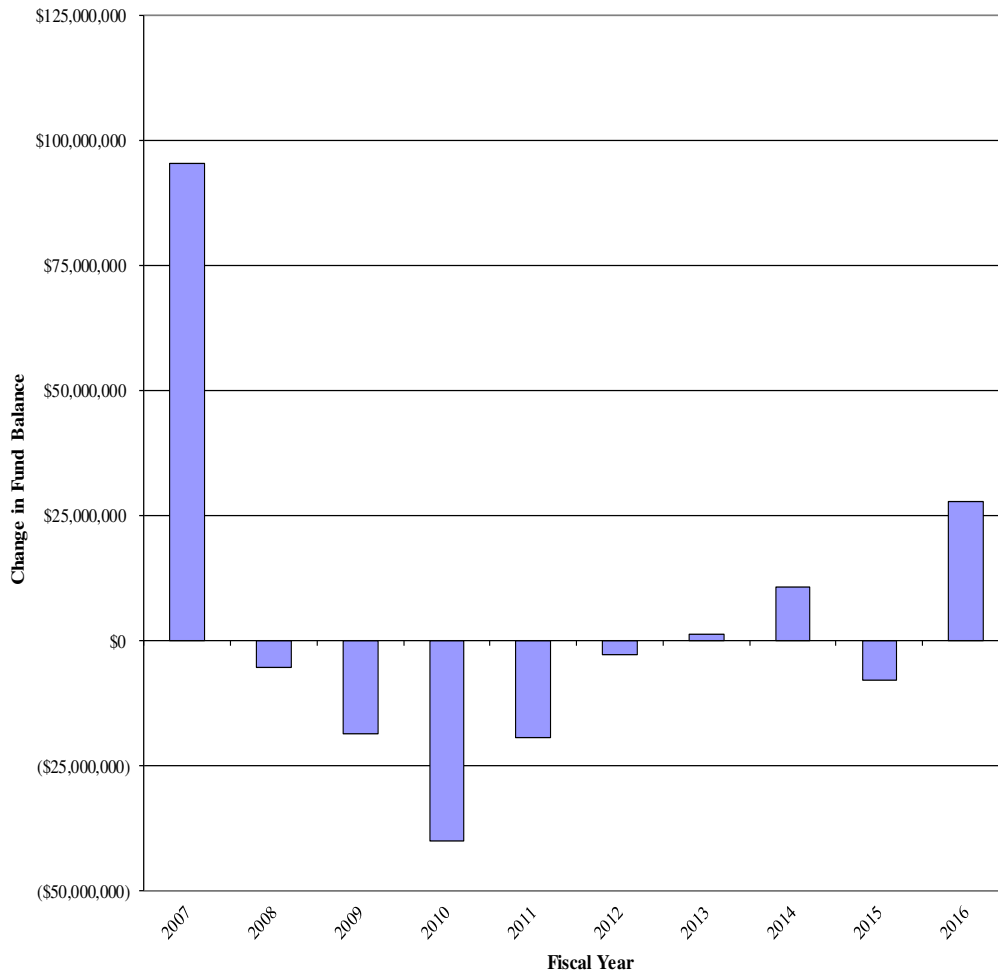
Source: Castaic Lake Water Agency audited financial statements

| Fiscal Year | | | | |
|--------------------|--------------------|--------------------|--------------------|--------------------|
| 2012 | 2013 | 2014 | 2015 | 2016 |
| 10,000 | 10,000 | 10,000 | 10,000 | 13,996 |
| 1,330,000 | 1,958,679 | 4,505,300 | 5,123,600 | 5,707,000 |
| 2,875,923 | 7,827,766 | 6,733,546 | 5,630,901 | 4,556,813 |
| <u>4,215,923</u> | <u>9,796,445</u> | <u>11,248,846</u> | <u>10,764,501</u> | <u>10,277,809</u> |
| 142,758 | 171,329 | 188,656 | 144,459 | 174,060 |
| 115,753,427 | 55,589,464 | 57,207,629 | 51,394,065 | 82,250,500 |
| 57,962,800 | 119,249,210 | 119,804,730 | 121,064,450 | 131,422,770 |
| 18,176,577 | 12,749,683 | 19,732,346 | 16,975,523 | 4,051,604 |
| - | - | - | - | - |
| <u>192,035,562</u> | <u>187,759,686</u> | <u>196,933,361</u> | <u>189,578,497</u> | <u>217,898,934</u> |



**Castaic Lake Water Agency
Changes in Fund Balances – Governmental Funds
Last Ten Fiscal Years**

| | Fiscal Year | | | | |
|--|----------------------|--------------------|---------------------|---------------------|---------------------|
| | 2007 | 2008 | 2009 | 2010 | 2011 |
| Revenues | \$ 66,164,593 | 70,822,967 | 73,609,146 | 67,135,865 | 70,231,518 |
| Expenditures | 113,990,133 | 76,022,355 | 92,128,477 | 107,058,533 | 89,673,006 |
| Excess of revenues over (under) expenditures | (47,825,540) | (5,199,388) | (18,519,331) | (39,922,668) | (19,441,488) |
| Other Financing Sources (Uses) | | | | | |
| Proceeds from long-term debt | 143,303,976 | - | - | - | - |
| Operating transfers in | 80,190,557 | 33,335,882 | 36,598,715 | 37,440,721 | 37,469,290 |
| Operating transfers out | (80,190,557) | (33,335,882) | (36,598,715) | (37,440,721) | (37,469,290) |
| Total Other Financing Sources (Uses) | 143,303,976 | - | - | - | - |
| Net change in fund balances | \$ 95,478,436 | (5,199,388) | (18,519,331) | (39,922,668) | (19,441,488) |
| Debt service ratio to non capital expenditures | 36.07% | 40.91% | 37.50% | 40.65% | 37.18% |

