

AGENDA FOR A REGULAR MEETING OF THE BOARD OF DIRECTORS  
OF THE VALLECITOS WATER DISTRICT  
WEDNESDAY, DECEMBER 5, 2018, AT 5:00 P.M.  
AT THE DISTRICT OFFICE  
201 VALLECITOS DE ORO, SAN MARCOS, CALIFORNIA

CALL TO ORDER – PRESIDENT HERNANDEZ

PLEDGE OF ALLEGIANCE

OATH OF OFFICE – Administration of the Oath of Office to elected Board members James Hernandez (Division 2) and Craig Elitharp (Division 3) to fill the terms of Director ending in 2022.

ROLL CALL

In the case of an emergency, items may be added to the Agenda by a majority vote of the Board of Directors. An emergency is defined as a work stoppage; a crippling disaster; or other activity which severely imperils public health, safety, or both. Also, items which arise after the posting of the Agenda may be added by a two-thirds vote of the Board of Directors.

ADOPT AGENDA FOR THE REGULAR MEETING OF DECEMBER 5, 2018

PUBLIC COMMENT

Persons wishing to address a matter not on the Agenda may be heard at this time; however, no action will be taken until the matter is placed on a future agenda in accordance with Board policy. Public comments are limited to three minutes. A Request to Speak form is required to be submitted to the Executive Secretary prior to the start of the meeting, if possible. Public comment should start by stating name, address and topic. The Board is not permitted during this time to enter into a dialogue with the speaker.

NOTICE TO THE PUBLIC

All matters listed under the Consent Calendar will be voted upon by one motion. There will be no separate discussion of these items, unless a Board member or member of the public requests that a particular item(s) be removed from the Consent Calendar, in which case it will be considered separately under Action Items.

CONSENT CALENDAR

1.1 APPROVAL OF MINUTES (pp. 5-12)

- A. FINANCE/INVESTMENT COMMITTEE MEETING - NOVEMBER 19, 2018
- B. CLOSED SESSION BOARD MEETING – NOVEMBER 21, 2018
- C. REGULAR BOARD MEETING – NOVEMBER 21, 2018

*Approved minutes become a permanent public record of the District.*

**Recommendation:            Approve Minutes**

- 1.2 WARRANT LIST THROUGH DECEMBER 5, 2018 – \$3,993,317.65 (pp. 13-14)

**Recommendation: Approve Warrant List**

- 1.3 NORTH TWIN OAKS TANK NO. 1 REFURBISHMENT (pp. 15-17)

*The existing interior lining and exterior coating have deteriorated and require full refurbishment.*

**Recommendation: Approve Purchase Order**

- 1.4 AWARD OF CONSTRUCTION CONTRACT FOR THE OSHA COMPLIANT LADDER CLIMB SAFETY SYSTEMS (pp. 18)

*The District's above ground steel water tanks have fixed ladder climb systems which are no longer in compliance with current OSHA safety regulations.*

**Recommendation: Award Purchase and Installation of OSHA Compliant Ladder Climb Safety Systems**

\*\*\*\*\*END OF CONSENT CALENDAR\*\*\*\*\*

ACTION ITEMS

- 2.1 EMERALD HEIGHTS HOMEOWNERS ASSOCIATION WATER SERVICE CONCERNS (pp. 19-22)

*The Emerald Heights Homeowners Association has asked for the District's assistance in reducing irrigation costs, water meter relocations, and brush and road maintenance responsibilities.*

**Recommendation: Authorize General Manager to approve agreement with Emerald Heights Homeowners Association**

- 2.2 FISCAL YEAR 2017/2018 ANNUAL AUDIT REPORT (pp. 23-94)

*Annual audit of the District's financial statements.*

**Recommendation: Accept the FY 2017/18 audited financial statements**

- 2.3 ANNUAL BOARD TRANSITION (pp. 95-102)

*Ordinance No. 203 provides guidance on the annual Board reorganization.*

**Recommendation: Consider and appoint the incoming President and Vice President**

2.4 COMMITTEE APPOINTEES AND REPRESENTATIVES (pp. 103-104)

*Annual Board appointments for 2019.*

**Recommendation: Appoint Officers and Agency Representatives**

2.5 APPROVAL OF GENERAL MANAGER'S EMPLOYMENT AGREEMENT  
(pp. 105-113)

*On November 21, 2016, the District entered into an employment agreement with Mr. Glenn Pruum for the position of General Manager.*

**Recommendation: Approve General Manager's employment agreement**

\*\*\*\*\*END OF ACTION ITEMS\*\*\*\*\*

REPORTS

3.1 GENERAL MANAGER

3.2 DISTRICT LEGAL COUNSEL

3.3 SAN DIEGO COUNTY WATER AUTHORITY

3.4 ENCINA WASTEWATER AUTHORITY  
- *Capital Improvement Committee*  
- *Policy and Finance Committee*

3.5 STANDING COMMITTEES

3.6 DIRECTORS REPORTS ON MEETINGS/CONFERENCES/SEMINARS  
ATTENDED

\*\*\*\*\*END OF REPORTS\*\*\*\*\*

OTHER BUSINESS

4.1 MEETINGS

**CalDesal Annual Conference**

February 7 – 8, 2019 – DoubleTree Golf Resort, Cathedral City, CA

\*\*\*\*\*END OF OTHER BUSINESS\*\*\*\*\*

5.1 DIRECTORS COMMENTS/FUTURE AGENDA ITEMS

\*\*\*\*\*END OF DIRECTORS COMMENTS/FUTURE AGENDA ITEMS\*\*\*\*\*

6.1 ADJOURNMENT

\*\*\*\*\*END OF AGENDA \*\*\*\*\*

If you have any disability which would require accommodation in order to enable you to participate in this meeting, please call the Executive Secretary at 760.744.0460 ext. 264 at least 48 hours prior to the meeting.

Audio and video recordings of all Board meetings are available to the public at the District website [www.vwd.org](http://www.vwd.org)

AFFIDAVIT OF POSTING

I, Diane Posvar, Executive Secretary of the Vallecitos Water District, hereby certify that I caused the posting of this Agenda in the outside display case at the District office, 201 Vallecitos de Oro, San Marcos, California by 5:00 p.m., Friday, November 30, 2018.

\_\_\_\_\_  
Diane Posvar

MINUTES OF A MEETING OF THE  
FINANCE/INVESTMENT COMMITTEE  
OF THE VALLECITOS WATER DISTRICT  
MONDAY, NOVEMBER 19, 2018 AT 4:00 P.M.  
AT THE DISTRICT OFFICE, 201 VALLECITOS DE ORO,  
SAN MARCOS, CALIFORNIA

Director Martin called the meeting to order at the hour of 4:05 p.m.

Present:                    Director Martin  
                              Director Sannella  
                              General Manager Pruum  
                              Finance Manager Owen  
                              Accounting Supervisor Glenn  
                              Administrative Secretary Johnson

Others Present:        Shannon Ayala, DavisFarr LLP

ITEM(S) FOR DISCUSSION

FISCAL YEAR 2017/2018 AUDIT

Shannon Ayala of DavisFarr LLP, the District's auditing firm, facilitated a presentation on the District's draft audit result for the fiscal year ended June 30, 2018 as follows:

- Audit Reports
- Internal Controls
- Audit Results
- Compliance Results
- Areas of Audit Focus
  - Information Systems Testing
  - Other Post Employment Benefit Obligations
  - Utility Billing Testing

Ms. Ayala stated DavisFarr LLP will be issuing an unmodified opinion dated November 27, 2018 which is the highest level of opinion available for an audit. She reviewed the Independent Auditor's Report which included recommendations in three areas: system controls over adding new vendors, enhancement to IT controls to periodically review inactive user accounts, and prior period adjustment related to construction in progress.

General discussion took place regarding the auditor's recommendations.

Ms. Ayala stated no material audit adjustments were detected during the audit; however, she reviewed a few immaterial audit adjustments that were made. The minor immaterial adjustments included adjusting the Local Agency Investment Fund investments to reflect fair market value, reclassifying an amount designated as "due to other agencies" that was no longer due, an adjustment to receivables to expense the

recycled water business plan, and the removal of inventory related to a capital asset. Staff proactively made the adjustments to the audit rather than addressing them later in the current year.

General discussion took place during which Director Martin requested additional information on the recycled water business plan.

Finance Manager Owen provided a presentation on the draft Audited Financial Report which included the following:

- Contents
- Financial Highlights
- Current Year to Prior Year Analysis
  - Net Position
  - Revenues
  - Expenses
- Restrictions, Commitments and Limitations
- Capital Assets
- Next Year's Budget and Rates

Question and answer took place during the presentation. Director Sannella requested information on the average increase for customers in the District's pump zones. Staff will research and provide this information.

General Manager Pruim stated that he anticipates the final audit result will be presented to the full Board at the December 5 Board meeting.

The consensus of the Committee was to hold a kick-off meeting with the auditing firm prior to the start of each audit to discuss any areas the Committee would like the auditors to delve deeper into. This is something that was done with the previous auditors but was not done this year.

#### OTHER BUSINESS

None.

#### PUBLIC COMMENT

None.

#### ADJOURNMENT

There being no further business to discuss, the meeting was adjourned at the hour of 5:05 p.m.

MINUTES OF A CLOSED SESSION MEETING  
OF THE BOARD OF DIRECTORS  
OF THE VALLECITOS WATER DISTRICT  
WEDNESDAY, NOVEMBER 21, 2018, AT 3:30 PM AT THE DISTRICT OFFICE,  
201 VALLECITOS DE ORO, SAN MARCOS, CALIFORNIA

President Hernandez called the Closed Session meeting to order at the hour of 3:30 p.m.

Director Sannella led the pledge of allegiance.

Present: Director Elitharp  
Director Martin  
Director Sannella  
Director Hernandez

Absent: Director Evans

Staff Present: General Manager Pruiam  
General Counsel Nicholas Norvell  
Labor Counsel Alison Alpert  
Executive Secretary Posvar

ADOPT AGENDA FOR THE CLOSED SESSION MEETING OF NOVEMBER 21, 2018

18-11-09 MOTION WAS MADE by Director Martin, seconded by Director Sannella, and carried unanimously, with Director Evans absent, to adopt the agenda for the Closed Session Meeting of November 21, 2018.

PUBLIC COMMENT

None.

CLOSED SESSION

CLOSED SESSION PURSUANT TO GOVERNMENT CODE SECTION 54957 – PUBLIC EMPLOYEE PERFORMANCE EVALUATION – GENERAL MANAGER

CLOSED SESSION PURSUANT TO GOVERNMENT CODE SECTION 54957.6

Negotiators: General Counsel Nicholas Norvell and Labor Counsel Alison Alpert;  
Unrepresented Employee: General Manager Glenn Pruiam

18-11-10 MOTION WAS MADE by Director Martin, seconded by Director Elitharp, and carried unanimously, with Director Evans absent, to move into Closed Session pursuant to Government Code Sections 54957 and 54957.6.

REPORT AFTER CLOSED SESSION

The Board reconvened to Open Session at the hour of 4:17 p.m. There was no reportable action from the Closed Session meeting.

ADJOURNMENT

There being no further business to discuss, President Hernandez adjourned the Closed Session Meeting of the Board of Directors at the hour of 4:18 p.m.

A Regular Meeting of the Vallecitos Water District Board of Directors has been scheduled for Wednesday, November 21, 2018 at 5:00 p.m. at the District office, 201 Vallecitos de Oro, San Marcos, California.

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James Hernandez, President  
Board of Directors  
Vallecitos Water District

ATTEST:

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Glenn Pruim, Secretary  
Board of Directors  
Vallecitos Water District



MINUTES OF A REGULAR MEETING OF THE BOARD OF DIRECTORS  
OF THE VALLECITOS WATER DISTRICT  
WEDNESDAY, NOVEMBER 21, 2018, AT 5:00 PM AT THE DISTRICT OFFICE,  
201 VALLECITOS DE ORO, SAN MARCOS, CALIFORNIA

President Hernandez called the Regular meeting to order at the hour of 5:00 p.m.

President Hernandez led the pledge of allegiance.

Present: Director Elitharp  
Director Evans  
Director Martin  
Director Sannella  
Director Hernandez

Staff Present: General Manager Pruiam  
Legal Counsel Norvell  
District Engineer Gumpel  
Finance Manager Owen  
Executive Secretary Posvar

ADOPT AGENDA FOR THE REGULAR MEETING OF NOVEMBER 21, 2018

18-11-11 MOTION WAS MADE by Director Martin, seconded by Director Sannella, and carried unanimously, to adopt the agenda for the Regular Board Meeting of November 21, 2018.

PUBLIC COMMENT

Mike Hunsaker, member of the public, addressed the Board regarding a meeting he attended in San Diego on new development that is occurring in the city of San Diego. It was a small community group meeting with over 200 citizens in attendance. The citizens were protesting and extremely angry at the amount of over development and the manner in which it is going in. The problems we face are not as apparent to the citizens but are coming up already in schools and will come up with water, particularly since our Colorado River water is threatened. He believes we should re-examine this issue which we are doing very carefully in our EIR. He thanked the Board.

CONSENT CALENDAR

18-11-12 MOTION WAS MADE by Director Martin, seconded by Director Evans, and carried unanimously, to approve the Consent Calendar as presented.

1.1 Approval of Minutes

- A. Finance/Investment Committee Meeting – October 30, 2018
- B. Closed Session Board Meeting – November 7, 2018
- C. Regular Board Meeting – November 7, 2018

1.2 Warrant List through November 21, 2018 - \$1,068,304.23

1.3 Financial Reports

- A. Water Meter Count – October 31, 2018
- B. Water Production/Sales Report – 2018/2019
- C. Per Capita Water Consumption – October 31, 2018
- D. Water Revenue and Expense Report – October 31, 2018
- E. Sewer Revenue and Expense Report – October 31, 2018
- F. Reserve Funds Activity – October 31, 2018
- G. Investment Report – October 31, 2018

Mike Hunsaker, member of the public, addressed the Board stating he found the committee meeting on finance very instructive and interesting that the consultant was well aware of questions about rate inversion and fairly optimistic on financial prospects but duly cautious. There is more and more growing evidence of the coming recession in 2020 along with the probable loss of some of our water rights in January 2020 according to the Bureau of Reclamation's estimation. He is particularly concerned about and interested in the observation that the state has decided to remove a lot of safeguards on ratings. There is increasing support for corporate investment. Almost 43% of our investment portfolio is not rated. Since we're looking at a possible problem in less than two years, the maturities of investments over two years is becoming completely suspect. He believes the non-rated investments should be carefully watched, particularly in the automotive industry. He thanked the Board.

#### ACTION ITEM

#### TEMPORARY EXTENSION OF EMPLOYMENT AGREEMENT BETWEEN VALLECITOS WATER DISTRICT AND GENERAL MANAGER

General Manager Pruiim stated that today is his two-year anniversary with the District as well as the last day of his employment agreement. Negotiations for a new agreement are currently underway and are anticipated to be completed for the Board's consideration at the December 5 Board meeting. In the meantime, the current agreement needs to be extended.

General Manager Pruiim recommended the current agreement be extended to December 19, 2018 as referenced in the staff report and not January 16, 2019 as stated in the agreement extension that was provided to the Board.

Legal Counsel Norvell stated for the record pursuant to the Brown Act, if the

employment agreement is extended, there would be no change in compensation or benefits for the period of the extension; those items would continue as in the current agreement.

18-11-13 MOTION WAS MADE by Director Sannella, seconded by Director Evans, and carried unanimously, to approve the extension of the employment agreement with the ending date of the agreement changed to December 19, 2018.

REPORTS

GENERAL MANAGER

None.

DISTRICT LEGAL COUNSEL

None.

SAN DIEGO COUNTY WATER AUTHORITY

None.

ENCINA WASTEWATER AUTHORITY

President Hernandez stated the Capital Improvement Committee will meet on December 5.

Director Elitharp stated the Policy and Finance Committee will meet on December 4.

STANDING COMMITTEES

Director Martin stated the Finance/Investment Committee met on November 19 at which the Committee heard a presentation on the draft Fiscal Year 2017/2018 Financial Statements.

DIRECTORS REPORTS ON TRAVEL/CONFERENCES/SEMINARS ATTENDED

Directors Martin, Sannella and Hernandez reported on their attendance to the California Special Districts Association (CSDA) San Diego Chapter quarterly dinner meeting.

OTHER BUSINESS

None.

DIRECTORS COMMENTS/FUTURE AGENDA ITEMS

President Hernandez inquired when the Board will be receiving a report on the hillside property adjacent to the District headquarters. General Manager Pruim stated it will be addressed at the December 5 Closed Session Board meeting.

Director Martin stated he will be contacting each Board member regarding appointments for 2019.

ADJOURNMENT

There being no further business to discuss, President Hernandez adjourned the Regular Meeting of the Board of Directors at the hour of 5:15 p.m.

A Regular Meeting of the Vallecitos Water District Board of Directors has been scheduled for Wednesday, December 5, 2018, at 5:00 p.m. at the District office, 201 Vallecitos de Oro, San Marcos, California.