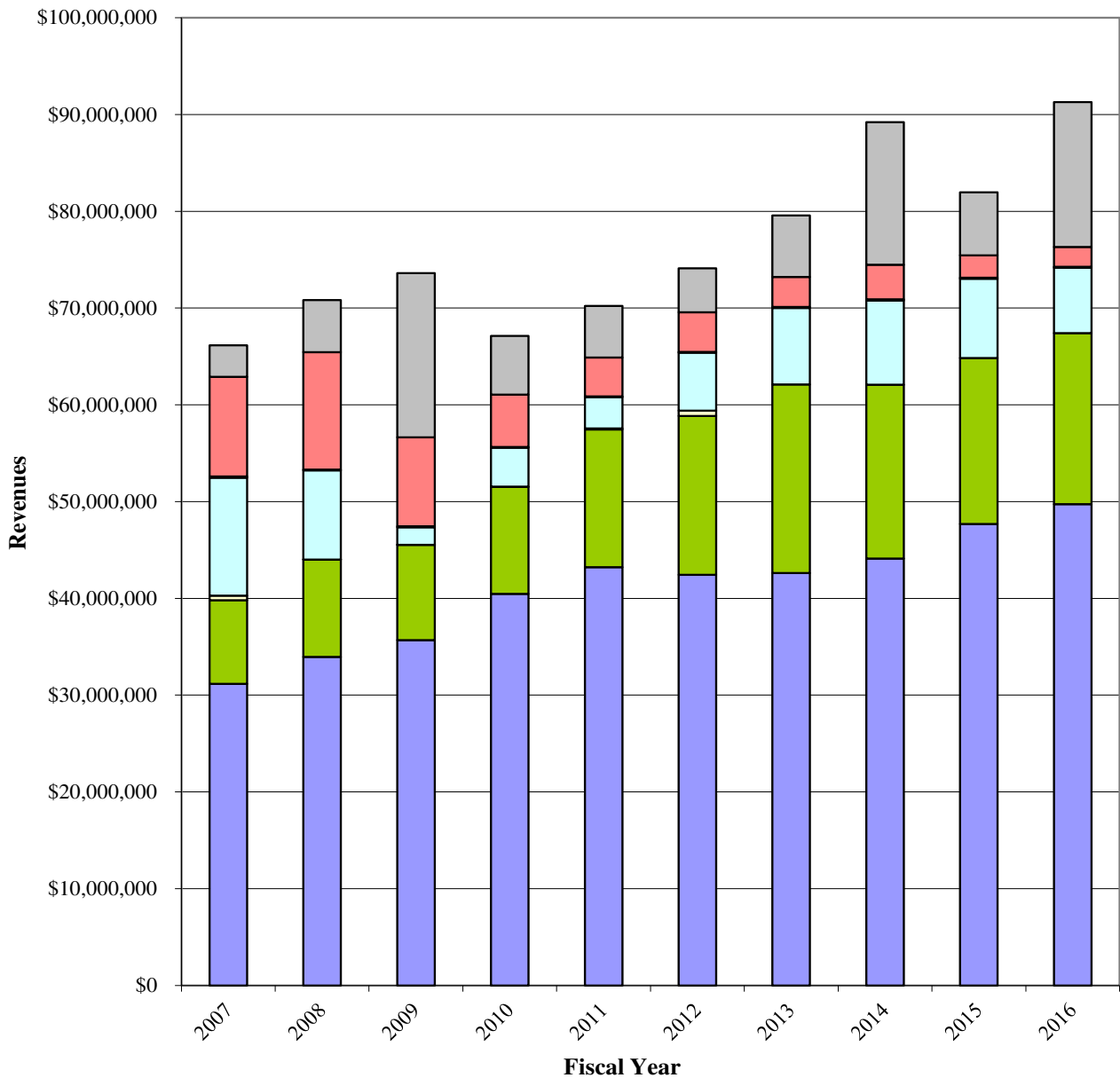


Source: Castaic Lake Water Agency audited financial statements

| Fiscal Year | | | | |
|--------------------|--------------|--------------|--------------|--------------|
| 2012 | 2013 | 2014 | 2015 | 2016 |
| 74,102,547 | 79,572,323 | 89,220,715 | 81,960,628 | 91,297,994 |
| 76,856,404 | 78,267,677 | 78,814,475 | 83,957,042 | 97,274,027 |
| (2,753,857) | 1,304,646 | 10,406,240 | (1,996,414) | (5,976,033) |
| - | - | 219,836 | (5,842,795) | 33,809,778 |
| 81,985,446 | 82,826,667 | 26,225,116 | 22,239,653 | 58,477,095 |
| (81,985,446) | (82,826,667) | (26,225,116) | (22,239,653) | (58,477,095) |
| - | - | 219,836 | (5,842,795) | 33,809,778 |
| (2,753,857) | 1,304,646 | 10,626,076 | (7,839,209) | 27,833,745 |
| 38.81% | 39.31% | 40.83% | 36.56% | 33.79% |

**Castaic Lake Water Agency
Governmental Fund Revenues
Last Ten Fiscal Years**

| | Fiscal Year | | | | |
|------------------------------------|----------------------|-------------------|-------------------|-------------------|-------------------|
| | 2007 | 2008 | 2009 | 2010 | 2011 |
| Property taxes | \$ 31,166,808 | 33,964,175 | 35,692,587 | 40,461,183 | 43,220,544 |
| Water sales - Agency | 8,653,258 | 10,035,533 | 9,831,410 | 11,074,364 | 14,236,852 |
| Water sales - Devil's Den | 456,963 | 20,819 | 7,114 | 6,434 | 114,544 |
| Facility capacity fees | 12,192,365 | 9,197,376 | 1,824,712 | 4,016,683 | 3,220,225 |
| Laboratory fees | 133,227 | 95,155 | 95,082 | 91,951 | 82,386 |
| Interest | 10,289,735 | 12,131,840 | 9,197,675 | 5,393,873 | 4,027,026 |
| Other | 3,272,237 | 5,378,069 | 16,960,566 | 6,091,377 | 5,329,941 |
| Total governmental revenues | \$ 66,164,593 | 70,822,967 | 73,609,146 | 67,135,865 | 70,231,518 |

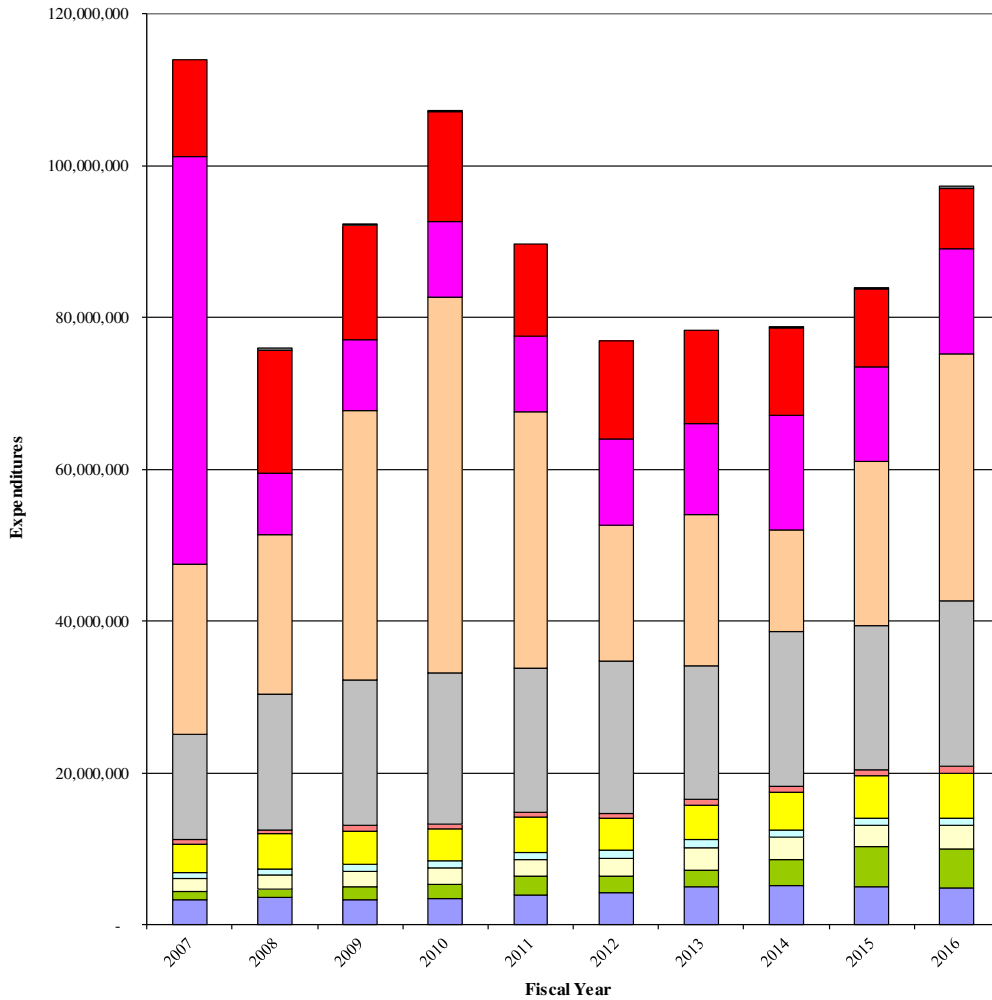


Source: Castaic Lake Water Agency audited financial statements

| Fiscal Year | | | | |
|--------------------|-------------------|-------------------|-------------------|-------------------|
| 2012 | 2013 | 2014 | 2015 | 2016 |
| 42,433,421 | 42,630,692 | 44,114,076 | 47,688,819 | 49,748,061 |
| 16,410,876 | 19,474,884 | 17,973,854 | 17,148,631 | 17,660,871 |
| 560,409 | - | - | - | - |
| 5,986,620 | 7,914,109 | 8,695,534 | 8,193,540 | 6,747,047 |
| 85,414 | 103,865 | 119,195 | 106,854 | 102,884 |
| 4,086,199 | 3,083,860 | 3,564,264 | 2,315,574 | 2,059,717 |
| 4,539,608 | 6,364,913 | 14,753,792 | 6,507,210 | 14,979,414 |
| <u>74,102,547</u> | <u>79,572,323</u> | <u>89,220,715</u> | <u>81,960,628</u> | <u>91,297,994</u> |

Castaic Lake Water Agency Governmental Fund Expenditures Last Ten Fiscal Years

| | Fiscal Year | | | | |
|--|-----------------------|-------------------|-------------------|--------------------|-------------------|
| | 2007 | 2008 | 2009 | 2010 | 2011 |
| Water treatment operations | \$ 3,314,922 | 3,565,133 | 3,295,972 | 3,414,408 | 3,961,439 |
| Water resources | 1,092,406 | 1,222,234 | 1,750,276 | 1,929,400 | 2,461,971 |
| Maintenance | 1,772,771 | 1,835,902 | 2,061,030 | 2,195,822 | 2,230,338 |
| Water quality and regulatory affairs | 742,508 | 790,097 | 866,709 | 844,750 | 877,626 |
| Management and Administration | 3,766,537 | 4,562,287 | 4,343,068 | 4,253,303 | 4,752,754 |
| Engineering | 606,441 | 593,133 | 788,433 | 656,485 | 508,833 |
| State water contract payments | 13,774,790 | 17,856,749 | 19,124,636 | 19,942,213 | 18,994,668 |
| Capital outlay | 22,470,432 | 20,947,111 | 35,521,472 | 49,479,405 | 33,845,652 |
| Debt service: | | | | | |
| Principal | 53,725,325 | 8,160,000 | 9,405,000 | 9,960,000 | 9,865,000 |
| Interest | 12,724,001 | 16,104,142 | 14,965,694 | 14,390,597 | 12,174,725 |
| Issuance costs | - | 385,567 | 6,187 | 233,500 | - |
| Total governmental expenditures | \$ 113,990,133 | 76,022,355 | 92,128,477 | 107,299,883 | 89,673,006 |