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James Hernandez, President  
Board of Directors  
Vallecitos Water District

ATTEST:

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Glenn Pruim, Secretary  
Board of Directors  
Vallecitos Water District

VALLECITOS WATER DISTRICT  
WARRANTS LIST  
December 5, 2018

PAYEE	DESCRIPTION	CHECK#	AMOUNT
CHECKS			
Garnishments	Payroll Garnishments	115101 through	-
ACWA/Joint Powers Insurance	Group Insurance Dec	115104	203,384.31
Airgas USA LLC	Cylinder Rental	115105	112.67
Altman Specialty Plants Inc	Succulents - 352 Prj 20191-26	115106	500.65
American Water Works Assn	2019 Membership Dues	115107	3,904.00
AP Technology LLC	MICR Ink Cartridges 2	115108	667.01
Aqua-Metric Sales Co	Gaskets 100	115109	211.19
ASAP Drain Guys & Plumbing	Plumbing Svcs - Lobby Restroom & Water Heater Line	115110	945.00
AT&T	Internet Svc Nov	115111	64.25
Backflow Solutions, Inc.	Backflow Test Qty 233	115112	3,017.35
Bentley Systems Inc	Water & Sewer GEMS Subscription FY 18-19	115113	11,193.75
Big Frog Custom T-Shirts & More	Uniform T-Shirts 280, Water Academy Shirts - 18 Prj 20191-503	115114	4,217.35
Billie Couthlin	Closed Account Refund	115115	12.70
Black & Veatch Corporation	Water/Sewer Master Plan Prj 20141-3	115116	3,909.12
Boncor Water Systems	Soft & Drinking Water Svc Nov	115117	1,726.00
Brady Sand & Material Inc	Rock & Cold Mix	115118	699.51
Brookfield Residential	Closed Account Refund	115119	233.41
Calolympic Safety	Chlorine Monitor - Hazmat Trailer	115120	446.50
Cass Construction Inc	Emergency Repair - 21" Main Break Rancho Santa Fe & San Marcos Blvd	115121	391,726.81
CDW Government Inc	UPS Battery, Threat Protection Svc - 200 Endpoints & 1 Year Support	115122	9,683.98
Christian Wheeler Engineering	Water Ops Locker Room Prj 20161-5	115123	760.00
Core Logic Information Solutions Inc	Real Quest Svc - Engineering Map Oct	115124	206.00
Corodata Media Storage Inc	Backup Storage Tape Oct	115125	193.28
County of San Diego	Recording Fees Oct	115126	0.96
Crew Builders, Inc.	Water Ops Locker Room Prj 20161-5	115127	102,546.49
CWC Rancho Coronado 71, LLC	Closed Account Refund	115128	246.21
Doane & Hartwig Water Systems Inc	Chlorine Analyzer Parts - MRF	115129	1,025.39
Dept of Industrial Relations - State of CA	OSHA Inspection Fee	115130	1,050.00
Desert Pumps & Parts	Rotor & Stater Pump 3 - MRF	115131	4,096.77
DirecTV Inc	Satellite Svc Nov	115132	117.24
Dudek	North & South Pressure Reducing Stations Prj 20141-7 & 8	115133	2,480.00
Electrical Sales Inc	Sconce Ballasts 6 - Bldg A, Hardware Supplies	115134	716.48
Eva Renteria	Closed Account Refund	115135	49.25
Ferguson Enterprises, Inc	Gate Valves 4, Plumbing Supplies	115136	3,148.34
Fleetpride	Hardware Supplies	115137	110.32
G & R Auto & Truck Repair Inc	Repairs Veh 213	115138	5,474.15
Grainger Inc	Sump Pump Parts, Hand Soap, Kneeling Pads, Hardware Supplies	115139	1,307.64
Hach Company	Water Quality Supplies	115140	1,434.15
Hallmark Communities	Closed Account Refund	115141	239.38
Harper & Associates Inc	Schoolhouse Tank Prj 20181-3	115142	1,660.00
Hawthorne Machinery Co.	Hardware Supplies	115143	562.12
Helen M. Gyurko	Closed Account Refund	115144	70.03
James R Hernandez	CSDA Meeting 11-15-18	115145	30.60
Huntington & Associates, Inc.	Replacement Cla Val Parts - 36	115146	1,260.10
Interstate Batteries	Marine Batteries 2	115147	519.09
Janine Kunin & Evy Fredy	Closed Account Refund	115148	66.65
Jeff Katz	Water Ops Locker Room Prj 20161-5	115149	1,272.00
Jim Hernandez	Refund Prj Bal 20161-104	115150	5,149.28
Jim Kaznarek & Angela Moskovis	Closed Account Refund	115151	49.34
JCI Jones Chemicals Inc	Chlorine	115152	2,043.21
Kennedy/Jenks Consultants	San Marcos Interceptor Prj 71004	115153	1,879.55
Knight Security & Fire Systems	Motion Detector Svc - MRF	115154	370.00
Lloyd Pest Control	Pest Control Svc Oct	115155	1,240.00
Mallory Safety & Supply, LLC	Safety Supplies	115156	2,640.54
Manpower Temp Services	Customer Service Rep Week Ending 10-28-18 & 11-4-18	115157	1,465.44
Matheson Tri-Gas Inc	Cylinder Rental	115158	53.64

VALLECITOS WATER DISTRICT  
WARRANTS LIST  
December 5, 2018

PAYEE	DESCRIPTION	CHECK#	AMOUNT
Mike Sannella	COWU Meeting 10-16-18. CSDA Meeting 11-15-18	115159	48.69
Municipal Information Technology Association	Application Fee - IT Award Program	115160	25.00
Morton Salt, Inc.	Industrial Salt	115161	3,641.25
National Auto Fleet Group	10 Wheel Dump Truck Prj 20181-28	115162	159,620.85
Ostari Inc	IT Support Nov	115163	3,000.00
Pacific Safety Center	Respirator Fit Test Training - 9-25-18	115164	1,295.00
Penco, Inc.	Sulfend RT	115165	20,722.19
Peter Nikula	Closed Account Refund	115166	72.24
Petty Cash Custodian	Petty Cash	115167	733.14
Plumbers Depot Inc	Hardware Supplies	115168	385.49
Pollard Water	Flushing Dechlorinator Tablets & Dechlorinator - Water Quality	115169	2,032.13
Recycled Aggregate Materials Co Inc	Concrete Recycling	115170	225.00
Ramona Paving & Construction Corp	Closed Account Refund	115171	578.12
Rely Environmental	Fuel Island Maintenance	115172	175.00
Rusty Wallis Inc	Deionized Water System Svc MRF	115173	537.96
SDG&E	Power Oct	115174	44,577.27
San Diego Refrigeration	Ice Machine Cleaning & Repair	115175	654.30
Sandra & Michael Miller	Closed Account Refund	115176	71.00
Schmidt Fire Protection Co Inc	Semiannual Sprinkler Inspection, Quarterly Sprinkler Maintenance	115177	1,407.00
Standard Insurance Company	LIFE, LTD & ADD Insurance Dec	115178	6,520.46
Susan & Roger Sherman	Closed Account Refund	115179	87.61
T.S. Industrial Supply	Marking Paint, Shovels	115180	526.16
Thomas & Nancy Chalmers	Closed Account Refund	115181	119.87
Tuff Shed Inc	Mountain Bell Tank Prj 20191-10	115182	2,253.16
Unifirst Corporation	Uniform Delivery	115183	1,405.57
Univar USA Inc	Sodium Hypo Liquichlor, Caustic Soda, Sodium Bisulfite	115184	5,701.78
Valvate Associates	Valves 2 - MRF	115185	511.87
Verizon Wireless	Cell Phone Svc Oct	115186	2,260.66
Viasat Inc	Internet Svc Oct & Nov	115187	201.52
West Consultants, Inc.	Southlake Dam & Mahr Reservoir Inundation Studies	115188	4,134.50
Williams Seals	Check Valve Parts - Reclaim/Effluent Pumps - Mahr	115189	2,818.69
Xerox Corporation	Copier Lease - Sept & Oct	115190	5,355.28
Total Disbursements (87 Checks)			<u>1,053,887.96</u>
 WIRES			
San Diego County Water Authority	October Water Bill	Wire	2,505,006.50
Public Employees Retirement System	Retirement Contribution - November 21, 2018 Payroll	Wire	71,721.42
Total Wires			<u>2,576,727.92</u>
 PAYROLL			
Total direct deposits		Wire	236,681.61
VWD Employee Association		115101	612.00
Garnishments		115102 through 115103	607.83
IRS	Federal payroll tax deposits	Wire	88,419.25
Employment Development Department	California payroll tax deposit	Wire	17,231.79
CalPERS	Deferred compensation withheld	Wire	13,876.26
VOYA	Deferred compensation withheld	Wire	5,273.03
Total November 21, 2018 Payroll Disbursements			<u>362,701.77</u>
TOTAL DISBURSEMENTS			<u>3,993,317.65</u>

**DATE: DECEMBER 5, 2018**  
**TO: BOARD OF DIRECTORS**  
**SUBJECT: NORTH TWIN OAKS TANK NO. 1 REFURBISHMENT**

**BACKGROUND:**

The existing interior lining and exterior coating of the 0.6 Million Gallon (MG) tank have deteriorated and require full refurbishment. This project will remove the interior lining and exterior coating and install new linings and coatings. Due to the age of the tank (built in 1961) and level of deterioration, repairs to the ceiling rafters or replacement may be necessary as well as upgrades to the safety and cathodic protection equipment to meet California Division of Occupational Safety and Health standards (Cal/OSHA). These upgrades will be designed to meet current American Water Works Association (AWWA) and Cal/OSHA standards.

**DISCUSSION:**

The District requested a proposal for design and inspection services from Harper & Associates Engineering (HAE) due to their past experience with District facilities. HAE is currently under contract for As-Needed Engineering services for Reservoir Corrosion/Inspection and Design.

**FISCAL IMPACT:**

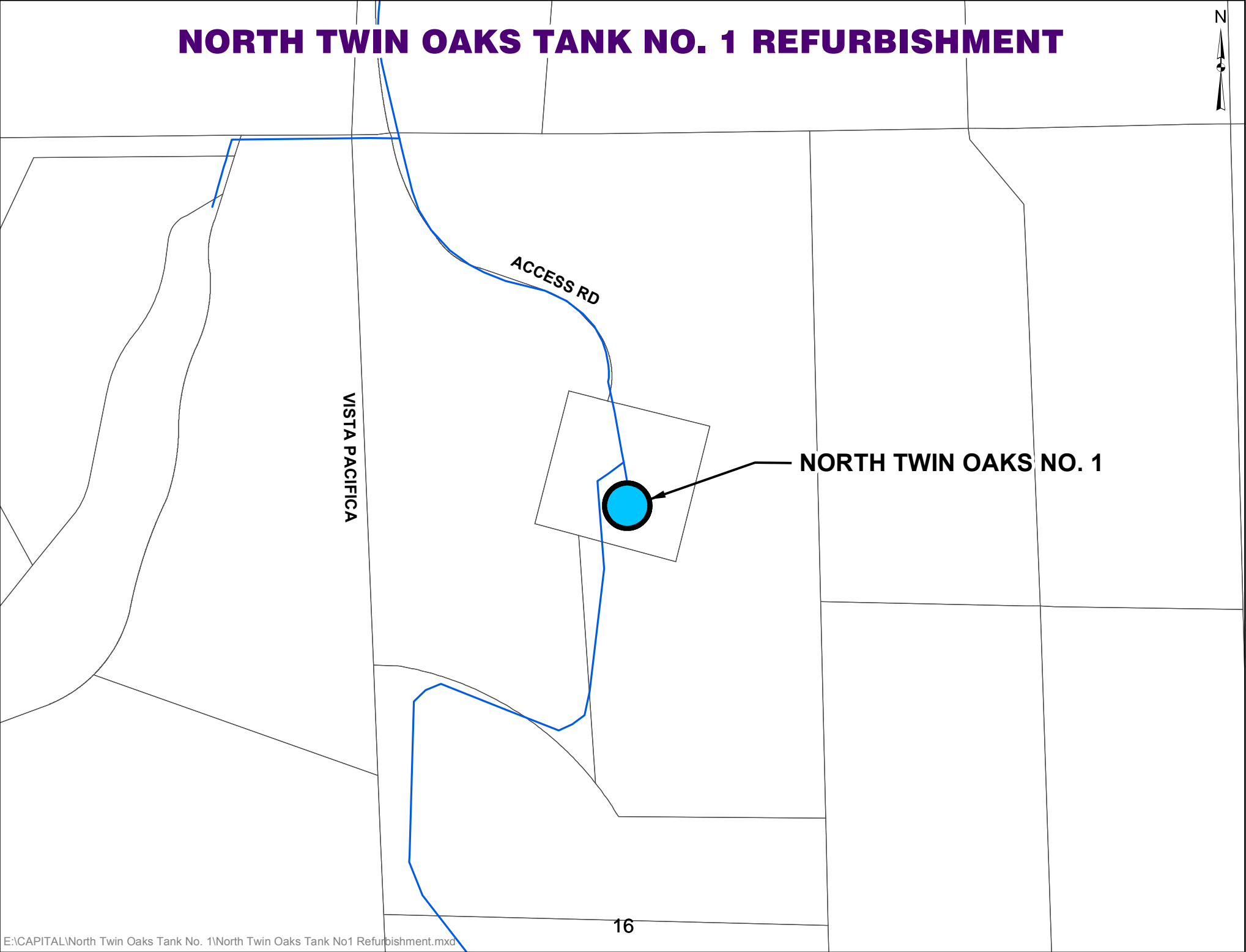
The project budget is as follows:

Budget	\$425,000
Construction (Estimated)	\$250,000
Change Order (10%)	\$ 25,000
Design/Inspection Consultant	\$ 54,415
Staff	\$ 25,500
Overhead	<u>\$ 55,845</u>
Total	\$410,760

**RECOMMENDATION:**

Approve a purchase order for Harper & Associates Engineering in the amount of \$54,415 for the North Twin Oaks Tank No. 1 Refurbishment design and inspection.

# NORTH TWIN OAKS TANK NO. 1 REFURBISHMENT





# NORTH TWIN OAKS TANK NO. 1 REFURBISHMENT



ACCESS RD

VISTA PACIFICA

NORTH TWIN OAKS NO. 1



**DATE: DECEMBER 5, 2018**  
**TO: BOARD OF DIRECTORS**  
**SUBJECT: AWARD OF CONSTRUCTION CONTRACT FOR THE OSHA COMPLIANT LADDER CLIMB SAFETY SYSTEMS**

**BACKGROUND:**

The District's above ground steel water tanks have fixed ladder climb systems which are no longer in compliance with current OSHA safety regulations. District staff and contractors use these systems to access the top of the tanks to perform inspections and maintenance on the structures. The District has reached out to certified safety contractors for this type of work in order to evaluate what will be required to bring the ladder climb systems up to current standards. The work may include adding additional connection points to the top of the tanks, as well as at the transition from the ladder to the top of the tank. We have 17 tanks in the distribution system that require retrofitting.

**DISCUSSION:**

District staff requested quotes for the purchase and installation of ladder climb systems that meet the current safety standards from three certified safety contractors. Only two companies responded. The bid results are as follows:

**Bidder**

Versatile Systems	\$165,819.87
CAI Safety Systems	\$233,863.00

Staff completed the evaluation of qualifications and determined that Versatile Systems was the lowest responsive, responsible bidder. Construction management will be performed by District staff.

**FISCAL IMPACT:**

Funds were included in the 2018/19 Fiscal Budget and the estimated cost and budget summary is as follows:

Budget	\$200,000
Purchase and Installation	\$165,819.87
Staff & Overhead	<u>\$ 18,912.33</u>
Total	\$184,732.20
Budget Surplus	\$ 15,267.80

**RECOMMENDATION:**

Award the purchase and installation of the OSHA Compliant Ladder Climb Safety Systems to Versatile Systems in the amount of \$165,819.87, subject to provisions of the contract.

**DATE: DECEMBER 5, 2018**  
**TO: BOARD OF DIRECTORS**  
**SUBJECT: EMERALD HEIGHTS HOMEOWNERS ASSOCIATION WATER SERVICE CONCERNS**

**BACKGROUND:**

The Emerald Heights Homeowners Association (EHHOA) has approached the District regarding water rate increases, water meter relocations, and brush and road maintenance responsibilities. They have asked for the District's help with the following items:

- 1) Reducing the impact of District rate increases over the past 3 years have on the EHHOA's irrigation costs. The EHHOA currently owns 21 irrigation meters that service 63 acres of landscaping.
- 2) Road maintenance responsibilities in an existing easement that the District operators utilize to access the Richland potable water tanks.
- 3) Brush maintenance activities on the existing access easement to the Richland potable water tanks.
- 4) Maintenance and repair of an access gate that links to the High Point Development on the north end of Emerald Heights.

**DISCUSSION:**

These above-mentioned items were discussed with the Board of Directors during its November 7, 2018 regular meeting. Mr. Dan Cannon, president of the EHHOA, as well as Ms. Tesla DuBois, representative for the EHHOA, were also present and part of the discussion. No formal recommendation was made by staff. Instead, staff intended to present the background and information on each of the above-mentioned items, give the EHHOA an opportunity to present their side, and determine interest from the Board on participating in any or all items.

After hearing from staff and the EHHOA, the Board expressed their interest to find amicable solutions for each item and directed staff to gather additional information on costs and level of efforts needed to resolve them. The following discussion summarizes staff's findings:

1) Reducing EHHOA's irrigation costs:

An analysis by staff shows that swapping four of the EHHOA's smaller 1 ½-inch meters with larger 2-inch meters could potentially reduce the amount of water being charged at the highest tier 3 rates. Mr. Cannon requested that the District perform these meter swaps. The District can perform six of the eight meter exchanges for approximately \$2,450.87 per meter. However, staff has discovered that two of the service lines from the water meter to the water main would need to be upsized to handle the demands of the bigger 2-inch meters. District construction personnel have estimated the cost of these two meter exchanges at \$9,168.30 and

\$12,686.30, mainly for the work involved in re-laying the new service lines. This brings the total estimated cost for the meter exchanges to \$36,559.82.

After discussing the costs with the EHHOA, the EHHOA requested that the District allow the continued use of the undersized service lines with the larger 2-inch meters. The EHHOA would agree to reimburse the District its costs for repairing these service lines if they break in the future. This would reduce the total estimated cost for the meter exchanges to approximately \$19,606.96, of which \$11,309.76 is for District labor and overhead.

2) Road maintenance responsibilities:

The looped easement road (see attached figure) is utilized by District staff to access the Richland tanks properties for inspection and testing approximately three days each week. The road is also used to a lesser frequency by landscape contractors employed by the EHHOA and cellular companies that have equipment both on the District's Richland tanks and the EHHOA properties, and a portion of the road is utilized by the Vista Irrigation District to access their Vista Flume pipeline. Mr. Cannon inquired if the District was willing to participate in a 50/50 split on the repair and slurry sealing of this road. The EHHOA has received a quote in the amount of \$9,387.00 for the slurry seal. Staff could support a one-time only contribution to the road slurry seal not-to-exceed \$4,693.50.

3) Brush maintenance activities:

The District performs brush abatement when needed to secure access through and to keep habitat from overtaking its easements. Mr. Cannon asked if the District could remove brush that is encroaching in the looped easement road and perform the maintenance on an annual basis. Staff could support performing a brush clearing event during the 2019 calendar year; however, the staff would not recommend that the District commit to an annual maintenance of the looped easement road. District staff would continue to clear the easement as needed to ensure access by District vehicles and equipment. The timing of the initial clearing will depend on the availability of the work crews that routinely perform District easement vegetation clearing. The availability of these crews is currently being impacted by the wildfires that have impacted California in recent months.