Source: Castaic Lake Water Agency audited financial statements

| Fiscal Year | | | | |
|--------------------|-------------------|-------------------|-------------------|-------------------|
| 2012 | 2013 | 2014 | 2015 | 2016 |
| 4,292,775 | 5,021,354 | 5,156,265 | 5,100,474 | 4,954,109 |
| 2,103,345 | 2,262,890 | 3,448,559 | 5,289,336 | 5,072,042 |
| 2,418,199 | 2,849,415 | 2,984,218 | 2,806,058 | 3,082,075 |
| 1,046,056 | 1,063,255 | 922,075 | 924,929 | 941,920 |
| 4,132,249 | 4,548,511 | 5,048,221 | 5,575,557 | 5,971,658 |
| 696,661 | 852,914 | 769,294 | 812,270 | 894,863 |
| 20,097,200 | 17,484,296 | 20,274,642 | 18,919,286 | 21,799,974 |
| 17,841,845 | 19,975,922 | 13,369,161 | 21,618,995 | 32,483,359 |
| 11,375,000 | 11,980,000 | 15,080,000 | 12,471,250 | 13,865,000 |
| 12,853,074 | 12,229,120 | 11,558,969 | 10,251,000 | 7,938,309 |
| - | - | 203,071 | 187,887 | 270,718 |
| 76,856,404 | 78,267,677 | 78,814,475 | 83,957,042 | 97,274,027 |

**Castaic Lake Water Agency
Assessed Valuations – Los Angeles and Ventura Counties
Last Ten Fiscal Years**

| Fiscal Year | Secured | | | Unsecured | | | Total Direct Tax Rate |
|-------------|--------------------|----------------|----------------|--------------------|----------------|---------------|-----------------------|
| | Los Angeles County | Ventura County | Totals | Los Angeles County | Ventura County | Totals | |
| 2007 | 30,170,105,930 | 26,888,038 | 30,196,993,968 | 946,158,845 | 474,776 | 946,633,621 | 0.040000% |
| 2008 | 32,925,381,541 | 27,260,648 | 32,952,642,189 | 1,048,909,083 | 483,493 | 1,049,392,576 | 0.040000% |
| 2009 | 34,456,856,037 | 27,921,923 | 34,484,777,960 | 1,226,855,382 | 650,042 | 1,227,505,424 | 0.040000% |
| 2010 | 32,423,796,679 | 27,668,978 | 32,451,465,657 | 1,239,808,314 | 662,551 | 1,240,470,865 | 0.060750% |
| 2011 | 32,127,907,283 | 46,066,529 | 32,173,973,812 | 1,163,577,979 | 1,119,263 | 1,164,697,242 | 0.070600% |
| 2012 | 32,293,545,857 | 42,944,069 | 32,336,489,926 | 1,110,112,019 | 1,085,258 | 1,111,197,277 | 0.070600% |
| 2013 | 31,694,907,000 | 34,323,664 | 31,729,230,664 | 1,146,810,742 | 1,085,136 | 1,147,895,878 | 0.070600% |
| 2014 | 32,434,666,420 | 33,635,458 | 32,468,301,878 | 1,138,677,261 | 1,158,788 | 1,139,836,049 | 0.070600% |
| 2015 | 35,021,562,706 | 31,767,444 | 35,053,330,150 | 1,156,885,532 | 1,179,843 | 1,158,065,375 | 0.070600% |
| 2016 | 36,891,911,901 | 28,865,170 | 36,920,777,071 | 1,143,502,834 | 1,150,103 | 1,144,652,937 | 0.070600% |

Note: Property in Los Angeles and Ventura County are reassessed each year. Property is assessed at actual value, therefore, the assessed values are equal to the actual values.

Source: Los Angeles and Ventura County Assessor offices

**Castaic Lake Water Agency
Direct and Overlapping Property Tax Rates
Last Ten Fiscal Years**

| Fiscal Year | General Levy | Castaic Lake Water Agency | Los Angeles County | School Districts | County Sanitation Districts | County Flood Control | Total |
|--------------------|---------------------|----------------------------------|---------------------------|-------------------------|------------------------------------|-----------------------------|--------------|
| 2007 | 1.000000 | 0.040000 | 0.000663 | 0.052689 | 0.000000 | 0.000052 | 1.093404 |
| 2008 | 1.000000 | 0.040000 | 0.000000 | 0.061636 | 0.000000 | 0.000000 | 1.101636 |
| 2009 | 1.000000 | 0.040000 | 0.000000 | 0.062621 | 0.000000 | 0.000000 | 1.102621 |
| 2010 | 1.000000 | 0.060750 | 0.000000 | 0.074476 | 0.000000 | 0.000000 | 1.135226 |
| 2011 | 1.000000 | 0.070600 | 0.000000 | 0.079079 | 0.000000 | 0.000000 | 1.149679 |
| 2012 | 1.000000 | 0.070600 | 0.000000 | 0.087663 | 0.000000 | 0.000000 | 1.158263 |
| 2013 | 1.000000 | 0.070600 | 0.000000 | 0.103757 | 0.000000 | 0.000000 | 1.174357 |
| 2014 | 1.000000 | 0.070600 | 0.000000 | 0.131959 | 0.000000 | 0.000000 | 1.202559 |
| 2015 | 1.000000 | 0.070600 | 0.000000 | 0.141497 | 0.000000 | 0.000000 | 1.212097 |
| 2016 | 1.000000 | 0.070600 | 0.000000 | 0.136522 | 0.000000 | 0.000000 | 1.207122 |

Source: Los Angeles and Ventura County Assessor offices

**Castaic Lake Water Agency
Property Tax Levies and Collections
Last Ten Fiscal Years**

| Fiscal Year | Taxes Levied | Collected within the Fiscal Year of the Levy | | Collections in Subsequent Years Amount | Total Collections | |
|------------------------|-------------------------|---|-------------------------------|---|--------------------------|-------------------------------|
| | | Collections | Percentage of Levy | | Amount | Percentage of Levy |
| 2007 | 30,025,021 | 26,773,696 | 89.17% | 2,426,245 | 29,199,941 | 97.25% |
| 2008 | 32,697,975 | 28,267,658 | 86.45% | 2,237,535 | 30,505,193 | 93.29% |
| 2009 | 34,406,250 | 29,798,576 | 86.61% | 2,435,206 | 32,233,782 | 93.69% |
| 2010 | 39,040,906 | 34,748,670 | 89.01% | 1,947,972 | 36,696,642 | 94.00% |
| 2011 | 41,915,206 | 38,767,789 | 92.49% | 1,430,650 | 40,198,439 | 95.90% |
| 2012 | 42,225,389 | 38,357,468 | 90.84% | 336,529 | 38,693,997 | 91.64% |
| 2013 | 41,783,211 | 40,268,441 | 96.37% | 276,156 | 40,544,597 | 97.04% |
| 2014 | 42,822,203 | 41,692,241 | 97.36% | (596,502) | 41,095,739 | 95.97% |
| 2015 | 46,389,302 | 45,140,714 | 97.31% | (332,779) | 44,807,935 | 96.59% |
| 2016 | 48,700,741 | 47,312,930 | 97.15% | (17,615) | 47,295,315 | 97.11% |

Source: Los Angeles and Ventura County Assessor offices

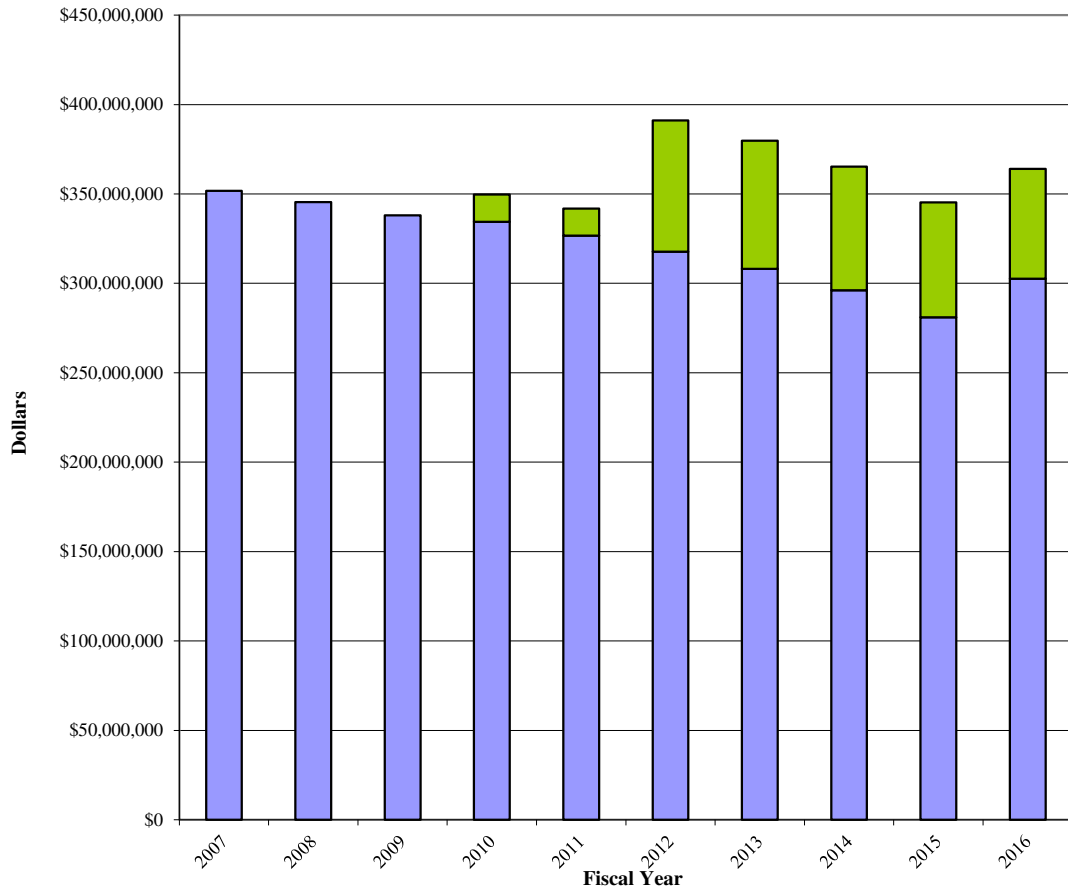
**Castaic Lake Water Agency
Principal Property Tax Payers
Current Fiscal Year and Nine Years Ago**

| Customer | 2016 | | 2007 | |
|-------------------------------|-----------------------|----------------------------|-----------------------|----------------------------|
| | Assessed Value | Percentage of Total | Assessed Value | Percentage of Total |
| LNR Valencia Town Center | 182,331,987 | 0.48% | 113,422,735 | 0.36% |
| Newhall Land & Farming | 129,353,778 | 0.34% | 107,152,460 | 0.34% |
| Lexington Lion Clarita LP | 80,610,850 | 0.21% | 2,031,073 | 0.01% |
| RREEF America Reit II Corp D | 75,145,259 | 0.20% | 24,501,232 | 0.08% |
| California Institute of Arts | 68,831,026 | 0.18% | 53,323,438 | 0.17% |
| Premier Parks Incorporated | 66,473,751 | 0.17% | 30,375,336 | 0.10% |
| Town Center Apartments I | 56,584,113 | 0.15% | 20,731,814 | 0.07% |
| Newhl Land & Farming | 54,891,823 | 0.14% | 44,156,307 | 0.14% |
| EQR Essex Place Financing | 52,845,422 | 0.14% | 15,279,301 | 0.05% |
| LNR Town Center Entertainment | 39,446,193 | 0.10% | 33,758,507 | 0.11% |
| Total | 806,514,202 | 2.12% | 444,732,203 | 1.43% |
| All Others | 37,258,915,806 | 97.88% | 30,698,895,386 | 98.57% |
| Total Assessed Value | <u>38,065,430,008</u> | <u>100.00%</u> | <u>31,143,627,589</u> | <u>100.00%</u> |