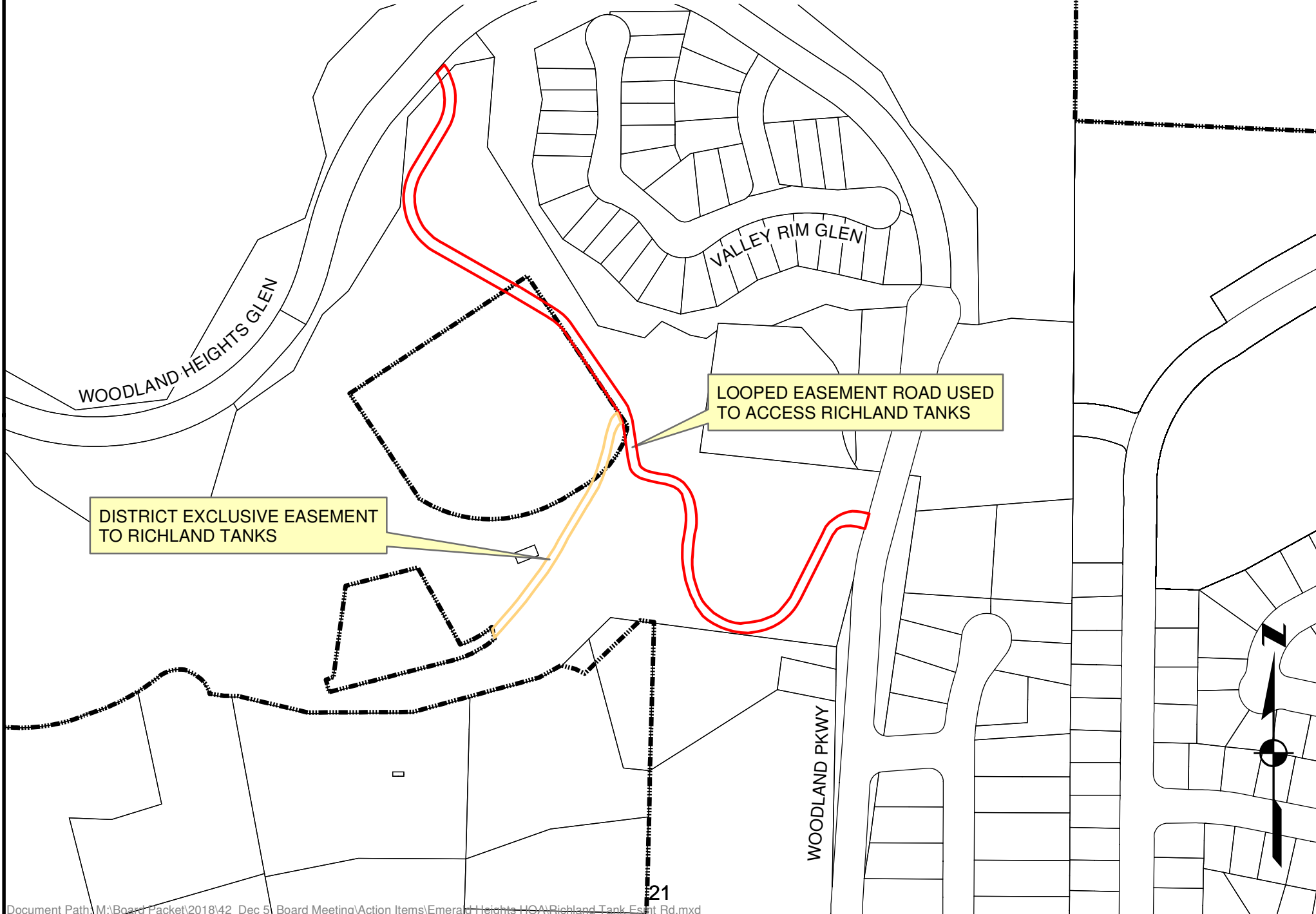
4) Maintenance and repair of the northern access gate:

Mr. Cannon had previously inquired if the District was willing to participate in the maintenance and repair of the access road that links to the High Point Development on the north end of Emerald Heights. Staff explained that the District was not interested in participating in this gate's maintenance, and Mr. Cannon has agreed to drop this request.

**RECOMMENDATION:**

Provide direction to Staff regarding the meter exchange item.

# EMERALD HEIGHTS HOMEOWNERS ASSOCIATION WATER SERVICE CONCERNS





# EMERALD HEIGHTS HOMEOWNERS ASSOCIATION WATER SERVICE CONCERNS



DISTRICT EXCLUSIVE EASEMENT TO RICHLAND TANKS

LOOPED EASEMENT ROAD USED TO ACCESS RICHLAND TANKS



**DATE: DECEMBER 5, 2018**  
**TO: BOARD OF DIRECTORS**  
**SUBJECT: FISCAL YEAR 2017/18 ANNUAL AUDIT REPORT**

**BACKGROUND:**

The District retained the auditing services of Davis Farr, LLP in April 2018, for a three-year period, to audit the District's annual financial statements, beginning with the 2017/18 fiscal year.

**DISCUSSION:**

On November 19, 2018, The Finance Committee met with Mrs. Shannon Ayala of Davis Farr to review and discuss the financial statements. The recommendation of the Finance Committee is to present the financial statements to the full Board of Directors for acceptance.

The financial statements are the responsibility of District management and the auditor's responsibility is to express an opinion on the financial position and results of operations presented in those financial statements.

Following generally accepted auditing standards, the auditor obtained reasonable assurance through testing and other audit procedures that, in the auditor's opinion, the financial statements present fairly, in all material respects, the financial position and results of operations of the District.

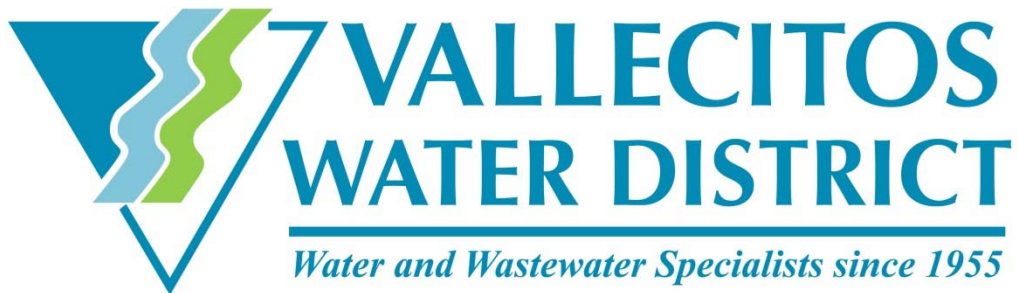
Mrs. Jennifer Farr will present the 2017/18 fiscal year audit to the Board and staff will present the Management Discussion and Analysis. Copies of the financial statements are included in the Board packet along with the Statement of Auditing Standards, also known as the "Communication with the Board."

**RECOMMENDATION:**

Staff requests the Board consider and accept the fiscal year 2017/18 audited financial statements.

**ATTACHMENTS:**

- 1) Annual Financial Report – June 30, 2018
- 2) Auditor's Report on Internal Control and Other Matters
- 3) Auditor's Communication With Those Charged With Governance (SAS 114)



**ANNUAL FINANCIAL REPORT  
WITH INDEPENDENT AUDITOR'S REPORT  
BY CERTIFIED PUBLIC ACCOUNTANTS  
JUNE 30, 2018**



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**VALLECITOS WATER DISTRICT**  
**BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

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Board of Directors  
Vallecitos Water District  
San Marcos, California

## **Independent Auditor's Report**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Vallecitos Water District ("District"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express an 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. 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 District'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 District'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.

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Vallecitos Water District, as of June 30, 2018, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Emphasis of Matter

As described further in Note 13 to the financial statements, the District implemented Governmental Accounting Standards Board (GASB) Statements Nos. 75 and 89 during the year ended June 30, 2018. The District reported two prior period adjustments, one related to the implementation of GASB No. 75 and one to correct capital assets as described further in Note 13 to the financial statements. Our opinion is not modified with respect to these matters.

## Report on Summarized Comparative Information

The financial statements of the District for the year ended June 30, 2017 were audited by other auditors whose report dated November 21, 2017 expressed an unmodified opinion on those financial statements. In our opinion the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis, schedule of the plan's proportionate share of the net pension liability, schedule of contributions – defined benefit pension plan, schedule of changes in net OPEB liability and related ratios, and schedule of OPEB contributions* be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Vallecitos Water District's basic financial statements. The *supplementary information* is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates 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 supplementary information in the financial section is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated November 27, 2018 on our consideration of the Vallecitos Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Vallecitos Water District's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Davis Fan" followed by a stylized flourish.

Irvine, California  
November 27, 2018

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **Fiscal Year Ended June 30, 2018**

Our discussion and analysis of the Vallecitos Water District's (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2018. Management's Discussion and Analysis (MD&A) presents financial highlights; an overview of the accompanying financial statements; an analysis of financial position and results of operations; current-to-prior year analysis; discussion on restrictions, commitments and limitations; and discussion on significant activity involving capital assets and long-term debt.

#### **FINANCIAL HIGHLIGHTS**

During the fiscal year ended June 30, 2018 (2017/18), the following highlights impacted, or have the potential to impact, the finances of the District.

- As the District moves further from the drought customers continue to use more water. As a result, water sales increased by \$6.2 million or 26.7% from fiscal year 2017 to 2018.
- On September 20, 2017, the Board of Directors approved a 2-year Cost of Service and Rate Structure Study with rate increases effective January 1, 2018 and January 1, 2019, and no increase to sewer service charges.
- In fiscal year 2018 the District fully funded other post employment benefits (OPEB) and eliminated the unfunded accrued liability by contributing \$2.1 million to the California Employers' Retiree Benefit Trust (CERBT). This resulted in significant interest savings to the District.
- The District implemented Government Accounting Standards Board (GASB), Statement No. 75, which recognizes the long-term obligation for other post employment benefits (OPEB) as a liability and measures the annual costs of OPEB benefits. The District's OPEB obligation for fiscal year 2017/18 is \$1.9 million. The measurement date used by the actuary was June 30, 2017 so the OPEB obligation does not reflect the District's CERBT funding.
- In 2017/18, the District received \$6.4 million in capital facility fees from development, compared to the budgeted amount of \$3.7 million.
- Capital asset acquisition and construction remained steady with the District expending \$3.8 million in 2017/18 compared to \$3.9 million the prior year.
- The District paid down \$3.0 million in long-term debt without incurring any additional debt.
- Revenue exceeded expenses resulting in operating income of \$0.5 million compared to an operating loss of \$1.5 million the prior year, and, with non-operating revenues and expenses, a net income before capital contributions of \$1.3 million, compared to a loss of \$1.8 million the prior year. After capital contributions of \$9.7 million, the District added \$11.0 million to its net position.

#### **OVERVIEW OF THE FINANCIAL STATEMENTS**

The financial statements present the financial position, results of operations, and changes in cash flow from the economic resources measurement focus using the accrual basis of accounting, which is similar to the accounting basis used by for-profit entities. Each financial statement is identified and defined in this section and analyzed in subsequent sections of this MD&A.



MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)

Statement of Net Position

The Statement of Net Position presents the District’s financial position (assets and liabilities) as of June 30, 2018. Assets in excess of liabilities (Net Position) are \$262,161,819. In accordance with generally accepted accounting principles, capital assets acquired through purchase or construction by the District are recorded at historical cost. Capital assets contributed by development are recorded at acquisition value or developers’ construction cost.

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position presents the District’s results of operations for the year ended June 30, 2018. Revenues are recognized (recorded) when services are provided and expenses are recognized when incurred. Operating revenues and expenses are related to the District’s core activities (providing water and related services, wastewater treatment and disposal services, and processing and delivering recycled water). Non-operating revenues and expenses (e.g. investment income and interest expense) are not directly related to the core activities of the District. Operating income for the year ended June 30, 2018, of \$479,315 is combined with net non-operating revenues of \$807,851 and capital contributions of \$9,688,731 to arrive at an increase in net position of \$10,975,897. The increase in net position is added to restated beginning net position of \$251,185,922 to arrive at ending net position of \$262,161,819 as of June 30, 2018. The prior period adjustment was the result of the implementation of GASB 75 as of June 30, 2018 and the correction of accounting for certain capital assets that were included in construction in progress but had been placed in service.

	2017/18	2016/17
Operating Income/(Loss)	\$ 479,315	\$ (1,549,069)
Net Nonoperating Revenues/(Expenses)	807,851	(285,011)
Capital contributions	9,688,731	6,760,690
Change in net position	<u>10,975,897</u>	<u>4,926,610</u>
Net Position, Beginning of Year as Previously Stated	254,319,757	249,393,147
Prior Period Adjustment	<u>(3,133,835)</u>	<u>-</u>
Total Net Position, Beginning of Year	<u>251,185,922</u>	<u>249,393,147</u>
Total Net Position, End of Year	<u>\$ 262,161,819</u>	<u>\$ 254,319,757</u>

Statement of Cash Flows

The Statement of Cash Flows presents the amounts of cash provided or used by the District’s operating, financing, and investing activities. Every cash flow has been categorized into one of the following activities: operating, non-capital financing, capital and related financing, or investing. The total of these categories for the year ended June 30, 2018, is the increase in cash and cash equivalents of \$5,486,664 which is combined with beginning cash and cash equivalents of \$30,618,233 to arrive at ending cash and cash equivalents of \$36,104,897. Investments in the California Local Agency Investment Fund, San Diego County Investment Pool, and open-ended money market mutual funds are the only cash equivalents held by the District as of June 30, 2018.

Beginning cash & cash equivalents	\$ 30,618,233
Increase in cash & cash equivalents	<u>5,486,664</u>
Ending cash & cash equivalents	<u>\$ 36,104,897</u>

**VALLECITOS WATER DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

As of June 30, 2018, the total cash and cash equivalents are as follows. Restricted cash and cash equivalents are to pay debt service.

	2017/18	2016/17
Cash and cash equivalents (unrestricted)	\$ 33,076,547	\$ 27,534,241
Restricted cash and cash equivalents	3,028,350	3,083,992
Total cash & cash equivalents	<u>\$ 36,104,897</u>	<u>\$ 30,618,233</u>

ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

During the fiscal year 2018 the increase in net position of \$10,975,897 on page 13 resulted from the increase in total assets and deferred outflows combined with the increase in total liabilities and decrease in deferred inflows. Deferred outflows/inflows are defined in Note 1(P) of the Notes to the Financial Statements.

Operating activities, capital facility fees, property taxes, and other sources helped fund \$7.3 million in capital acquisitions and construction, and \$5.5 million in debt service. The following table summarizes how these capital projects and debt service were financed during the year.

<i>Sources and Uses of Cash &amp; Investments in millions (excluding market value adjustment)</i>		
	2017/18	2016/17
<b>Sources:</b>		
Operating activities	\$ 9.5	\$ 6.7
Property tax	4.4	4.1
Capital facility fees	6.4	6.6
Other receipts	0.9	0.6
<b>Uses:</b>		
Capital construction and acquisition	(7.3)	(5.8)
Debt service	(5.5)	(5.5)
Increase in cash and investments	<u>\$ 8.5</u>	<u>\$ 6.7</u>

CURRENT-TO-PRIOR YEAR ANALYSIS

Analysis of Net Position

The increase in net position of \$11.0 million is attributable to contributed capital and net operating income. The \$7.8 million change below does not reflect the prior period adjustment of \$3.1 million.

Vallecitos Water District's Net Position				
	2017/18	2016/17	Change	
			Amount	%
Cash and investments	\$ 65,951,744	\$ 57,718,120	\$ 8,233,624	14.3%
Capital assets	267,069,089	268,694,939	(1,625,850)	-0.6%
Other assets	10,630,020	11,180,338	(550,318)	-4.9%
Total Assets	<u>343,650,853</u>	<u>337,593,397</u>	<u>6,057,456</u>	1.8%
Deferred Outflows of Resources	10,825,087	7,557,899	3,267,188	43.2%
Current liabilities	14,823,040	14,136,944	686,096	4.9%
Noncurrent liabilities	76,326,221	75,691,055	635,166	0.8%
Total Liabilities	<u>91,149,261</u>	<u>89,827,999</u>	<u>1,321,262</u>	1.5%
Deferred Inflows of Resources	1,164,860	1,003,540	161,320	16.1%
<b>Net Position</b>				
Net investment in capital assets	186,328,145	186,257,119	71,026	0.0%
Restricted	27,108,751	26,277,423	831,328	3.2%
Unrestricted	48,724,923	41,785,215	6,939,708	16.6%
Total Net Position	<u>\$ 262,161,819</u>	<u>\$ 254,319,757</u>	<u>\$ 7,842,062</u>	3.1%

**VALLECITOS WATER DISTRICT**

**MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)**

**CURRENT-TO-PRIOR YEAR ANALYSIS (Continued)**

Analysis of Net Position (continued)

- Cash and investments increased by \$8.2 million during fiscal year 17/18 inclusive of the market value adjustment on investments.
- The capital assets decrease was the result of depreciation of assets in excess of asset additions.
- Receivables for both capital facility fees and other governmental entities decreased by \$1.0 million which drove the other assets category lower in fiscal year 2017/18.
- Deferred Outflows of Resources increased by \$3.3 million as a result of the District contributing \$2.1 to the CERBT trust to fund Other Post Employment Benefits (OPEB) and due to differences in Vallecitos Water Districts actual vs projected investment earnings as calculated by the California Public Employment Retirement System (CalPERS).
- Current liabilities increased as a result of payables related to increased water costs and connection fees payable to SDCWA.
- An increase in net pension liability and the implementation of GASB 75 recording OPEB obligation resulted in an increase in non-current liabilities.
- The Deferred Inflows-PERS represents changes in actuarial assumptions as of measurement date June 30, 2018.

Selected Financial Ratios:

The table below illustrates how effectively the District can meet its current obligations and the margin of safety to creditors. The current ratio (current assets divided by current liabilities) indicates that the District can pay 5.16 times its current debt from current assets. However, some current assets are not easily, or will never be, converted to cash (e.g. inventories and prepaid insurance). The quick ratio, quick assets (cash, liquid investments, accounts receivable) divided by current liabilities, measures how effectively the District can meet current obligations with assets that are readily convertible to cash. The District can pay 5.08 times its current obligations with assets readily convertible to cash. The District’s current and quick ratios show a high degree of solvency and a strong current position. The days of operations in cash is a common measure scrutinized by the

	<u>2017/18</u>	<u>2016/17</u>
Current ratio	5.16	4.67
Quick ratio	5.08	4.57
Days of operations in cash	425	402
Capital assets-to-Long-term liabilities	3.50 / 1	3.58 / 1
Debt-to-equity	1 / 2.88	1 / 2.83

rating agencies and investment community. It measures the number of days the District can operate without any cash inflow. The capital-assets-to-long-term-liabilities ratio indicates that for every dollar of debt the District has \$3.50 in capital assets (infrastructure, land, buildings, vehicles, etc.,

net of depreciation). The significantly higher numerator in this ratio and the higher denominator in the debt-to-equity ratio indicate the District’s ability to cash fund some degree of capital projects. The debt-to-equity ratio indicates that for every dollar of debt the District has \$2.88 of net position (equity).