Source: Los Angeles and Ventura County Assessor offices

Castaic Lake Water Agency Ratio of Outstanding Debt Last Ten Fiscal Years

| Fiscal Year | Governmental Activities | Business-type Activities | Total Debt | Per Capita | As a Share of Personal Income | | |
|-------------|-------------------------|--------------------------|-------------|------------|-------------------------------|-------------------------|--------------------------|
| | | | | | Total | Governmental Activities | Business-type Activities |
| 2007 | \$ 351,727,989 | - | 351,727,989 | 1,985.39 | 4.82% | 4.82% | 0.00% |
| 2008 | 345,473,561 | - | 345,473,561 | 1,951.33 | 4.62% | 4.62% | 0.00% |
| 2009 | 338,077,352 | - | 338,077,352 | 1,908.42 | 4.66% | 4.66% | 0.00% |
| 2010 | 334,413,904 | 15,288,694 | 349,702,598 | 1,968.59 | 4.72% | 4.51% | 0.21% |
| 2011 | 326,722,119 | 15,016,646 | 341,738,765 | 1,931.04 | 4.44% | 4.25% | 0.20% |
| 2012 | 317,666,527 | 73,477,236 | 391,143,763 | 2,204.31 | 4.82% | 3.91% | 0.90% |
| 2013 | 308,160,699 | 71,589,295 | 379,749,994 | 1,852.88 | 3.96% | 3.21% | 0.75% |
| 2014 | 296,129,598 | 69,211,354 | 365,340,952 | 1,746.96 | 3.51% | 2.85% | 0.67% |
| 2015 | 280,955,820 | 64,353,413 | 345,309,233 | 1,599.47 | 3.14% | 2.55% | 0.58% |
| 2016 | 302,569,937 | 61,400,472 | 363,970,409 | 1,657.34 | 3.11% | 2.59% | 0.53% |



Source: Castaic Lake Water Agency Audited Financial Statements

**Castaic Lake Water Agency
Ratio of General Bonded Debt Outstanding
Last Ten Fiscal Years**

| Fiscal Year | General Obligation Bonds | Percentage of Taxable Value of Property | Per Capita |
|------------------------|-------------------------------------|--|-----------------------|
| 2007 | - | N/A | N/A |
| 2008 | - | N/A | N/A |
| 2009 | - | N/A | N/A |
| 2010 | - | N/A | N/A |
| 2011 | - | N/A | N/A |
| 2012 | - | N/A | N/A |
| 2013 | - | N/A | N/A |
| 2014 | - | N/A | N/A |
| 2015 | - | N/A | N/A |
| 2016 | - | N/A | N/A |

Sources: Castaic Lake Water Agency audited financial statements, Assessed Values at Schedule, and Demographic and Economics Schedule

**Castaic Lake Water Agency
Direct and Overlapping Governmental Activities Debt
At June 30, 2016**

| | <u>Debt Outstanding</u> | <u>Estimated Percentage Applicable⁽¹⁾</u> | <u>Estimated Share of Direct and Overlapping Debt</u> |
|--|-----------------------------|--|---|
| Overlapping Debt: | | | |
| Los Angeles County Flood Control District | 15,105,000 | 2.144% | 323,897 |
| Los Angeles County Sanitation District | <u>182,237,684</u> | <u>2.144%</u> | <u>3,907,723</u> |
| Total overlapping debt | | | 4,231,619 |
| Agency Governmental Activities Direct Debt | 302,569,937 | 100.000% | <u>302,569,937</u> |
| Total direct and overlapping debt | | | <u><u>306,801,556</u></u> |

2015/16 Assessed Valuation: \$38,035,414,735

| | | |
|-----------------------------------|------------------|-------|
| Debt to Assessed Valuation Ratios | Direct Debt | 0.80% |
| | Overlapping Debt | 0.01% |
| | Total Debt | 0.81% |

(1) Percentage of overlapping debt applicable to the Agency is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the overlapping agency's assessed value that is within the boundaries of the agency divided by the agency's total taxable assessed value.

Source: County of Los Angeles 2015 CAFR (2016 CAFR not available)

**Castaic Lake Water Agency
Debt Coverage
Last Ten Fiscal Years**

| Fiscal Year | Revenues ⁽¹⁾ | Expenses ⁽²⁾ | Net Available Revenues | Debt Service | | Total | Coverage Ratio |
|-------------|-------------------------|-------------------------|---------------------------|--------------------------|------------|------------|-------------------|
| | | | | Principal ⁽³⁾ | Interest | | |
| 2007 | \$ 52,489,442 | (11,295,585) | 41,193,857 | 7,015,000 | 12,724,001 | 19,739,001 | 2.09 |
| 2008 | 56,145,308 | (11,972,443) | 44,172,865 | 8,160,000 | 16,104,142 | 24,264,142 | 1.82 |
| 2009 | 57,708,489 | (13,105,488) | 44,603,001 | 9,405,000 | 14,965,694 | 24,370,694 | 1.83 |
| 2010 | 42,564,503 | (13,294,168) | 29,270,335 | 9,960,000 | 14,390,597 | 24,350,597 | 1.20 |
| 2011 | 42,636,122 | (14,792,961) | 27,843,161 | 9,865,000 | 12,174,725 | 22,039,725 | 1.26 |
| 2012 | 47,619,340 | (14,689,285) | 32,930,055 | 11,375,000 | 12,853,074 | 24,228,074 | 1.36 |
| 2013 | 53,922,687 | (16,598,339) | 37,324,348 | 11,980,000 | 12,229,120 | 24,209,120 | 1.54 |
| 2014 | 62,234,158 | (18,328,632) | 43,905,526 | 15,080,000 | 11,558,969 | 26,638,969 | 1.65 |
| 2015 | 52,254,188 | (20,508,624) | 31,745,564 | 12,471,250 | 10,251,000 | 22,722,250 | 1.40 |
| 2016 | 52,540,255 | (20,916,667) | 31,623,588 | 13,865,000 | 7,938,309 | 21,803,309 | 1.45 |

Notes: Debt Coverage for Governmental Activities.

(1) Per official statements, revenue pledged includes amounts collected from all sources except State Water Contract, Capital Project and Debt Service Funds.