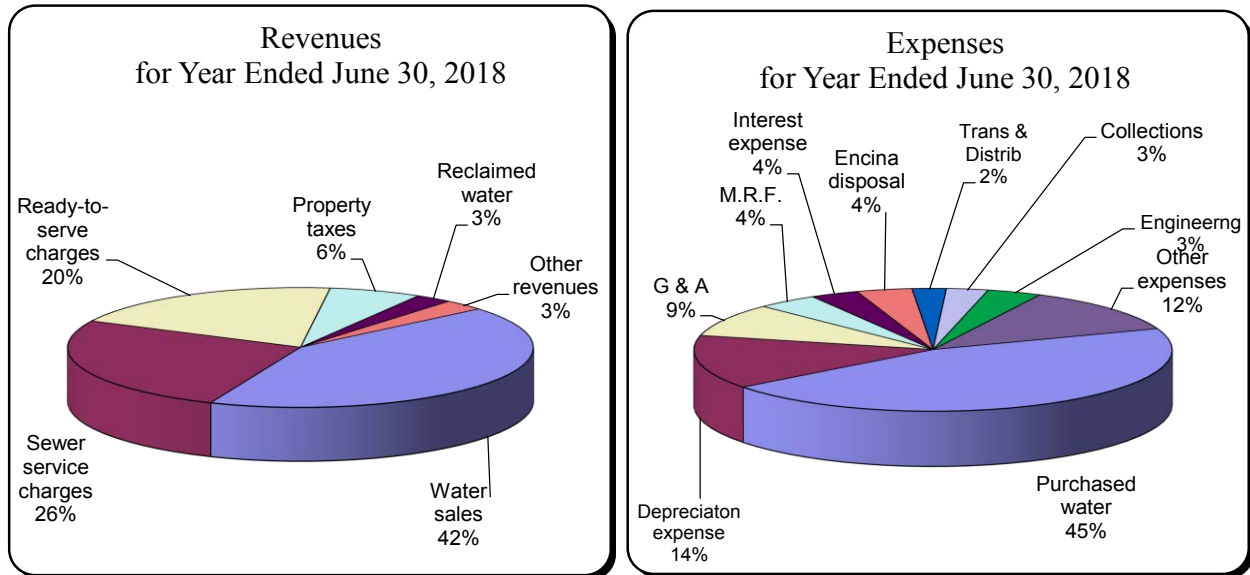
Analysis of Revenues and Expenses

The composition of revenues and expenses for the 2017/18 fiscal year is illustrated in the following graphs. Water sales, ready-to-serve charges, and wastewater service charges continue to be the main sources of revenue funding District operations. Water sales are commodity charges assessed to cover the variable costs of purchasing and delivering water to customers. Ready-to-serve charges are intended to cover fixed costs in the wholesale water rate, and costs related to being able to provide water to customers.

Deductions from revenue to arrive at the operating income of \$479,315 include non-cash depreciation and amortization expense of \$9,624,575. Depreciation is the systematic allocation of a capital asset’s cost to expense over a specified period of time. The District has established reserve floors and ceilings for the replacement of aging infrastructure.

MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)

CURRENT-TO-PRIOR YEAR ANALYSIS (Continued)



A comparative analysis of revenues, expenses and discussion of variances between fiscal years are presented below.

Vallecitos Water District's Revenues and Expenses				
	For Fiscal Year:		Change	
	2017/18	2016/17	Amount	%
Water sales	\$ 29,380,737	\$ 23,180,452	\$ 6,200,285	26.7%
Wastewater service charges	18,000,233	17,503,448	496,785	2.8%
Ready-to-serve charges	13,721,328	13,850,592	(129,264)	-0.9%
Property taxes	4,446,432	4,162,701	283,731	6.8%
Reclaimed water sales	1,761,559	1,711,156	50,403	2.9%
Other revenues	1,999,656	1,705,760	293,896	17.2%
<b>Total Revenues</b>	<b>69,309,945</b>	<b>62,114,109</b>	<b>7,195,836</b>	<b>11.6%</b>
Purchased water	30,678,093	27,392,003	3,286,090	12.0%
Depreciation expense	9,624,575	9,425,308	199,267	2.1%
General and administrative	5,940,142	5,637,471	302,671	5.4%
Meadowlark Reclamation Facility (M.R.F.)	2,827,395	2,993,914	(166,519)	-5.6%
Interest expense	2,215,193	2,153,641	61,552	2.9%
Encina disposal	2,555,168	2,529,715	25,453	1.0%
Engineering	2,497,803	1,988,197	509,606	25.6%
Collections	1,917,754	1,896,688	21,066	1.1%
Transmission & Distribution	1,565,815	1,747,767	(181,952)	-10.4%
Other expenses	8,200,841	8,183,485	17,356	0.2%
<b>Total Expenses</b>	<b>68,022,779</b>	<b>63,948,189</b>	<b>4,074,590</b>	<b>6.4%</b>
Net Income/(Loss) before contributions	1,287,166	(1,834,080)	3,121,246	-170.2%
Capital contributions	9,688,731	6,760,690	2,928,041	43.3%
<b>Change in Net Position</b>	<b>10,975,897</b>	<b>4,926,610</b>	<b>6,049,287</b>	<b>122.8%</b>
Total Net Position, Beginning of Year as Previously Stated	254,319,757	249,393,147	4,926,610	-
Prior Period Adjustment	(3,133,835)	-	(3,133,835)	-
Total Net Position at Beginning of Year Restated	251,185,922	249,393,147	1,792,775	0.7%
<b>Total Net Position, End of Year</b>	<b>\$ 262,161,819</b>	<b>\$ 254,319,757</b>	<b>\$ 7,842,062</b>	<b>3.1%</b>

**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

**CURRENT-TO-PRIOR YEAR ANALYSIS (Continued)**

- The increase in water sales reflects increases in customer demand and rate increases.
- Wastewater service charges increased by \$0.5 million as a result of new connections and flow increases.
- Property tax receipts continue to increase primarily from discontinued Redevelopment Agencies in fiscal year 17/18. The District anticipates receipts from discontinued Redevelopment Agencies to decrease in subsequent years.
- Other revenues are a mixture of new annexations; investment income received and market valuation increases; pumping cost recovery; recovery of damaged property and delinquency fee receipts. Other revenues increased by \$0.3 million as a result of rate increases in pumping cost recovery effective July 1, 2017.
- Water purchases increased in correlation with water sales.
- The \$0.3 million increase in General and administrative expenses was due to less time being charged to projects in fiscal year 2018.
- Meadowlark reclamation facility (M.R.F.) expenses decreased as a result of less materials purchased and outside services performed than the previous year.
- Engineering increased mainly as a result of a recycled water study completed in fiscal year 2018.
- Transmission & distribution decreased as a result of less repair costs due to main breaks.

**RESTRICTIONS, COMMITMENTS, AND LIMITATIONS**

The District's net revenue requirement is 1.15 times the total debt service of the District. The District's 2017/18 net revenue was 4.14 times debt service as calculated per the official statement for the bonds. Debt per capita within the District is \$613 exclusive of other debt such as San Diego County Water Authority and Metropolitan Water District.

2015 Revenue Refunding Bonds

On July 9, 2015, the District refunded the majority of the 2005 Certificates of Participation totaling \$45.3 million with Revenue Bonds containing interest rates ranging between 4% and 5%. The District is obligated to transfer semi-annually debt service payments each June 25<sup>th</sup> (maximum of \$3.9 million in year 2030) and each December 26<sup>th</sup> (maximum of \$980 thousand in year 2021) to the trustee for payment to bondholders for both the remaining 2005 COPs and 2015 Revenue Bonds. Total debt service paid in fiscal year 17/18 related to the 2005 COPs was \$4.2 million. The outstanding principal balance at June 30, 2018 was \$45,315,000 and \$0 for the 2015 Revenue Bonds and the 2005 Certificates of Participation respectively.

2012 Certificates of Participation

In December 2012, the District received \$7.1 million in proceeds as the Board of Directors executed the 2<sup>nd</sup> Installment Purchase Agreement of the Master Agreement of the 2005 Certificates of Participation. The proceeds were used toward the following sewer projects: San Marcos Interceptor, Linda Vista, Encina Land Parallel Outfall and Rock Springs. The District pays debt service semi-annually on the certificates issued at a fixed rate of 1.98%. Interest payments are due each April and October 1<sup>st</sup> and principal is due each October 1<sup>st</sup>. Total debt service paid in fiscal year 17/18 related to the COPs was \$782,843. The outstanding principal balance at June 30, 2018, is \$3.7 million.

**MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)**

**RESTRICTIONS, COMMITMENTS, AND LIMITATIONS (continued)**

2008 Union Bank Tax-Exempt Private Placement Loan

On November 12, 2008, the District received \$7.9 million in proceeds from a variable rate tax-exempt private placement loan from Union Bank of California to fund a portion of EWA’s treatment plant expansion. The District’s share in solids capacity at EWA increased from 7.5 million gallons per day (MGD) to 10.5 MGD. The variable rate on the loan is indexed to LIBOR with the District’s option to periodically change the LIBOR period and associated rate (adjusted by the bank’s formula for a tax-exempt borrowing) currently at 2.44403%. Principal payments of \$200,000 are due every March 31<sup>st</sup> and September 30<sup>th</sup>. Interest payments are due at the end of the LIBOR period chosen by the District. Total debt service paid in fiscal year 17/18 related to the loan was \$514,945. The outstanding principal balance at June 30, 2018, of \$4.2 million is subordinate to existing certificates of participation.

Capital Facility Fees

The District collects capital facility fees from new development and increased demands from existing customers, maintains the collected fees in separate funds (one for water and one for wastewater), and uses the funds exclusively to provide capacity to serve new development and fund future construction of facilities identified in the District’s Master Plan and capital budget. As of June 30, 2018, the water capacity fund had a deficit of \$9,161,412 and the sewer capacity had a deficit of \$6,820,836. (The District maintains separate funds for specific purposes. Funds are combined for financial statement presentation.)

Capital Projects

The following budgeted projects have been contracted for at least the design phase before 2017/18:

Project Description	2018/19 Budget	Spent Through	
		June 30, 2018	Remaining
San Marcos interceptor sewer	\$ 19,900,000	\$ 13,726,193	\$ 6,173,807
Meadowlark Tank #3	4,552,000	488,961	4,063,039
Mountain Belle Pump Station & Pipeline Design	3,860,000	99,350	3,760,650
Rock Springs Sewer Replacement	3,390,000	640,179	2,749,821
Chlorine Contact Tank Expansion	4,815,000	153,586	4,661,414
Montiel Gravity Outfall	4,725,000	221,707	4,503,293

The budget amounts in the previous table indicate the amount anticipated for completion of the projects. For some of these projects the District has only committed to the design phase through contractual obligations, and the construction has not yet been through the bidding process. Construction of the land outfall, Meadowlark tank, and Mountain Bell project will not commence unless there is significantly more growth than anticipated. Details are provided in the District’s 2018/19 Budget on these and several other committed projects less than \$1 million in scope.

**CAPITAL ASSETS AND LONG-TERM DEBT**

The following represents the most significant additions to capital assets which were largely the result of reclassifying construction-in-progress to capital assets placed in service and depreciated.

Sewer mains, manholes, and cleanouts	\$ 15,078,307
Water mains, service lines, meters, and valves	3,145,309
Buildings and improvements	484,022
Sewer vehicles and equipment	210,095
Water vehicles and equipment	135,659

The \$45.3 million in 2015 Revenue Bonds, the \$4.2 million loan and the \$3.7 million in 2012 COPS balance are the only outstanding long-term debts issued by the District as of June 30, 2018.

**MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)**

**ECONOMIC FACTORS AND NEXT YEAR’S BUDGET AND RATES**

The District considered the following economic factors in establishing 2018/19 budget amounts:

- Increases in water usage by customers as the District moves further from the drought
- Cost of service study and rate structure study completed and adopted by the board September 20, 2017
- Slow but steady recovery in construction
- Increasing regulatory compliance

As a result of these factors, the 2018/19 budget includes:

- Water sales reflective of a bounce back from drought as customers are using more water
- Rate increases as determined by the revenue requirement established in the cost of service study
- Staffing levels remaining steady as the District continues to scrutinize the need for all positions and only fill positions if absolutely necessary

**CONTACTING THE DISTRICT’S FINANCIAL MANAGEMENT**

This financial report is designed to give ratepayers, customers, investors, and creditors a general overview of the District’s finances and to demonstrate the District’s accountability for the money it receives and the stewardship of the facilities it maintains. If you have questions about this report or need additional information, contact the Vallecitos Water District’s Finance Department, 201 Vallecitos de Oro, San Marcos, CA 92069, call (760) 744-0460, or visit our website at [www.vwd.org](http://www.vwd.org).

## **BASIC FINANCIAL STATEMENTS**



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**VALLECITOS WATER DISTRICT**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2018**  
**(with prior year comparative totals)**

	<b>2018</b>	<b>2017</b>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents (note 2)	\$ 33,076,547	\$ 27,534,241
Restricted cash and cash equivalents (note 2)	3,028,350	3,083,992
Investments (note 2)	29,846,847	27,099,887
Accounts receivable, net:		
Water and wastewater sales and services, net (note 3)	8,374,366	7,418,341
Taxes and assessments (note 3)	108,442	110,527
Other governmental entities	131,686	487,877
Restricted capital facility fees	-	637,856
Other	465,596	633,656
Accrued interest receivable	296,312	153,019
Current portion of note receivable	-	141,146
Inventories	768,600	1,110,094
Prepaid items	410,061	418,062
Total Current Assets	76,506,807	68,828,698
Noncurrent Assets:		
Restricted capital facility fees	74,957	69,760
Investment in Encina Wastewater Authority (note 5)	27,033,794	25,569,807
Capital assets not being depreciated (note 4)	13,433,408	24,766,810
Net capital assets being depreciated (note 4)	226,601,887	218,358,322
Total Noncurrent Assets	267,144,046	268,764,699
Total Assets	343,650,853	337,593,397
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Pension related (note 8)	6,008,587	4,681,454
OPEB related (note 9)	2,100,518	-
Deferred charges from debt retirement	2,715,982	2,876,445
Total Deferred Outflows of Resources	10,825,087	7,557,899
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable	8,329,599	7,744,928
Accrued compensation	474,106	509,763
Construction and service deposits	561,954	737,308
Interest payable	1,167,183	1,212,931
Current portion of long term debt (note 6)	3,410,969	3,038,460
Current portion of compensated absences (note 6)	879,229	893,554
Total Current Liabilities	14,823,040	14,136,944
Noncurrent Liabilities:		
Loan payable (note 6)	3,800,000	4,200,000
Long term debt (note 6)	52,240,511	55,616,451
Compensated absences (note 6)	590,926	595,702
Net pension liability (note 8)	17,770,848	15,158,897
Net OPEB liability (note 9)	1,923,936	120,005
Total Noncurrent Liabilities	76,326,221	75,691,055
Total Liabilities	91,149,261	89,827,999
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Pension related (note 8)	1,138,806	1,003,540
OPEB related (note 9)	26,054	-
Total Deferred Inflows	1,164,860	1,003,540
<b>NET POSITION</b>		
Net investment in capital assets (note 7)	186,328,145	186,257,119
Restricted for future capital projects	74,957	707,616
Restricted for Encina Wastewater Authority	27,033,794	25,569,807
Unrestricted	48,724,923	41,785,215
Total Net Position	\$ 262,161,819	\$ 254,319,757

See accompanying notes to the financial statements.

**VALLECITOS WATER DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**FOR THE YEAR ENDED JUNE 30, 2018**  
**(with prior year comparative totals)**

	<b>2018</b>	<b>2017</b>
<b>OPERATING REVENUES</b>		
Water sales	\$ 29,380,737	\$ 23,180,452
Wastewater service charges	18,000,233	17,503,448
Ready-to-serve charges	13,721,328	13,850,592
Reclaimed water sales	1,761,559	1,711,156
Pumping charges	311,817	171,186
Other services and abatements	959,587	1,005,240
Total Operating Revenues	64,135,261	57,422,074
<b>OPERATING EXPENSES</b>		
Purchased water	30,678,093	27,392,003
General and administrative	5,940,142	5,637,471
Meadowlark wastewater treatment plant	2,827,395	2,993,914
Encina disposal	2,555,168	2,529,715
Collection and conveyance	1,917,754	1,896,688
Engineering	2,497,803	1,988,197
Transmission and distribution	1,565,815	1,747,767
Customer accounts	1,092,194	958,266
Information technology	1,490,217	1,320,845
Meter reading and repairs	712,760	625,576
Buildings and grounds	659,143	629,850
Equipment and vehicles	498,547	471,380
Other water operating expenses	519,857	446,430
Other wastewater operating expenses	558,212	614,248
Water quality and treatment	651,495	604,844
Tanks and reservoirs	364,239	312,604
Pumping	839,884	612,069
Total Operating Expenses	55,368,718	50,781,867
Operating income before overhead absorption	8,766,543	6,640,207
Overhead absorption	1,337,347	1,236,032
Operating income before depreciation and amortization	10,103,890	7,876,239
Depreciation and amortization	(9,624,575)	(9,425,308)
Operating Income	479,315	(1,549,069)
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Property taxes	4,446,432	4,162,701
Interest income	873,487	411,745
Unrealized appreciation (depreciation) of investments	(271,451)	(220,021)
Annexation fees	25,964	39,969
Change in Encina Joint Venture assets	(2,151,640)	(2,603,384)
Interest expense	(2,215,193)	(2,153,641)
Other non-operating revenues/(expenses), net	100,252	77,620
Total Non-Operating Revenues (Expenses), Net	807,851	(285,011)
Net income (loss) before capital contributions	1,287,166	(1,834,080)
Capital contributions	9,688,731	6,760,690
Change in net position	10,975,897	4,926,610
Total Net Position, Beginning of Year, as restated (note 13)	251,185,922	249,393,147
Total Net Position, End of Year	\$ 262,161,819	\$ 254,319,757

See accompanying notes to the financial statements.

**VALLECITOS WATER DISTRICT  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2018  
(with prior year comparative totals)**

	<b>2018</b>	<b>2017</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from water and wastewater customers	\$ 63,703,487	\$ 55,800,730
Payments for water	(30,530,200)	(26,843,497)
Payments for services and supplies	(8,118,482)	(8,565,438)
Payments for employee wages, benefits, and related costs	(15,563,598)	(13,723,440)
Net Cash Provided by Operating Activities	9,491,207	6,668,355
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Receipts from taxes and assessments	4,448,517	4,154,654
Net Cash Provided by Noncapital Financing Activities	4,448,517	4,154,654
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Receipts relating to annexation fees and cell tower rentals	69,342	84,824
Acquisition and construction of capital assets	(3,781,415)	(3,867,506)
Principal paid on long-term debt	(3,012,000)	(2,898,000)
Interest payments on long-term debt	(2,466,065)	(2,548,596)
Principal paid on capital lease	(26,460)	(43,067)
Investment in Encina Wastewater Authority	(3,510,674)	(1,921,539)
Capacity fees received	6,421,283	6,597,401
Net Cash Provided by Capital and Related Financing Activities	(6,305,989)	(4,596,483)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(7,489,823)	(17,487,901)
Proceeds from calls and maturities of investments	4,471,412	14,691,119
Investment earnings received	730,194	354,173
Collections on note receivable from City of San Marcos	141,146	133,788
Net Cash (Used for)/Provided by Investing Activities	(2,147,071)	(2,308,821)
Net Increase (Decrease) in Cash and Cash Equivalents	5,486,664	3,917,705
Cash and Cash Equivalents, Beginning of Year	30,618,233	26,700,528
Cash and Cash Equivalents, End of Year	<b>\$ 36,104,897</b>	<b>\$ 30,618,233</b>
<b>Reconciliation of cash and cash equivalents to statement of net assets:</b>		
Cash and cash equivalents (note 2)	33,076,547	27,534,241
Restricted cash and cash equivalents (note 2)	3,028,350	3,083,992
<b>Total cash and cash equivalents</b>	<b>\$ 36,104,897</b>	<b>\$ 30,618,233</b>

**VALLECITOS WATER DISTRICT  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2018  
(with prior year comparative totals)  
(Continued)**

<b>Reconciliation of Operating Income (Loss) to net Cash Provided by Operating Activities:</b>	<u>2018</u>	<u>2017</u>
Operating income (loss)	\$ 479,315	\$ (1,549,069)
<b>Adjustments to reconcile operating loss to net cash provided by operating activities:</b>		
Depreciation expense	9,624,575	9,425,308
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable from water and wastewater sales and services	(956,025)	(1,350,650)
Accounts receivable from other governmental entities	356,191	(101,403)
Accounts receivable - other	168,060	(169,289)
Inventories	(54,765)	(47,164)
Prepaid expenses	8,001	(76,100)
Accounts payable	366,232	244,220
Accrued compensation	(35,657)	(12,902)
Compensated absences	(19,101)	161,568
Deferred Outflows - pension related	(1,327,133)	(2,990,867)
Deferred Inflows - pension related	135,266	(523,321)
Deferred Outflows - OPEB related	(2,100,518)	-
Deferred Inflows - OPEB related	26,054	-
Net pension liability	2,611,951	3,691,999
Net OPEB liability	<u>208,761</u>	<u>(33,975)</u>
Total Adjustments	<u>9,011,892</u>	<u>8,217,424</u>
Net Cash Provided by Operating Activities	<u>\$ 9,491,207</u>	<u>\$ 6,668,355</u>
<b>Noncash Investing Capital and Financing Activities:</b>		
Contribution of assets by developers	<u>\$ 3,379,192</u>	<u>\$ 893,450</u>
Net change in investment fair values	<u>\$ (271,451)</u>	<u>\$ (220,021)</u>

**VALLECITOS WATER DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2018**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The Vallecitos Water District (“District”) was organized in March of 1955 under the provisions of the California Water Code. By Board action in 1989, the District’s name was changed from San Marcos County Water District to Vallecitos Water District. The District was organized to finance, construct, operate, and maintain a water and wastewater system serving portions of northern San Diego County. Currently, the District services approximately 29,000 acres and provides water and wastewater service to the City of San Marcos, portions of the cities of Escondido and Carlsbad, and portions of surrounding unincorporated areas. The District has approximately 21,500 active water meters and 20,600 active sewer accounts as of June 30, 2018.

The District is the primary governmental unit based on the foundation of a separately elected governing board elected by geographic division of 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 District 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 potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

The Vallecitos Water District Financing Corporation (“Corporation”) was incorporated in March 1998. The Corporation is a California nonprofit public benefit corporation formed to assist the District by acquiring, constructing, operating and maintaining facilities, equipment, or other property needed by the District and leasing or selling such property to the District. The Corporation has no employees or other operations. Although the Corporation is legally separate, it is included as a blended component unit of the District, as it is in substance part of the District’s operations. No separate financial statements are prepared for the Corporation.

**B. Basis of Presentation**

The District’s financial activities are accounted for as an enterprise fund. An enterprise fund is a Proprietary-type fund used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body 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; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

**C. Measurement Focus and Basis of Accounting**

Measurement focus is a term used to describe which transactions are recorded within the various financial statements. “Basis of accounting” refers to when transactions are recorded regardless of the measurement focus applied. The accompanying financial statements are reported using the “economic resources measurement focus,” and the “accrual basis of accounting.” Under the economic measurement focus, all assets, deferred outflows of resources, liabilities and deferred inflows of resources (whether current or noncurrent) associated with these activities are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position present increases (revenues) and decreases (expenses) in total net position.

**VALLECITOS WATER DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2018  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

**D. Cash and Cash Equivalents**

For the purpose of the Statement of Cash Flows, the District's cash is invested in interest bearing accounts. The District considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

**E. Restricted Assets**

Certain assets of the District are restricted in use by law or debt covenant, and accordingly, are shown as restricted assets on the accompanying Statement of Net Position. Certificates of Participation construction funds set aside from Certificates of Participation proceeds are restricted for construction projects. The District uses restricted resources, prior to using unrestricted resources, to pay expenses meeting the criteria imposed on the use of restricted resources by a third party.

**F. Investments and Investment Policy**

The District has adopted an investment policy directing the District's 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.

**G. Fair Value Measurements**

The District categorizes its fair value measurement within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the relative inputs used to measure the fair value of the investments. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the District has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

**VALLECITOS WATER DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2018  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs reflect the District's own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include the District's own data.

The hierarchy level of an asset or liability is based on the lowest level of input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The determination of what constitutes observable requires judgment by the District's management. District management considers observable data to be that market data which is readily available, regularly distributed or updated, reliable, and verifiable, not proprietary, and provided by multiple independent sources that are actively involved in the relevant market.

The categorization of an investment or liability within the hierarchy is based upon the relative observability of the inputs to its fair value measurement and does not necessarily correspond to District management's perceived risk of that investment or liability.

**H. Accounts Receivable and Allowance for Uncollectible Accounts**

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

**I. Water and Wastewater Sales and Services**

Water and wastewater sales and services are billed on a monthly cyclical basis. Estimated unbilled water and wastewater revenue through June 30, 2018 has been accrued as of year-end.

**J. Property Taxes and Assessments**

Property taxes and assessments are billed by the County of San Diego to property owners. The District's property tax calendar is as follows:

Lien Date:	January 1, 2017
Levy Date:	July 1, 2017
Due Date:	First Installment - November 1, 2017 Second Installment - February 1, 2018
Delinquent Date:	First Installment - December 10, 2017 Second Installment - April 10, 2018



**VALLECITOS WATER DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2018  
(Continued)**

**1. SUMMARY OF SIGNFICANT ACCOUNTING POLICIES (Continued)**

Property taxes and assessments are collected by the County of San Diego, and are remitted to the District periodically according to the following estimated schedule:

December 15, 2017	30% Advance - First Installment
January 19, 2018	Balance on First Installment (to 55%)
April 13, 2018	10% Advance - Second Installment
May 18, 2018	Balance of Second Installment (to 95%)
August 7, 2018	Third Installment (to 100%)

**K. Water-In-Storage Inventory**

The District owns the water within its transmission and distribution system. This water has been recorded on the District's books at the cost at which the water was purchased using the first-in - first-out (FIFO) method.

**L. Materials and Supplies Inventory**

Materials and supplies inventory consist primarily of water meters, pipe and pipefittings for construction and repair to the District's water transmission and distribution system and wastewater system. Inventory is valued at cost using a weighted average cost method. Inventory items are charged to expense or work-in-process at the time that individual items are withdrawn from inventory or consumed.

**M. Prepaid Items**

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

**N. Encina Wastewater Authority**

The District's participation in the Encina Wastewater Authority ("EWA") is included in the accompanying financial statements. The District's investment in EWA is capitalized as a percentage of ownership of capital expenditures incurred by EWA. Ownership percentages are determined by joint agreements at the time the assets are acquired.

**O. Capital Assets and Depreciation**

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets expected to have a useful life of more than two years at \$10,000. Donated assets are recorded at acquisition value at the date of acquisition. 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.

**VALLECITOS WATER DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2018  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

	Useful Life
Transmission and distribution	10 - 75 years
Wastewater system	5 - 50 years
Buildings	50 years
Transportation equipment	7 - 15 years
Field and shop equipment	5 - 20 years
Office equipment	3 - 10 years

**P. Deferred Outflows/Inflows of Resources**

In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net positions that applies to a future period and so will not be recognized as an outflow of resources (expense) until then. The District has three items that qualify for reporting in this category. Two are related to pension and OPEB contributions subsequent to the measurement date of the net pension and OPEB liabilities and other amounts, which are amortized over an actuarially determined period. The third is related to the deferred charges related to debt refunding.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and will not be recognized as an inflow (revenue) until that time. The District has two items that qualify for reporting in this category. The items are related to pension and OPEB. These amounts are amortized over an actuarially determined period.

**Q. Construction Deposits**

Construction deposits represent deposits received in aid of construction, which are refundable if the applicable construction does not take place. Construction deposits are transferred to contributed capital when the District is no longer liable for the applicable construction project.

**R. Compensated Absences**

The District has a policy whereby an employee can accumulate unused paid time off including vacation and sick time. An employee can accrue up to a maximum of 240 vacation hours. When an employee has accumulated the maximum hours, no further hours are accrued. In addition, an employee can accrue an unlimited number of sick leave hours. An employee who separates from the District is entitled to receive 100 percent of their accumulated unused vacation hours. An employee who separates from the District with less than five years of service is entitled to receive 25 percent of their unused sick leave hours, whereas an employee with more than five years of service is entitled to receive 50 percent of their unused sick leave hours.

The District provided for these future costs by accruing 100 percent of all earned and unused vacation hours, 25 percent of all earned and unused sick leave hours for employees with less than five years of service, and 50 percent of all earned and unused sick leave hours for employees with more than five years of service.

**VALLECITOS WATER DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2018  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**S. Pension Plan**

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

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

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Measurement Period	July 1, 2016 to June 30, 2017

**T. Other Post-Employment Benefits**

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District's plan (OPEB Plan), the assets of which are held by the California Employers' Retiree Benefit Trust (CERBT), and additions to/deductions from the OPEB Plan's fiduciary net position have been determined by an independent actuary. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

Generally accepted accounting principles require that the reported results must pertain to liability and fiduciary net position information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	April 1, 2017
Measurement Date	June 30, 2017
Measurement Period	July 1, 2016 to June 30, 2017

**U. Capital Contributions**

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

**V. Use of Estimates**

The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and, accordingly, include amounts that are based on management's best estimates and judgments. Actual results could differ from these estimates.

**VALLECITOS WATER DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2018  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**W. Prior Year Data**

Selected information relating to the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the District's prior year financial statements, from which the selected financial data was derived.

**2. CASH AND INVESTMENTS**

Cash and investments are classified in the accompanying financial statements as of June 30, 2018:

Cash and cash equivalents	\$ 33,076,547
Restricted cash and cash equivalents	3,028,350
Investments	<u>29,846,847</u>
Total cash and investments	<u>\$ 65,951,744</u>

Cash and investments consist of the following at June 30, 2018:

Cash on hand	\$ 2,000
Deposits with financial institutions	2,308
Investments	<u>65,947,436</u>
Total cash and investments	<u>\$ 65,951,744</u>

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

The following table identifies the investment types that are authorized by the District in accordance with the District's investment policy, which is more restrictive than the California Government Code. The table also identifies certain provisions of the District's investment policy that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds that are governed by the provisions of debt agreements of the District, rather than the general provisions of the District's investment policy.

INVESTMENT TYPE	MAXIMUM MATURITY	MAXIMUM SPECIFIED % OF PORTFOLIO
Asset-Backed Securities	5 years	20%
Collateralized Bank Deposits	None	None
Commercial Paper	270 days	25%
Local Agency Investment Fund	None	100%
Medium-Term Notes	5 years	25%
Money Market Mutual Funds	None	20%
Negotiable Certificates of Deposit	5 years	20%
Supranational Obligations	5 years	25%
U.S. Agency Obligations	5 years	10% (Per issuer)
U.S. Treasury Obligations	5 years	None

**VALLECITOS WATER DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2018  
(Continued)**

**2. CASH AND INVESTMENTS (Continued)**

*Investments Authorized by Debt Agreements*

Investment of debt proceeds are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's investment policy. Each debt agreement notes the investment types that are authorized for investments and identifies certain provisions of these debt agreements that address interest rate risk, credit risk and concentration of credit risk.

*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 District's investment policy considers aversion to custodial credit risk by requiring all participants in the investment process to invest no more than 25% of the portfolio with one financial institution, with the exception of LAIF, the U.S. Treasury and funds advanced or in trustee accounts for project construction.

The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

*Investment in State Investment Pool*

The District 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 District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

*San Diego County Pooled Investment Fund*

The San Diego County Pooled Investment Fund (SDCPIF) is a pooled investment fund program governed by the County of San Diego Board of Supervisors and administered by the County of San Diego Treasurer and Tax Collector. Investments in SDCPIF are highly liquid as deposits and withdrawals can be made at any time without penalty. SDCPIF does not impose a maximum investment limit.

**VALLECITOS WATER DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2018  
(Continued)**

**2. CASH AND INVESTMENTS (Continued)**

The County of San Diego's bank deposits are either Federally insured or collateralized in accordance with the California Government Code. Pool detail is included in the County of San Diego Comprehensive Annual Financial Report (CAFR). Copies of the CAFR may be obtained from the County of San Diego Auditor-Controller's Office – 1600 Pacific Coast Highway – San Diego, CA 92101.

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 is to changes in market interest rates. The District manages interest rate risk by limiting terms of investment as noted in the section of this note titled Investments Authorized by the California Government Code and the District's Investment Policy.

The District also manages its exposure to interest rate risk by purchasing a combination of shorter term and longer-term investments and by timing cash flows from maturities so that a portion of the portfolio matures or comes close to maturity evenly over time as necessary to provide requirements for cash flow and liquidity needed for operations. Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity date.

Maturities of investments at June 30, 2018 are as follows:

Type of Investment	Total	12 months or less	One to Three Years	Three to Five Years
Treasury Securities	\$ 2,214,111	\$ -	\$ 2,214,111	\$ -
Federal Agency Securities	19,153,424	5,328,920	13,824,504	-
Local Agency Investment Fund	27,718,201	27,718,201	-	-
Commercial Paper	596,420	596,420	-	-
Corporate Medium-Term Notes	2,832,212	-	2,832,212	-
Asset Backed Securities	105,129	-	-	105,129
Supranational	739,913	-	739,913	-
Money Market Mutual Funds	50,857	50,857	-	-
Negotiable Certificates of Deposit	4,284,882	2,620,359	1,664,523	-
San Diego County Investment Pool	5,223,937	5,223,937	-	-
Held by Fiscal Agent:				
Money Market Funds	3,028,350	3,028,350	-	-
Total	<u>\$ 65,947,436</u>	<u>\$ 44,567,044</u>	<u>\$ 21,275,263</u>	<u>\$ 105,129</u>

**VALLECITOS WATER DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2018  
(Continued)**

**2. CASH AND INVESTMENTS (Continued)**

*Credit Risk*

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the District's investment policy, or debt agreements, and the Moody's rating as of year-end for each investment type.

Credit ratings of investments as of June 30, 2018 were as follows:

Investment	Total	Not Required to be Rated	AAA	AA	A	Unrated
U.S. Treasury Obligations	\$ 2,214,111	\$ 2,214,111	\$ -	\$ -	\$ -	\$ -
U.S. Government Sponsored Agency Securities:						
FFCB	3,687,116	-	3,687,116	-	-	-
FHLB	4,440,832	-	4,440,832	-	-	-
FHLMC	5,914,561	-	5,914,561	-	-	-
FNMA	5,110,915	-	5,110,915	-	-	-
Local Agency Investment Fund	27,718,201	-	-	-	-	27,718,201
Commercial Paper	596,420	-	-	-	596,420	-
Corporate Medium-Term Notes	2,832,212	-	-	1,136,361	1,695,851	-
Asset Backed Securities	105,129	-	105,129	-	-	-
Supranational	739,913	-	739,913	-	-	-
Money Market Mutual Funds	50,857	-	50,857	-	-	-
Negotiable Certificates of Deposit	4,284,882	-	-	-	500,000	3,784,882
San Diego County Investment Pool	5,223,937	-	5,223,937	-	-	-
Held by Fiscal Agent:						
Money Market Mutual Funds	3,028,350	-	3,028,350	-	-	-
Total	<u>\$ 65,947,436</u>	<u>\$ 2,214,111</u>	<u>\$ 28,301,610</u>	<u>\$ 1,136,361</u>	<u>\$ 2,792,271</u>	<u>\$ 31,503,083</u>

The investment policy of the District limits the amount that can be invested in any one issuer to 10% of the portfolio. Investments in any one issuer (other than for U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of the District's total investments at June 30, 2018 are as follows:

Issuer	Investment Type	Reported Amount	Percentage of Portfolio
Federal Farm Credit Banks	U.S. Government Sponsored	\$ 3,687,116	5.59%
Federal Home Loan Bank	U.S. Government Sponsored	4,440,832	6.73%
Federal Home Loan Mortgage Association	U.S. Government Sponsored	5,914,561	8.97%
Federal National Mortgage Association	U.S. Government Sponsored	5,110,915	7.75%

**VALLECITOS WATER DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2018  
(Continued)**

**2. CASH AND INVESTMENTS (Continued)**

The District has the following recurring fair value measurements as of June 30, 2018:

Investment	Total	Quoted Prices Level 1	Observable Inputs Level 2	Unobservable Inputs Level 3
U.S. Treasury Obligations	\$ 2,214,111	\$ -	\$ 2,214,111	\$ -
U.S. Government Sponsored:				
Agency Securities				
FFCB	3,687,116	-	3,687,116	-
FHLB	4,440,832	-	4,440,832	-
FHLMC	5,914,561	-	5,914,561	-
FNMA	5,110,915	-	5,110,915	-
Commercial Paper	596,420	-	596,420	-
Corporate Medium Term Notes	2,832,212	-	2,832,212	-
Asset Backed Securities	105,129	-	105,129	-
Supranational	739,913	-	739,913	-
Negotiable Certificates of Deposit	<u>4,284,882</u>	<u>-</u>	<u>4,284,882</u>	<u>-</u>
Total Investments at Fair Value	<u>\$ 29,926,091</u>	<u>\$ -</u>	<u>\$ 29,926,091</u>	<u>\$ -</u>

Investments not subject to categorization:

Money Market Mutual Funds	\$ 3,079,207
Local Agency Investment Fund (LAIF)	27,718,201
San Diego County Investment Pool	<u>5,223,937</u>
	<u>\$ 65,947,436</u>

**3. ACCOUNTS RECEIVABLE**

Customer Account Receivable

The customer accounts receivable balance at June 30, 2018 consist of the following:

Water and wastewater sales and services	\$ 8,412,722
Allowance for uncollectible accounts	<u>(38,356)</u>
Accounts receivable - water and wastewater, net	<u>\$ 8,374,366</u>

Property Tax Receivable

Taxes and assessments receivable of \$111,701 have been reduced by an allowance for estimated uncollectible taxes of \$3,259 for a net receivable of \$108,442 at June 30, 2018.