(2) Expenses are General Fund expenditures only

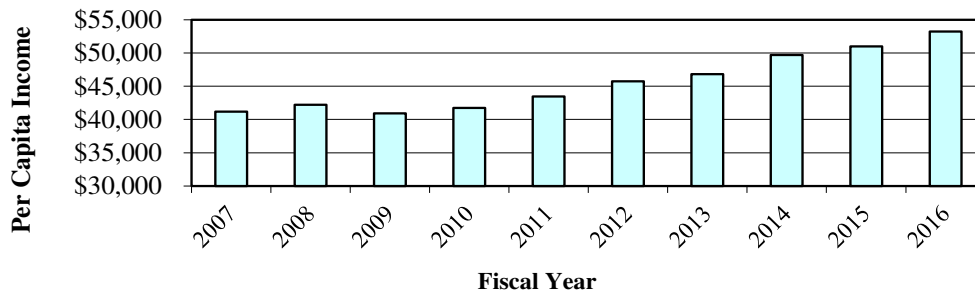
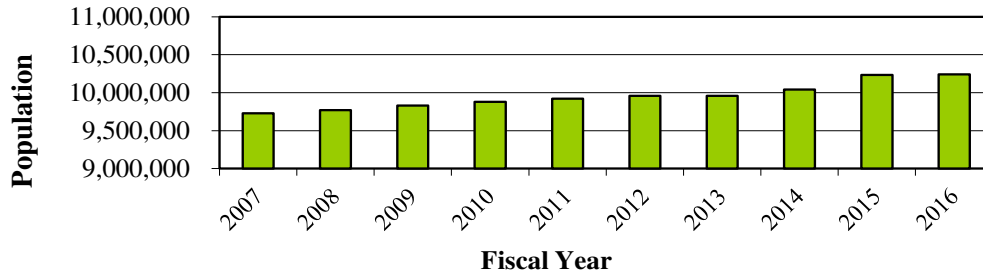
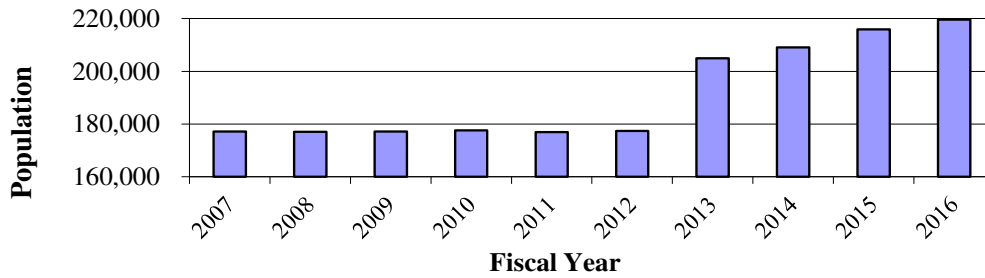
(3) Includes only normal principal payments (does not include payments as a result of refinancing or issuance of debt)

Source: Castaic Lake Water Agency audited financial statements

Castaic Lake Water Agency Demographic and Economic Statistics Last Ten Fiscal Years

County of Los Angeles⁽¹⁾

| Year | City of Santa Clarita Population | Unemployment Rate | Population | Personal Income (thousands of dollars) | Personal Income per Capita |
|------|----------------------------------|-------------------|------------|--|----------------------------|
| 2007 | 177,158 | 5.1% | 9,728,000 | 400,400,000 | 41,160 |
| 2008 | 177,045 | 7.5% | 9,771,500 | 412,600,000 | 42,225 |
| 2009 | 177,150 | 11.5% | 9,831,900 | 402,500,000 | 40,938 |
| 2010 | 177,641 | 12.6% | 9,880,600 | 412,200,000 | 41,718 |
| 2011 | 176,971 | 12.2% | 9,920,100 | 431,100,000 | 43,457 |
| 2012 | 177,445 | 10.9% | 9,959,800 | 455,800,000 | 45,764 |
| 2013 | 204,951 | 9.8% | 9,958,091 | 466,100,000 | 46,806 |
| 2014 | 209,130 | 8.3% | 10,041,797 | 499,200,000 | 49,712 |
| 2015 | 215,890 | 6.9% | 10,231,861 | 521,900,000 | 51,007 |
| 2016 | 219,611 | 6.2% | 10,241,335 | 545,100,000 | 53,225 |



Sources: Los Angeles County Economic Development Corporation (The Kyser Center for Economic Research)

Notes:

(1) Only County data is updated annually. Therefore, the Agency has chose to use its data since the Agency believes that the County data is representative of the conditions and experience of the Agency.