**VALLECITOS WATER DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2018  
(Continued)**

**4. CAPITAL ASSETS**

Changes in capital assets are as follows:

	June 30, 2017*	Additions/ Transfers	Deletions/ Transfers	June 30, 2018
Capital Assets, Not Depreciated:				
Land	\$ 4,981,505	\$ -	\$ -	\$ 4,981,505
Construction-in-progress	19,785,305	4,277,298	(15,610,701)	8,451,903
Total Capital Assets, Not Depreciated	<u>24,766,810</u>	<u>4,277,298</u>	<u>(15,610,701)</u>	<u>13,433,408</u>
Capital Assets, Being Depreciated:				
Water transmission and distribution system	196,880,917	3,147,520	(4,846)	200,023,591
Wastewater system	125,580,427	15,078,307	(273,670)	140,385,064
Buildings	15,653,556	484,022	-	16,137,578
Transportation equipment	4,635,046	345,751	(203,088)	4,777,709
Field and shop equipment	11,830,842	111,680	(2,026,380)	9,916,142
Office equipment	2,351,205	69,464	(227,544)	2,193,125
Total Capital Assets, Being Depreciated	<u>356,931,993</u>	<u>19,236,744</u>	<u>(2,735,528)</u>	<u>373,433,209</u>
Less: Accumulated Depreciation:				
Water transmission and distribution system	(69,273,659)	(4,726,091)	4,846	(73,994,904)
Wastewater system	(44,037,637)	(2,686,756)	273,670	(46,450,723)
Buildings	(12,776,478)	(1,302,604)	-	(14,079,082)
Transportation equipment	(3,108,947)	(344,162)	203,088	(3,250,021)
Field and shop equipment	(8,888,511)	(294,613)	2,026,380	(7,156,744)
Office equipment	(1,857,043)	(270,349)	227,544	(1,899,848)
Total Accumulated Depreciation	<u>(139,942,275)</u>	<u>(9,624,575)</u>	<u>2,735,528</u>	<u>(146,831,322)</u>
Total Capital Assets, Being Depreciated, Net	<u>216,989,718</u>	<u>9,612,169</u>	<u>-</u>	<u>226,601,887</u>
Total Capital Assets, Net	<u>\$ 241,756,528</u>	<u>\$ 13,889,467</u>	<u>\$ (15,610,701)</u>	<u>\$ 240,035,295</u>

\*Balance at June 30, 2017 has been restated. See additional details in note 13.

Depreciation expense for the year ended June 30, 2018 is \$9,624,575 and is included in Depreciation and Amortization expense on the Statement of Revenues, Expenses, and Changes in Net Position.

**5. ENCINA WASTEWATER AUTHORITY**

The Revised Basic Agreement is a joint exercise of powers agreement by and among the cities of Carlsbad, Vista, and Encinitas, the Buena Sanitation District, the Vallecitos Water District, and the Leucadia Wastewater District for the ownership and operation of a joint sewerage system. The Encina Wastewater Authority (EWA) board is composed of representatives of these Member Agencies. Each Member Agency has an investment in EWA's assets and owns a corresponding proportion of the capacity of the joint system. As of June 30, 2018, the Member Agencies have the following approximate ownership interest:

City of Vista	25.20%
City of Carlsbad	24.24%
Vallecitos Water District	22.42%
Leucadia Wastewater District	16.80%
Buena Sanitation District	7.09%
City of Encinitas	4.25%

**VALLECITOS WATER DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2018  
(Continued)**

**5. ENCINA WASTEWATER AUTHORITY (Continued)**

The latest available financial statements of EWA, dated June 30, 2017, are available directly from EWA (6200 Avenida Encinas, Carlsbad, California 92011), and depict the following:

	<b>2017</b>
Total assets	\$ 133,737,372
Deferred outflows of resources	6,393,492
Total liabilities	18,451,378
Deferred inflows of resources	521,796
Total net position	\$ 121,157,690
Increase (decrease) in net position	\$ 2,390,504

**6. LONG TERM DEBT**

The following is a summary of long-term debt transactions for the fiscal year ended June 30, 2018:

	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018	Due within one year
2005 Series A COP	\$ 1,910,000	\$ -	\$ (1,910,000)	\$ -	\$ -
2008 UBOC loan	4,600,000	-	(400,000)	4,200,000	400,000
2012 COP	4,434,000	-	(702,000)	3,732,000	741,000
2015 Refunding Revenue Bond	45,315,000	-	-	45,315,000	1,905,000
Bond Premium	6,569,451	-	(364,971)	6,204,480	364,969
Capital lease	26,460	-	(26,460)	-	-
Compensated Absences	1,489,256	573,296	(592,397)	1,470,155	879,229
Total	\$ 64,344,167	\$ 573,296	\$ (3,995,828)	\$ 60,921,635	\$ 4,290,198

*2008 UBOC Loan Payable*

On November 12, 2008, the District entered into a variable rate tax-exempt private placement loan with Union Bank of California (UBOC) in the amount of \$8,000,000 to partially finance the District's share of the expansion costs at the Encina Wastewater Authority's treatment plant. Terms of the agreement call for interest to accrue at an interest rate per annum equal to 64.72% of the LIBOR index plus 0.79% (2.44403% at June 30, 2018). Principal payments of \$200,000 plus interest are payable semi-annually. The loan matures in 2029.

The annual requirements to amortize the 2008 Loan Payable outstanding at June 30, 2018 are as follows:

Fiscal Year	Principal	Interest	Total
2019	\$ 400,000	\$ 111,102	\$ 511,102
2020	400,000	106,366	506,366
2021	400,000	100,640	500,640
2022	400,000	93,823	493,823
2023	400,000	85,802	485,802
2024-2028	2,000,000	257,472	2,257,472
2029	200,000	-	200,000
Total	\$ 4,200,000	\$ 755,205	\$ 4,955,205

**VALLECITOS WATER DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2018  
(Continued)**

**6. LONG TERM DEBT (Continued)**

2012 Certificates of Participation

On December 5, 2012, the Board of Directors of Vallecitos Water District authorized the issuance of debt. The District received \$7.1 million of proceeds at a 1.98% fixed interest rate over the ten-year life of the loan. The proceeds will support the San Marcos Sewer Interceptor and Linda Vista Sewer Line projects.

The annual requirements to amortize the 2012 Certificates of Participation outstanding at June 30, 2018 are as follows:

Fiscal Year	Principal	Interest	Total
2019	\$ 741,000	\$ 66,557	\$ 807,557
2020	725,000	52,044	777,044
2021	739,000	37,551	776,551
2022	755,000	22,760	777,760
2029	772,000	7,643	779,643
Total	<u>\$ 3,732,000</u>	<u>\$ 186,555</u>	<u>\$ 3,918,555</u>

2015 Refunding Revenue Bonds

On July 9, 2015, the District issued \$45,315,000 of Refunding Revenue Bonds due July 1, 2035. The 2015 Bonds were issued to provide funds to provide a portion of the money to prepay a portion of the currently outstanding 2005A Certificates of Participation, and to pay costs of the issuance of the 2015 Bonds.

The annual requirements to amortize the 2015 Refunding Revenue Bonds Certificates outstanding at June 30, 2018 are as follows:

Fiscal Year	Principal	Interest	Total
2019	\$ 1,905,000	\$ 2,208,600	\$ 4,113,600
2020	2,020,000	2,120,000	4,140,000
2021	2,125,000	2,016,375	4,141,375
2022	2,235,000	1,907,375	4,142,375
2023	2,345,000	1,792,875	4,137,875
2024-2028	13,650,000	7,033,250	20,683,250
2029-2033	14,065,000	3,327,625	17,392,625
2034-2036	6,970,000	534,250	7,504,250
Total	<u>\$ 45,315,000</u>	<u>\$ 20,940,350</u>	<u>\$ 66,255,350</u>

**VALLECITOS WATER DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2018  
(Continued)**

**7. NET POSITION**

Net Investment in Capital Assets

Net investment in capital assets at June 30, 2018 consists of the following:

Capital assets not being depreciated	\$ 13,433,408
Net capital assets being depreciated	226,601,887
Notes payable	(4,200,000)
Certificates of participation	(3,732,000)
Refunding bonds	(45,315,000)
Bond premium	(6,204,482)
Deferred loss on refunding	2,715,982
Cash with fiscal agent	3,028,350
Total net investment in capital assets	<u>\$186,328,145</u>

**8. DEFINED BENEFIT PENSION PLAN**

**A. General Information about the Pension Plan**

Plan Description

All qualified permanent and probationary employees are eligible to participate in the Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan (“Plan”) administered by the California Public Employees’ Retirement System (“CalPERS”). The Plan consists of individual rate plans (benefit tiers) within a safety risk pool (police and fire) and a miscellaneous risk pool (all other). Plan assets may be used to pay benefits for any employer rate plan of the safety and miscellaneous pools. Accordingly, rate plans within the safety or miscellaneous pools are not separate plans under generally accepted accounting principles. Individual employers may sponsor more than one rate plan in the miscellaneous or safety risk pools. The District sponsors two miscellaneous rate plans. Benefit provisions under the Plan are established by State statute and District 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, at [www.calpers.ca.gov](http://www.calpers.ca.gov).

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 5 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.

The Plan operates under the provisions of the California Public Employees’ Retirement Law (“PERL”), the California Public Employees’ Pension Reform Act of 2013 (“PEPRA”), and the regulations, procedures and policies adopted by the CalPERS Board of Administration. The Plans’ authority to establish and amend the benefit terms are set by the PERL and PEPRA and may be amended by the California state legislature and in some cases require approval by the CalPERS Board.

**VALLECITOS WATER DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2018  
(Continued)**

**8. DEFINED BENEFIT PENSION PLAN (Continued)**

The Plan's provisions and benefits in effect at June 30, 2018 are summarized as follows:

	Prior to January 1, 2013	On or after January 1, 2013
Hire date	3% @ 60	2% @ 62
Benefit formula	5 years' service	5 years' service
Benefit vesting schedule	monthly for life	monthly for life
Benefit payments	50 - 60	52 - 62
Retirement age	2.0% to 3.0%	1.0% to 2.0%
Monthly benefits, as a % of eligible compensation	8%	6.25%
Required employee contribution rates	12.657%	6.555%
Required employer contribution rates		

Contributions

Section 20814(c) of the California PERL 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 a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. For public agency cost-sharing plans covered by Miscellaneous risk pools, the Plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Employer contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements are classified as plan member contributions.

**B. Net Pension Liability**

The District's net pension liability for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the Plan is measured as of June 30, 2017, using an annual actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is as follows:

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

<b>Actuarial Cost Method:</b>	Entry Age Normal
<b>Actuarial Assumptions:</b>	
Discount Rate	7.15%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	6.25%, assuming actuarially determined contributions funded into CERBT Investment Strategy 2

**VALLECITOS WATER DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2018  
(Continued)**

**8. DEFINED BENEFIT PENSION PLAN (Continued)**

Mortality Rate <sup>(1)</sup>	Derived using CalPERS' Membership Data for all funds
Pre-Retirement Turnover <sup>(2)</sup>	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter.

<sup>(1)</sup> Pre-retirement mortality information was derived from data collected during 1997 to 2011 CalPERS Experience Study dated January 2014 and post-retirement mortality information was derived from the 2007 to 2011 CalPERS Experience Study. The Experience Study Reports may be accessed on the CalPERS website [www.calpers.ca.gov](http://www.calpers.ca.gov) under Forms and Publications.

All other actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report may be accessed on the CalPERS website at [www.calpers.ca.gov](http://www.calpers.ca.gov) under Forms and publications.

Change of Assumptions

In 2017, the account discount rate reduced from 7.65 percent to 7.15 percent.

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. To determine whether the municipal bond rate should be used in the calculation of the discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. The tests revealed the assets would not run out. Therefore, the current 7.15 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.15 percent is applied to all plans in the Public Employees' Retirement Fund (PERF). The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which 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, staff took into account both short-term and long-term market return expectations as well as the expected pension fund (PERF) cash flows. Taking into account historical returns of all the PERF asset classes (which includes the agent plan and two cost-sharing plans or PERF A, B and C funds), expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected 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 equal to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

**VALLECITOS WATER DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2018  
(Continued)**

**8. DEFINED BENEFIT PENSION PLAN (Continued)**

The following table reflects 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. The target allocation shown was adopted by the CalPERS Board effective on July 1, 2014.

<u>Asset Class</u>	<u>Current Target Allocation</u>	<u>Real Return Years 1 - 10<sup>(1)</sup></u>	<u>Real Return Years 11+<sup>(2)</sup></u>
Global Equity	47.0%	4.80%	5.38%
Global Fixed Income	19.0%	0.80%	2.27%
Inflation Sensitive	6.0%	0.60%	1.39%
Private Equity	12.0%	6.60%	6.63%
Real Estate	11.0%	2.80%	5.21%
Infrastructure and Forestland	3.0%	3.90%	5.36%
Liquidity	2.0%	(0.40%)	(0.90%)

(1) An expected inflation of 2.5% used for this period.

(2) An expected inflation of 3.0% used for this period.

Pension Plan Fiduciary Net Position

Information about the pension plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position are presented in CalPERS' audited financial statements, which are publicly available reports that can be obtained at CalPERS' website, at [www.calpers.ca.gov](http://www.calpers.ca.gov). The plan's fiduciary net position and additions to/deductions from the plan's fiduciary net position have been determined on the same basis used by the pension plan, which is the economic resources measurement focus and the accrual basis of accounting. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value.

**C. Proportionate Share of Net Pension Liability**

The following table shows the Plan's proportionate share of the net pension liability over the measurement period.

	<b>Total Pension Liability</b>	<b>Increase (Decrease) Plan Fiduciary Net Position</b>	<b>Net Pension Liability</b>
	<b>(a)</b>	<b>(b)</b>	<b>(c) = (a) - (b)</b>
Balance at: 6/30/2016	\$ 64,930,624	\$ 49,771,727	\$ 15,158,897
Balance at: 6/30/2017	<u>72,806,418</u>	<u>55,035,570</u>	<u>17,770,848</u>
Net Changes during 2016-17	<u>\$ 7,875,794</u>	<u>\$ 5,263,843</u>	<u>\$ 2,611,951</u>

The District's net pension liability for each 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, 2017, 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, 2016 rolled forward to June 30, 2017 using standard update procedures.

**VALLECITOS WATER DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2018  
(Continued)**

**8. DEFINED BENEFIT PENSION PLAN (Continued)**

The District's proportion of the net pension liability determined by CalPERS using the output from the Actuarial Valuation System and the fiduciary net position, as provided in the CalPERS Public Agency Cost-Sharing Allocation Methodology Report, which is a publicly available report that can be obtained at CalPERS' website at, [www.calpers.ca.gov](http://www.calpers.ca.gov). The District's proportionate share of the net pension liability for the Plan as of June 30, 2016 and 2017 was as follows:

	Miscellaneous
Proportionate Share - June 30, 2016	0.43637%
Proportionate Share - June 30, 2017	<u>0.45080%</u>
Change - Increase (Decrease)	<u>0.01443%</u>

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

The following presents the District's proportionate share of the net pension liability of the Plan as of the measurement date, calculated using the discount rate of 7.15 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.15 percent) or 1 percentage-point higher (8.15 percent) than the current rate:

	<u>Discount Rate - 1%</u> <u>(6.15%)</u>	<u>Current Discount Rate</u> <u>(7.15%)</u>	<u>Discount Rate + 1%</u> <u>(8.15%)</u>
Plan's Net Pension Liability	\$ 27,785,146	\$ 17,770,848	\$ 9,476,828

**Subsequent Events**

In February 2018, the CalPERS Board approved the reduction of the amortization period from 30 years to 20 years effective June 30, 2019.

**Recognition of Gains and Losses**

Under GASB 68, gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time.

The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense.

The amortization period differs depending on the source of the gain or loss:

Difference between projected and actual earnings	5-year straight-line amortization
All other amounts	Straight-line amortization over the average expected remaining service lives of all members that are provided with benefits (active, inactive and retired) as of the beginning of the measurement period.



**VALLECITOS WATER DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2018  
(Continued)**

**8. DEFINED BENEFIT PENSION PLAN (Continued)**

The EARSL for the Plan for the measurement date ending June 30, 2017 is 3.8 years, which was obtained by dividing the total service years of 490,088 (the sum of remaining service lifetimes of the active employees) by 130,595 (the total number of participants: active, inactive, and retired). Inactive employees and retirees have remaining service lifetimes equal to zero. Total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

**D. Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions**

For the measurement period ending June 30, 2017 (the measurement date), the District incurred pension expense of \$3,185,174 for the Plan.

As of June 30, 2018, the District has deferred outflows and deferred inflows of resources related to pensions as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Experience	\$ 24,485	\$ (350,798)
Changes of Assumptions	3,038,055	(231,655)
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	687,083	-
Change in Employer's Proportion	493,877	-
Difference in Actual vs Projected Contributions	-	(556,353)
Pension Contributions Subsequent to Measurement Date	1,765,087	-
<b>Total</b>	<u>\$ 6,008,587</u>	<u>\$ (1,138,806)</u>

Contributions subsequent to the measurement date of \$1,765,087 reported with deferred outflows of resources will be recognized as a reduction of the net pension liability in the upcoming fiscal year. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in future pension expense as follows:

<u>Measurement Period Ended June 30:</u>	<u>Deferred Outflows/(Inflows) of Resources</u>
2018	\$ 679,064
2019	1,769,534
2020	1,064,030
2021	(407,934)
2022	-
Thereafter	-

**9. OTHER POST-EMPLOYMENT BENEFITS (OPEB)**

The District provides post-employment health benefits in accordance with a resolution approved by the Board of Directors, to all employees who retire from the District under the retirement criteria established by CalPERS, up to age 65. At June 30, 2018, there were twenty-eight retired employees who met these eligibility requirements and are therefore receiving the benefits.

**VALLECITOS WATER DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2018  
(Continued)**

**9. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)**

Plan Description

For employees who retired before July 1, 2013, The District's OPEB provides continued medical coverage for an eligible retired employee, spouse or registered domestic partner, and eligible dependent at no cost to the retired employee. Coverage will continue for the retiree and spouse or registered domestic partner until they become entitled to Medicare Benefits at age 65. Coverage for the retirees' eligible dependents will continue until they are eligible for coverage under any other health care plan or public health care program or are no longer eligible for coverage under the District's group health plans according to the terms and conditions of the agreement between the group health plan and the District.

For employees who retire after June 30, 2013, the District's OPEB provides continued medical coverage for an eligible retired employee and spouse or registered domestic partner until they become entitled to Medicare Benefits at age 65. Medical premiums paid by the District are established per the most current Memorandum of Understanding (MOU). Plan premiums elected by the retiree above those established in the MOU are paid by the retiree.

To become eligible for partial OPEB benefits, non-retired employees hired before July 1, 2013, must be age 50 and have five years of continuous service with the District. OPEB benefits increase with each year of continuous service up to ten years when the employee becomes 100% vested to receive the maximum amount of premium established in the most current MOU at retirement.

The OPEB benefit is not offered to employees hired after July 1, 2013.

Eligible retirees may enroll in any of the plans the District offers through the CalPERS Program.

Employees Covered

As of the June 30, 2017 measurement date, the following current and former employees were covered by the benefit terms under the Plan:

Active employees	76
Inactive employees or beneficiaries currently receiving benefits	28
Inactive employees entitled to, but not yet receiving benefits	-
Total	104

Contributions

The Plan and its contribution requirements are established by Memoranda of Understanding with the applicable employee bargaining units and may be amended by agreements between the District and the bargaining units. The annual contribution is based on the actuarially determined contribution. For the fiscal year ended June 30, 2018, the District's cash contributions were \$1,660,000 of prefunding payments to the trust, \$319,832 of direct payments and the estimated implied subsidy was \$120,686 resulting in total payments of \$2,100,518.

**VALLECITOS WATER DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2018  
(Continued)**

**9. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)**

Net OPEB Liability

The District's net OPEB liability was measured as of June 30, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2016 that was rolled forward to determine the June 30, 2017 total OPEB liability, based on the following actuarial methods and assumptions:

<b>Actuarial Cost Method:</b>	Entry Age Normal
<b>Actuarial Assumptions:</b>	
Discount Rate	6.25%
Inflation	2.75%
Salary Increases	3.00% per annum, in aggregate
Investment Rate of Return	6.25%, assuming actuarially determined contributions funded into CERBT Investment Strategy 2
Mortality Rate <sup>(1)</sup>	Derived using CalPERS' Membership Data for all funds
Pre-Retirement Turnover <sup>(2)</sup>	Derived using CalPERS' Membership Data for all funds
Healthcare Trend Rate	Based on recent premium experience assuming 1%-2% increase due to market trends then reduced to a rate reflecting medical price inflation

<sup>(1)</sup> Pre-retirement mortality information was derived from data collected during 1997 to 2011 CalPERS Experience Study dated January 2014 and post-retirement mortality information was derived from the 2007 to 2011 CalPERS Experience Study. The Experience Study Reports may be accessed on the CalPERS website [www.calpers.ca.gov](http://www.calpers.ca.gov) under Forms and Publications.

<sup>(2)</sup> The pre-retirement turnover information was developed based on CalPERS' specific data. For more details, please refer to the 2007 to 2011 Experience Study Report. The Experience Study Report may be accessed on the CalPERS website [www.calpers.ca.gov](http://www.calpers.ca.gov) under Forms and Publications.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term expected real rate of return*</u>
Global Equity	40.00%	5.50%
Global Fixed Income	39.00%	2.25%
TIPS	10.00%	1.25%
REITs	8.00%	4.50%
Commodities	3.00%	1.25%
Total	100.00%	

\* Long-term expected rate of return is 6.25%

**VALLECITOS WATER DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2018  
(Continued)**

**9. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)**

Discount Rate

The discount rate used to measure the total OPEB liability was 6.25 percent. The projection of cash flows used to determine the discount rate assumed that District contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Changes in the net OPEB Liability

The changes in the net OPEB liability for the Plan are as follows:

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net position (b)	Net OPEB Liability/(Asset) (c) = (a) - (b)
Balance at June 30, 2017 (Valuation Date June 30, 2016)	\$ 5,609,888	\$ 3,327,494	\$ 2,282,394
Changes recognized for the measurement period:			
Service cost	170,304	-	170,304
Interest	341,526	-	341,526
Contributions - employer	-	631,560	(631,560)
Net investment income	-	240,481	(240,481)
Benefit payments	(631,560)	(631,560)	-
Administrative expense	-	(1,753)	1,753
Net changes	(119,730)	238,728	(358,458)
Balance at June 30, 2018 (Measurement Date June 30, 2017)	\$ 5,490,158	\$ 3,566,222	\$ 1,923,936

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the District if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2017:

	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
<b>Net OPEB Liability</b>	\$2,270,669	\$1,923,936	\$1,606,084

**VALLECITOS WATER DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2018  
(Continued)**

**9. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)**

*Sensitivity of the Net OPEB Liability to Changes in the Health Care Cost Trend Rates*

The following presents the net OPEB liability of the District if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2017:

	<b>1% Decrease</b>	<b>Current Healthcare Cost Trend Rates</b>	<b>1% Increase</b>
	(5.00%HMO/6.00%PPO decreasing to 4.00%HMO/4.00%PPO)	(6.00%HMO/7.00%PPO) decreasing to 5.00%HMO/5.00%PPO)	(7.00%HMO/8.00%PPO decreasing to 6.00%HMO/6.00%PPO)
<b>Net OPEB Liability</b>	\$1,528,176	\$1,923,936	\$2,372,311

*OPEB Plan Fiduciary Net Position*

The CERBT issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained from the California Public Employees' Retirement System, CERBT, P.O. Box 942703, Sacramento, CA 94429-2703.

*Recognition of Deferred Outflows and Deferred Inflows of Resources*

Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time.

Amounts are first recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense.

The recognition period differs depending on the source of the gain or loss:

Net difference between projected and actual earnings on OPEB plan investments	5 years
All other amounts	Expected average remaining service lifetime (EARSL)

*OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB*

For the fiscal year ended June 30, 2018, the District recognized OPEB expense of \$299,156. As of fiscal year, ended June 30, 2018, the District reported deferred outflows of resources related to OPEB from the following sources:

**VALLECITOS WATER DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2018  
(Continued)**

**9. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)**

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
OPEB contributions subsequent to measurement date	\$ 2,100,518	-
Net difference between projected and actual earnings on OPEB plan investments	-	(26,054)
<b>Total</b>	<b>\$ 2,100,518</b>	<b>\$ (26,054)</b>

The \$2,100,518 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2017 measurement date will be recognized as a reduction of the net OPEB liability during the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources related to OPEB will be recognized as expense as follows:

<b>Fiscal Year Ended June 30:</b>	<b>Deferred Outflows/(Inflows) of Resources</b>
2019	\$ 6,513
2020	6,513
2021	6,513
2022	6,515
2023	-
Thereafter	-

**10. RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disaster.

The District participates in the Association of California Water Agencies Joint Powers Insurance Authority (“Association”), which arranges for and provides various forms of liability insurance to its member agencies. The District pays a premium commensurate with the level of coverage requested.

The Association is governed by a board consisting of elected representatives of member agencies. This governing board controls the operation of the Association independent of any influence by the District. The Association is independently accountable for its fiscal matters and maintains its own accounting records. The Association’s budgets are not subject to any approval other than by its governing board. Member agencies share surpluses and deficits proportionately to their participation in the Association. The relationship between the District and the Association is such that the Association is not a component unit of the District for financial reporting purposes. Separate financial statements of the Association may be obtained from ACWA/JPIA at the following address: 2100 Professional Drive, Roseville, CA 95661-3700.

**VALLECITOS WATER DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2018  
(Continued)**

**10. RISK MANAGEMENT (Continued)**

At June 30, 2018, the District participated in the following insurance programs of the Association:

General Liability: Includes commercial, contractual, products/completed operations and personal injury with coverage limits of \$60,000,000.

Auto Liability: Includes owned automobiles, non-owned automobiles, and hired automobiles with coverage limits of \$60,000,000 and a varying deductible up to \$5,000 depending on the vehicle.

Public Officials' Liability: Includes errors and omissions with coverage limits of \$60,000,000.

Cyber Liability: Includes cyber security with coverage limits of \$3 million per occurrence and \$5 million aggregate.

Real and Personal Property: Property loss is paid at the replacement cost for property on file, if replaced within two years after the loss. Otherwise, property loss is paid at the actual cash value up to \$100 million per occurrence with a deductible of \$10,000, excluding boiler and machinery equipment. Boiler and machinery deductibles vary from \$25,000 to \$50,000, depending on the type of equipment. The total self-insurance limit is \$100,000. However, the District purchased additional insurance with coverage limits of \$500 million.

Crime: Includes public employee dishonesty, forgery or alteration, computer fraud, and ERISA with coverage limits of \$100,000 and a deductible of \$1,000.

Workers' Compensation Coverage and Employer's Liability: Statutory limits per occurrence for Workers' Compensation and \$2,000,000 for Employer's Liability Coverage, subject to the terms, conditions and exclusions as provided in the Certificate of Coverage.

During the past three fiscal years, none of the above programs of protection have had settlements or judgments that exceeded pooled or insured coverage. There have been no significant reductions in pooled or insured liability coverage from coverage in the prior year.

**VALLECITOS WATER DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2018**  
**(Continued)**

**11. SEGMENT INFORMATION**

Condensed Statement of Net Position

	2018			2017
	Water	Sewer	Total	Total
<b>Assets:</b>				
Current assets	\$ 29,946,590	\$ 46,560,217	\$ 76,506,807	\$ 68,828,698
Non-current assets	27,886	47,071	74,957	69,760
Capital assets, net	139,624,973	127,444,116	267,069,089	268,694,939
Total assets	<u>\$ 169,599,449</u>	<u>\$ 174,051,404</u>	<u>\$ 343,650,853</u>	<u>\$ 337,593,397</u>
Deferred Outflows of Resources	6,076,544	4,748,543	10,825,087	7,557,899
<b>Liabilities:</b>				
Current liabilities	\$ 9,195,328	\$ 5,627,712	\$ 14,823,040	\$ 14,136,944
Non-current liabilities	37,168,026	39,158,195	76,326,221	75,691,055
Total liabilities	<u>46,363,354</u>	<u>44,785,907</u>	<u>91,149,261</u>	<u>89,827,999</u>
Deferred Inflows of Resources	678,030	486,830	1,164,860	1,003,540
<b>Net Position:</b>				
Invested in capital assets, net of related debt	114,749,279	71,578,866	186,328,145	186,257,119
Restricted for future capital facilities	27,884	47,073	74,957	707,616
Restricted for Encina Wastewater	-	27,033,794	27,033,794	25,569,807
Unrestricted	13,857,446	34,867,477	48,724,923	41,785,215
Total Net Position	<u>\$ 128,634,609</u>	<u>\$ 133,527,210</u>	<u>\$ 262,161,819</u>	<u>\$ 254,319,757</u>

Condensed Statement of Revenues, Expenses and Changes in Net Position

	2018			2017
	Water	Sewer	Total	Total
<b>Revenues:</b>				
Operating revenues	\$ 44,177,670	\$ 19,957,591	\$ 64,135,261	\$ 57,422,074
Non-operating revenues	2,707,737	2,466,947	5,174,684	4,472,014
Total revenues	<u>46,885,407</u>	<u>22,424,538</u>	<u>69,309,945</u>	<u>61,894,088</u>
<b>Expenses:</b>				
Operating expenses	42,344,322	11,687,049	54,031,371	49,545,835
Depreciation and amortization	5,333,178	4,291,397	9,624,575	9,425,308
Non-operating expenses	1,043,195	3,323,638	4,366,833	4,757,025
Total expenses	<u>48,720,695</u>	<u>19,302,084</u>	<u>68,022,779</u>	<u>63,728,168</u>
Net income/(loss) before capital contributions	(1,835,288)	3,122,454	1,287,166	(1,834,080)
Capital contributions	4,764,384	4,924,347	9,688,731	6,760,690
Change in net position	2,929,096	8,046,801	10,975,897	4,926,610
Total Net Position, Beginning of Year as Restated	125,705,513	125,480,409	251,185,922	249,393,147
Total Net Position, End of Year	<u>\$ 128,634,609</u>	<u>\$ 133,527,210</u>	<u>\$ 262,161,819</u>	<u>\$ 254,319,757</u>

Condensed Statement of Cash Flows

	2018			2017
	Water	Sewer	Total	Total
<b>Net cash provided (used) by:</b>				
Operating activities	1,125,696	8,365,511	9,491,207	6,668,355
Non-capital financing activities	2,346,481	2,102,036	4,448,517	4,154,654
Capital and related financing activities	(1,048,476)	(5,257,513)	(6,305,989)	(4,596,483)
Investing activities	(1,840,922)	(306,149)	(2,147,071)	(2,308,821)
Net cash provided	582,779	4,903,886	5,486,664	3,917,705
Cash and cash equivalents, beginning of year	9,094,777	21,523,456	30,618,233	26,700,528
Cash and cash equivalents, end of year	<u>\$ 9,677,556</u>	<u>\$ 26,427,342</u>	<u>\$ 36,104,897</u>	<u>\$ 30,618,233</u>



**VALLECITOS WATER DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2018  
(Continued)**

**12. COMMITMENTS AND CONTINGENCIES**

Construction Contracts

The District has a variety of agreements with private parties relating to the installation, improvement or modification of water facilities and distribution systems within its service area. The financing of such construction contracts is being provided primarily from the District's replacement reserves and advances for construction. These include the following:

<u>Project Description</u>	<u>Total Approved Contracts</u>	<u>Spent Through June 30, 2018</u>	<u>Remaining Balance</u>
Fulton Road / NCTD Sewer Rehabilitation	\$ 84,048	\$ -	\$ 84,048
Laurels Sewer Lining	101,051	-	101,051
North Pressure Reducing Station	193,775	166,229	27,546
South Pressure Reducing Station	194,377	147,897	46,480
Stargaze Court and River Run Circle Water Line Rehabilitation	378,000	-	378,000
	<u>\$ 951,251</u>	<u>\$ 314,126</u>	<u>\$ 637,125</u>

Litigation

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

**13. PRIOR PERIOD ADJUSTMENT**

The accompanying financial statements reflect the implementation of GASB Statement No. 75. GASB 75 changes the accounting for OPEB liabilities and related balances. As a result of the implementation of GASB Statement No.75, the beginning net position was restated by a decrease of \$1,765,230. Prior year information was not restated because the necessary actuarial information was not available.

The District adjusted beginning net position to correct the accounting for certain capital assets that were included in construction in progress but had been placed in service. Beginning net position was decreased by \$1,368,605 to reflect the accumulated depreciation of capital assets.

The summary of changes in the net position as of June 30, 2017 is as follows:

Net position as of June 30, 2017, as previously reported	\$ 254,319,757
Implementation of GASB 75	(1,765,230)
Decrease in Capital Assets, Net	<u>(1,368,605)</u>
Net position as of June 30, 2017, as restated	<u>\$ 251,185,922</u>

**REQUIRED SUPPLEMENTARY INFORMATION**

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**VALLECITOS WATER DISTRICT**  
**SCHEDULE OF THE PLAN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
**Last Ten Fiscal Years\***

	Measurement Date			
	6/30/2017	6/30/2016	6/30/2015	6/30/2014
Proportion of the collective net pension liability	0.45080%	0.43637%	0.41797%	0.40328%
Proportionate share of the collective net pension liability	\$ 17,770,848	\$ 15,158,897	\$ 11,466,898	\$ 9,967,048
Covered payroll	\$ 9,261,146	\$ 8,582,083	\$ 8,295,604	\$ 7,801,034
Proportionate share of the collective net pension liability as percentage of covered payroll	191.89%	176.63%	138.23%	127.77%
Plan fiduciary net position as a percentage of the total pension liability	75.39%	76.65%	81.35%	83.03%

Notes to Schedule:

**Benefit Changes:**

The figures above do not include any liability impact that may have resulted from plan changes which occurred after the June 20, 2016 valuation date. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a Golden Handshakes).

**Changes in Assumptions:**

In 2017, the accounting discount rate reduced from 7.65 percent to 7.15 percent. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense.)

\* - Fiscal year 2015 was the first year of implementation, therefore only four years are shown.

**VALLECITOS WATER DISTRICT**  
**SCHEDULE OF CONTRIBUTIONS - DEFINED BENEFIT PENSION PLAN**  
**Last Ten Fiscal Years\***

	Fiscal Year			
	6/30/2018	6/30/2017	6/30/2016	6/30/2015
Actuarially determined contribution	\$ 1,765,087	\$ 1,690,724	\$ 1,465,868	\$ 1,304,486
Contributions in relation to the Actuarially Determined Contribution	<u>(1,765,087)</u>	<u>(1,690,724)</u>	<u>(1,465,868)</u>	<u>(1,304,486)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	8,696,329	9,261,146	8,582,083	8,295,604
Contributions as a percentage of covered payroll	20.30%	18.26%	17.08%	15.73%

Notes to Schedule:

Fiscal Year End: 06/30/18

Valuation Date: 06/30/15

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry age
Amortization Method	Level percent of payroll
Asset Valuation Method	Market Value
Discount Rate	7.50%
Projected Salary Increase	3.30% to 14.20% depending on age, service, and type of employment.
Inflation	2.75%
Payroll Growth	3.00%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%.

*\*Fiscal year 2015 was the first year of implementation, therefore only four years are shown*

**VALLECITOS WATER DISTRICT**  
**SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS**  
**Last Ten Fiscal Years\***

Measurement Period: June 30	2017
<b>Total OPEB liability</b>	
Service cost	\$ 170,304
Interest on the total OPEB liability	341,526
Actual and expected experience difference	-
Changes in assumptions	-
Changes in benefit terms	-
Benefit payments	(631,560)
Net change in total OPEB liability	(119,730)
Total OPEB liability - beginning	5,609,888
Total OPEB liability - ending (a)	\$ 5,490,158
 <b>Plan Fiduciary Net Position</b>	
Contribution - employer	\$ 631,560
Net investment income	240,481
Benefit payments	(631,560)
Administrative expense	(1,753)
Net change in plan fiduciary net position	238,728
Plan fiduciary net position - beginning	3,327,494
Plan fiduciary net position - ending (b)	\$ 3,566,222
Net OPEB liability - ending (a)-(b)	\$ 1,923,936
Plan fiduciary net position as a percentage of the total OPEB liability	64.96%
Covered-employee payroll	\$ 6,883,715
Net OPEB liability as a percentage of covered-employee payroll	27.95%

\*Historical information is required only for measurement periods for which GASB 75 is applicable. Future years' information will be displayed up to 10 years as information becomes available.