**Castaic Lake Water Agency
Principal Employers
Current and Four Fiscal Years Ago**

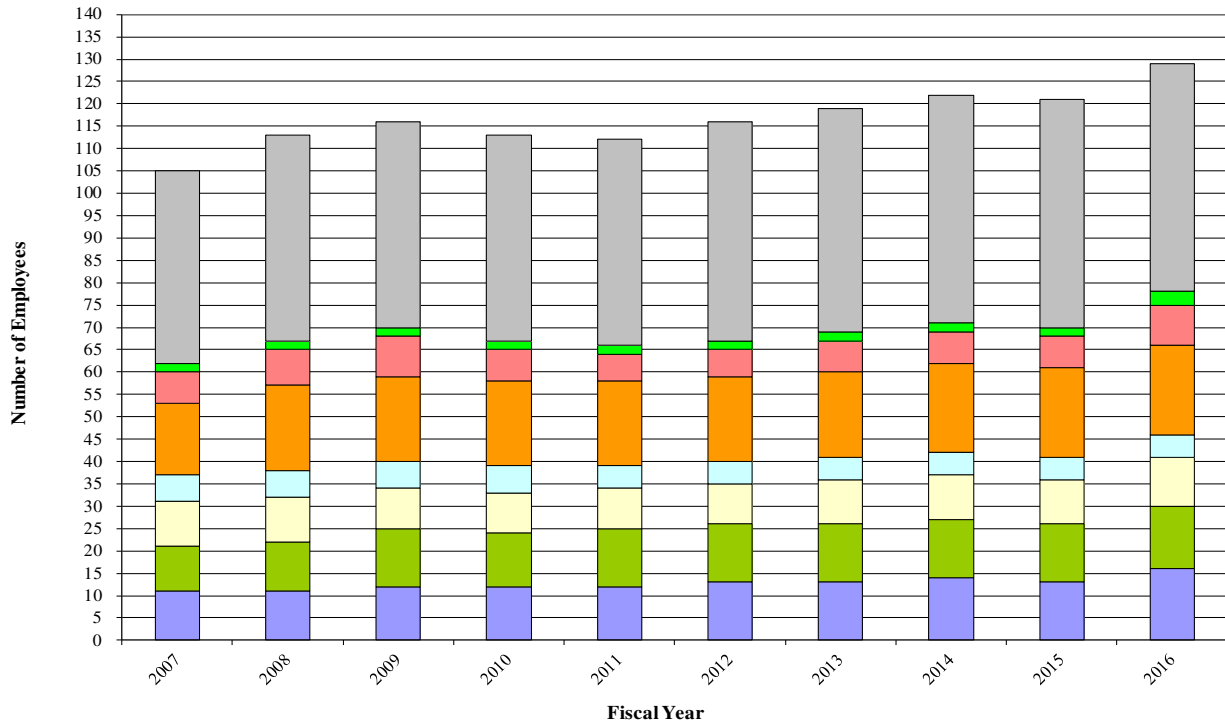
| | 2016 | | | 2012 | | |
|--|------------------------|------|-----------------------------------|------------------------|------|-----------------------------------|
| | Number of Employees | Rank | Percent of Total Employment | Number of Employees | Rank | Percent of Total Employment |
| Six Flags Magic Mountain | 3,200 | 1 | 11.35% | 3,800 | 1 | 16.28% |
| William S. Hart Union School District | 2,192 | 2 | 7.78% | 1,884 | 2 | 8.07% |
| Princess Cruises | 1,948 | 3 | 6.91% | 1,625 | 4 | 6.96% |
| College of the Canyons | 1,874 | 4 | 6.65% | 1,595 | 5 | 6.83% |
| Henry Mayo Newhall Memorial Hospital | 1,822 | 5 | 6.46% | 1,400 | 7 | 6.00% |
| Saugus Union School District | 1,682 | 6 | 5.97% | 1,840 | 3 | 7.88% |
| U.S. Postal Service | 1,010 | 7 | 3.58% | 1,459 | 6 | 6.25% |
| Quest Diagnostics (Specialty Laboratories) | 913 | 8 | 3.24% | 850 | 8 | 3.64% |
| Newhall School District | 813 | 9 | 2.88% | 827 | 9 | 3.54% |
| The Master's College | 760 | 10 | 2.70% | - | n/a | 0.00% |
| Total | 16,974 | | 60.22% | 16,092 | | 68.95% |
| All Others | 11,212 | | 39.78% | 7,248 | | 31.05% |
| Total employment in Santa Clarita | 28,186 | | 100.00% | 23,340 | | 100.00% |

Source: 2016 Economic & Real Estate Outlook - Santa Clarita Valley Economic Development Corporation (data for nine years ago not available)

Castaic Lake Water Agency Operating and Capacity Indicators Last Ten Fiscal Years

Agency Employees by Department

| Department | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|--------------------------------|------|------|------|------|------|------|------|------|------|------|
| Water Resources | 11 | 11 | 12 | 12 | 12 | 13 | 13 | 14 | 13 | 16 |
| Maintenance | 10 | 11 | 13 | 12 | 13 | 13 | 13 | 13 | 13 | 14 |
| Water Treatment Operations | 10 | 10 | 9 | 9 | 9 | 9 | 10 | 10 | 10 | 11 |
| Water Quality & Regul. Affairs | 6 | 6 | 6 | 6 | 5 | 5 | 5 | 5 | 5 | 5 |
| Administration | 16 | 19 | 19 | 19 | 19 | 19 | 19 | 20 | 20 | 20 |
| Engineering | 7 | 8 | 9 | 7 | 6 | 6 | 7 | 7 | 7 | 9 |
| Management | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 3 |
| Retail (Water Enterprise) | 43 | 46 | 46 | 46 | 46 | 49 | 50 | 51 | 51 | 51 |
| | 105 | 113 | 116 | 113 | 112 | 116 | 119 | 122 | 121 | 129 |



Other Operating and Capacity Indicators

| Fiscal Year | Water in Storage (AF) | State Water Purchased | Retail Division (Water Enterprise) | | | | | |
|-------------|-----------------------|-----------------------|------------------------------------|---------------------------|-------------------------------|----------------------|-------------------------|-----------------------------|
| | | | Service Connections | Average Consumption (MGD) | Maximum Storage Capacity (MG) | Miles of Water Mains | Number of Fire Hydrants | Number of Groundwater Wells |
| 2007 | 269,786 | 74,141 | 27,817 | 24 | 49 | 305 | 2,493 | 13 |
| 2008 | 297,804 | 49,549 | 28,071 | 25 | 79 | 305 | 2,923 | 13 |
| 2009 | 252,006 | 39,221 | 28,244 | 25 | 72 | 308 | 2,931 | 14 |
| 2010 | 249,928 | 34,610 | 28,457 | 22 | 72 | 310 | 2,942 | 14 |
| 2011 | 309,862 | 28,752 | 28,592 | 21 | 72 | 312 | 2,954 | 14 |
| 2012 | 299,104 | 33,316 | 28,829 | 22 | 72 | 315 | 2,964 | 14 |
| 2013 | 254,815 | 43,152 | 29,157 | 23 | 72 | 330 | 2,978 | 14 |
| 2014 | 154,266 | 31,315 | 29,999 | 24 | 76 | 330 | 2,984 | 14 |
| 2015 | 110,498 | 33,672 | 30,322 | 21 | 76 | 330 | 2,984 | 14 |
| 2016 | 244,749 | 24,897 | 30,918 | 18 | 76 | 340 | 3,034 | 14 |

AF - Acre feet
 MGD - Millions of Gallons per Day
 MG - Million Gallons
 N/A - Data not applicable or not available

Sources: Castaic Lake Water Agency Administration Department

Report on Internal Controls and Compliance



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**Independent Auditor's Report on Compliance on Internal Control 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
Castaic Lake Water Agency
Santa Clarita, 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 governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Castaic Lake Water Agency, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated November 1, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency'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.

**Independent Auditor's Report on Compliance on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards, Continued***

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Agency'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 audit, 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*.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Fedak & Brown LLP". The signature is written in a cursive, slightly slanted style.

Fedak & Brown LLP
Cypress, California
November 1, 2016