**VALLECITOS WATER DISTRICT  
SCHEDULE OF OPEB CONTRIBUTIONS  
Last Ten Fiscal Years\***

Fiscal Year Ended June 30	2018
Actuarially Determined Contribution (ADC)	\$ 631,560
Contributions in relation to the ADC	(2,100,518)
Contribution deficiency (excess)	\$ (1,468,958)
Covered-employee payroll	\$ 6,593,511
Contributions as a percentage of covered-employee payroll	31.86%

Notes to Schedule:

Actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2018 were from the April 1, 2017 actuarial valuation.

Methods and assumptions used to determine contributions:

Actuarial Cost Method	Entry Age Normal
Amortization Method/Period	Level percent of payroll over a closed rolling 15-year period
Asset Valuation Method	Market Value
Inflation	2.75%
Payroll Growth	3% per annum, in aggregate
Investment Rate of Return	6.25%, assuming actuarially determined contributions funded into California Employers' Retiree Benefit Trust Investment Strategy 1.
Healthcare cost-trend rates	Based on recent premium experience, assuming 1%-2% increase due to market trends then reduced to a rate reflecting medical price inflation.
Retirement Age	Tier 1 employees - 2.5% @55 and Tier 2 employees - 2.0% @62 The probabilities of Retirement are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011.
Mortality	Pre-retirement mortality probability based on 2014 CalPERS 1997-2011 Experience Study covering CalPERS participants. Post-retirement mortality probability based on CalPERS Experience Study 2007-2011 covering participants in CalPERS.

\*Historical information is required only for measurement periods for which GASB 75 is applicable. Future years' information will be displayed up to 10 years as information becomes available.

## **SUPPLEMENTARY INFORMATION**



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**VALLECITOS WATER DISTRICT  
SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2018**

**1. SCHEDULE OF OPERATING EXPENSES – WATER DIVISION**

	<u>2018</u>	<u>2017</u>
Purchased Water	\$ 30,678,093	\$ 27,392,003
Pumping:		
Labor	115,998	84,567
Materials and supplies	27,030	24,536
Outside repair	10,708	20,789
Power	686,148	482,177
Total Pumping	<u>839,884</u>	<u>612,069</u>
Water Quality and Treatment:		
Labor	488,820	445,346
Materials and supplies	89,011	82,174
Outside Repair	64,662	62,167
Power	9,002	15,157
Total Water Treatment	<u>651,495</u>	<u>604,844</u>
Tanks and Reservoirs:		
Labor	235,020	216,923
Materials and supplies	23,152	15,056
Outside repair	101,619	76,427
Power	4,448	4,198
Total Tanks and Reservoirs	<u>364,239</u>	<u>312,604</u>
Transmission and Distribution:		
Labor	1,135,320	1,171,448
Materials and supplies	201,740	182,215
Outside repair	217,658	384,023
Power	11,097	10,081
Total Transmission and Distribution	<u>1,565,815</u>	<u>1,747,767</u>
Services:		
Labor	92,198	69,058
Materials and supplies	21,597	19,534
Outside repair	81,555	49,481
Total Services	<u>195,350</u>	<u>138,073</u>
Meters:		
Labor	649,905	595,587
Materials and supplies	56,469	24,087
Outside repair	6,386	5,902
Total Meters	<u>712,760</u>	<u>625,576</u>
Backflow Prevention:		
Labor	8,839	70,939
Materials and supplies	49,046	3,939
Total Backflow Prevention	<u>57,885</u>	<u>74,878</u>

**VALLECITOS WATER DISTRICT  
SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2018  
(Continued)**

**1. SCHEDULE OF OPERATING EXPENSES – WATER DIVISION (Continued)**

	<u>2018</u>	<u>2017</u>
Customer Accounts:		
Labor	462,829	456,320
Materials and supplies	95,687	49,037
Uncollectible accounts	44,816	26,143
Outside Repair	45,147	32,401
Total Customer Accounts	<u>648,479</u>	<u>563,901</u>
 Equipment and Vehicles:		
Labor, fuel and repairs	223,597	219,612
Materials and supplies	64,036	66,270
Total Equipment and Vehicles	<u>287,633</u>	<u>285,882</u>
 Building and Grounds:		
Labor	196,200	208,064
Materials and supplies	28,818	23,023
Outside Repair	65,176	73,489
Power	116,650	96,236
Total Building and Grounds	<u>406,844</u>	<u>400,812</u>
 Engineering:		
Labor	1,600,075	1,363,299
Materials and supplies	21,961	12,255
Outside Repair	43,945	43,352
Total Engineering	<u>1,665,981</u>	<u>1,418,906</u>
 Safety:		
Labor	243,112	215,209
Materials and supplies	7,766	7,994
Safety support	15,744	10,276
Total Safety	<u>266,622</u>	<u>233,479</u>
 Information Technology		
Labor	409,119	438,533
Travel	1,378	1,992
Dues and subscriptions	457	147
Meetings and seminars	570	2,806
Other materials and supplies	63,892	18,973
Phone	24,287	21,341
Equipment Rent & Repair	33,867	34,710
Outside Repair	265,360	209,790
Total Information Technology	<u>798,930</u>	<u>728,292</u>

**VALLECITOS WATER DISTRICT  
SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2018  
(Continued)**

**1. SCHEDULE OF OPERATING EXPENSES – WATER DIVISION (Continued)**

	<b>2018</b>	<b>2017</b>
General and Administration:		
Salaries	1,940,141	1,812,289
Other taxes/benefits	26,414	42,020
Social security	144,977	136,095
Group insurance	511,738	561,629
Public employees' retirement	797,566	492,618
Workers' compensation insurance	37,987	35,696
District insurance	143,315	137,963
Director's expense	46,092	43,343
Director's fees	48,906	50,703
Public awareness	96,075	91,026
Travel	14,005	11,261
Postage	1,572	7,121
Office supplies	24,838	38,058
Dues and subscriptions	88,098	53,791
Meetings and seminars	16,431	20,642
Legal	85,850	111,869
Auditing	13,253	16,083
Outside services	134,866	169,372
Election and annexations	-	6,127
Other	4,631	(40,648)
Administrative credits transferred	(972,435)	(737,301)
Total General and Administration	3,204,320	3,059,757
 Total Water Division Expenses	 \$ 42,344,330	 \$ 38,198,843

**VALLECITOS WATER DISTRICT  
SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2018  
(Continued)**

**2. SCHEDULE OF OPERATING EXPENSES – WASTEWATER DIVISION**

	<u>2018</u>	<u>2017</u>
Collection System:		
Labor	\$ 1,473,590	\$ 1,422,004
Materials and supplies	116,904	92,870
Chemicals	216,044	241,625
Outside repair	109,891	138,821
Power	1,325	1,368
Total Collection System	<u>1,917,754</u>	<u>1,896,688</u>
 Lift Stations		
Labor	138,317	156,632
Materials and supplies	18,211	19,165
Chemicals	2,211	421
Outside repair	10,891	66,053
Power	50,084	50,933
Total Lift Stations	<u>219,714</u>	<u>293,204</u>
 Peroxide Station:		
Labor	1,466	1,291
Power	-	25
Total Peroxide Station	<u>1,466</u>	<u>1,316</u>
 Source Control:		
Labor	163,861	146,018
Materials and supplies	275	14,771
Total Source Control	<u>164,136</u>	<u>160,789</u>
 Encina Disposal	<u>2,555,168</u>	<u>2,529,715</u>
 Meadowlark Lift Station:		
Labor	99,090	76,523
Materials and supplies	13,301	8,289
Chemicals	106,576	101,791
Outside repair	28,220	31,741
Power	86,331	89,791
Total Meadowlark Lift Station	<u>333,518</u>	<u>308,135</u>
 Meadowlark Plant:		
Labor	1,041,447	981,193
Materials and supplies	218,598	369,359
Chemicals	256,231	468,966
Outside repair	313,921	233,051
Power	401,845	413,397
Telephone	-	117
Total Meadowlark Plant	<u>2,232,042</u>	<u>2,466,083</u>

**VALLECITOS WATER DISTRICT  
SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2018  
(Continued)**

**2. SCHEDULE OF OPERATING EXPENSES – WASTEWATER DIVISION (Continued)**

	<u>2018</u>	<u>2017</u>
Mahr Reservoir:		
Labor	85,893	65,759
Materials and supplies	26,602	15,196
Chemicals	43,347	23,292
Outside repairs	105,993	115,449
Total Mahr Reservoir	<u>261,835</u>	<u>219,696</u>
Customer Accounts:		
Labor	298,142	303,605
Materials and supplies	91,199	45,344
Uncollectible accounts	11,612	13,852
Outside Services	42,762	31,564
Total Customer Accounts	<u>443,715</u>	<u>394,365</u>
Equipment and Vehicles:		
Labor, fuel and repairs	160,060	122,091
Materials and supplies	21,147	30,890
Fuel	29,707	32,517
Total Equipment and Vehicles	<u>210,914</u>	<u>185,498</u>
Buildings and Grounds:		
Labor	60,740	59,918
Materials and supplies	20,771	15,152
Outside repair	58,938	62,048
Power	111,850	91,921
Total Buildings and Grounds	<u>252,299</u>	<u>229,038</u>
Engineering:		
Labor	622,874	560,599
Materials and supplies	6,257	3,846
Outside repair	202,691	4,846
Total Engineering	<u>831,822</u>	<u>569,291</u>
Safety:		
Labor	169,356	150,064
Materials and supplies	1,268	266
Outside services	2,272	8,609
Total Safety	<u>172,896</u>	<u>158,939</u>

**VALLECITOS WATER DISTRICT  
SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2018  
(Continued)**

**2. SCHEDULE OF OPERATING EXPENSES – WASTEWATER DIVISION (Continued)**

	<u>2018</u>	<u>2017</u>
Information Technology		
Labor	279,158	296,379
Materials and supplies	117,527	75,747
Outside services	294,602	220,427
Total Information Technology	<u>691,287</u>	<u>592,553</u>
General and Administration:		
Salaries	718,848	816,549
Other taxes/benefits	10,002	14,187
Social security	53,955	57,130
Group insurance	260,941	321,300
Public employees' retirement	381,936	260,834
Workers' compensation insurance	9,930	10,650
District insurance	137,695	132,552
Director's fees	34,877	42,899
Office supplies	7,708	16,955
Dues and subscriptions	17,823	16,155
Meetings and seminars	943	50
Legal	84,805	111,829
Auditing	12,747	15,477
Outside services	31,176	31,438
Other	-	(7,592)
Administrative credits transferred	<u>(364,911)</u>	<u>(498,731)</u>
Total General and Administration	<u>1,398,475</u>	<u>1,341,682</u>
Total Wastewater Division Expenses	<u>\$ 11,687,041</u>	<u>\$ 11,346,992</u>

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Board of Directors  
Vallecitos Water District  
San Marcos, California

**Report 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**

**Independent Auditor's Report**

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 and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Vallecitos Water District's ("District") basic financial statements, and have issued our report thereon dated November 27, 2018.

**Internal Control Over Financial Reporting**

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

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

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.

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. We believe the following matters conform to that definition:

(1) Vendor Management Controls

During our review of internal controls relating to accounts payable and purchasing, we noted that all employees with access to the FMS module of the accounting system have the ability to add new vendors and change vendor addresses, which can increase the risk of disbursement fraud.

Recommendation

To maintain adequate control over vendor listings, we recommend that the District limit access rights of personnel with access to only those who need it.

(2) Information Technology Systems

During our audit, our Certified Information Systems Auditor reviewed the District's Information Systems policies and controls. We noted the District does not perform a periodic review of user accounts to sensitive information, including access to network and financial software.

Recommendation

To maintain adequate control over user access rights, we recommend that the District periodically review a report showing which user access rights have been inactive for a period of 90 days to verify that that user access rights are properly disabled following termination or are appropriate for the employee's job responsibilities.

(3) Prior Period Restatement

As a result of our audit inquiries, District management identified a material project that was in use but had been incorrectly included in construction in progress in the prior year. This error was not detected in the prior year because the project number contained multiple project phases and all phases had not yet been completed.

Recommendation

The auditing standards require the auditors to classify prior period restatements as internal control weaknesses. We recommend the District continue to evaluate projects at year end and move completed projects out of construction in progress to start the depreciation process.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our 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 blue ink that reads "Davis Fan" followed by a stylized flourish.

Irvine, California  
November 27, 2018

To the Board of Directors  
Vallecitos Water District

We have audited the financial statements of Vallecitos Water District (“District”) for the year ended June 30, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 6, 2018. Professional standards also require that we communicate to you the following information related to our audit.

### **Significant Audit Findings**

#### ***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements. During the fiscal year ended June 30, 2018, the District adopted Statements of Governmental Accounting Standards (GASB Statement No. 75), *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* and (GASB Statement No. 89) *Accounting for Interest Cost Before the End of a Construction Period*. Accordingly, the cumulative effect of the accounting change related to GASB No. 75, as of the beginning of the year is reported in the Comprehensive Annual Financial Report. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the District’s financial statements were:

Management’s estimate of the which capital projects represent ordinary maintenance activities necessary to keep an asset operational for its originally intended useful life versus significant improvement, replacement, and life extending projects that should be capitalized as additions to capital assets is based on management’s knowledge of the assets and their useful lives. We evaluated the key factors and assumptions used to develop the amounts added to capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

Management’s estimate of transactions related to net pension liabilities based on actuarial information. We evaluated the key factors and assumptions used to develop the amounts by the actuary and determined that it is reasonable in relation to the financial statements taken as a whole.

Management’s estimate of transactions related to net OPEB liabilities based on actuarial information. We evaluated the key factors and assumptions used to develop the amounts by the actuary and determined that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

The disclosure of pensions in Note 8 to the financial statements.

The disclosure of OPEB in Note 9 to the financial statements.

The financial statement disclosures are neutral, consistent, and clear.

#### ***Difficulties Encountered in Performing the Audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### ***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the District's financial statements taken as a whole.

#### ***Disagreements with Management***

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### ***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated November 27, 2018.

#### ***Management Consultations with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### ***Other Audit Findings or Issues***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

#### **Other Matters**

We applied certain limited procedures to *Management's Discussion & Analysis, Schedule of the Plan's Proportionate Share of Net Pension Liability, Schedule of Contributions – Defined Benefit Pension Plan, Schedule of Changes in Net OPEB Liability and Related Ratios, and Schedule of OPEB Contributions*, which are required supplementary information (RSI) that supplements the basic financial statements.

Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the *Supplementary Information*, including the *Schedule of Operating Expenses – Water Division* and *Schedule of Operating Expenses – Wastewater Division*, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

**Restriction on Use**

This information is intended solely for the use of the Board of Directors and management of the District and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in blue ink that reads "Davis Lan" followed by a stylized flourish.

Irvine, California  
November 27, 2018

**DATE: DECEMBER 5, 2018**  
**TO: BOARD OF DIRECTORS**  
**SUBJECT: ANNUAL BOARD TRANSITION**

**BACKGROUND:**

Ordinance No. 203 provides guidance on the annual Board reorganization procedures. Historically the annual Board reorganization occurs at the first meeting in December.

**DISCUSSION:**

Although Ordinance No. 203 specifically addresses the reorganization of the Board following District elections in even numbered years, it has been the practice at Vallecitos that the Board reorganization occurs every year. At the first Board meeting in December, the Board considers and appoints the incoming Board President and Vice President and completes the Board reorganization. The current Board President is Director Hernandez and the current Vice President is Director Martin. A schedule showing the President and Vice President appointments for the last six years has been attached for the Board's reference.

**FISCAL IMPACT:**

None.

**RECOMMENDATION:**

Request Board direction regarding the appointment of the positions of President and Vice President.

**ATTACHMENTS:**

1. Ordinance No. 203
2. Board President Schedule

ORDINANCE NO. 203

ORDINANCE OF THE VALLECITOS WATER DISTRICT  
ESTABLISHING THE GENERAL PROVISIONS FOR  
CONDUCTING THE BUSINESS OF THE BOARD AND  
REPEALING ORDINANCE NO. 201

BE IT ORDAINED by the Board of Directors of the VALLECITOS Water District as follows:

SECTION 1: BOARD OF DIRECTORS

Section 1.1: Regular Meetings - Time and Place

Regular Meetings of the Board of Directors of the Vallecitos Water District shall be held with notice on the first and third Wednesday of each month, at the hour of 5:00 p.m. at the location of the principal place of business of the District, namely, 201 Vallecitos de Oro, San Marcos, California. Notification, including the location, shall be made in accordance with the Ralph M. Brown Act (California Government Code §54950 through §54926), as amended. Closed Sessions will be scheduled before the start of the meeting.

Section 1.2: Adjourned Meetings

A majority vote by the Board of Directors may terminate and adjourn a Board meeting at any place in the agenda to any time and place specified in the order of adjournment, except that if no Directors are present at any regular or adjourned regular meeting, the General Manager may declare the meeting adjourned to a stated time and place, and he/she shall cause written notice of adjournment in accordance with the Ralph M. Brown Act, as amended.

Section 1.3: Special Meetings

A. Special non-emergency Board meetings may be called by the Board President or a majority of the Board. Written notification shall be made and posted at least 24 hours in accordance with the Ralph M. Brown Act, as amended.

B. Special emergency Board Meetings may be held with notice in the event of an emergency situation involving matters upon which prompt action is necessary due to the disruption or threatened disruption of public facilities. An emergency situation means a crippling disaster which impairs public health, safety, or both, as determined by the General Manager, Board President or Vice President in the President's absence.

Section 1.4: Rules for Conducting Meetings

Except as otherwise provided by law, or ordinance adopted by the Board, "Roberts Rules of Order, Revised," are hereby adopted as the rules of practice and procedure governing the conduct of the business and procedure before the Board. The Board President shall preside at all meetings and shall have a vote on all matters before the Board. In the absence of the President, the Vice President shall preside, and in the absence of both, the presiding officer shall be elected by a majority vote of the members of the Board.



Section 1.5: Agenda

The General Manager, in cooperation with the Board President, shall prepare an agenda for each regular, adjourned, and special meeting. Any Director may request any item to be placed on the agenda.

Section 1.6: Minutes of Meetings

A. The minutes of the Meetings of the Board shall be recorded and kept by the Secretary in a book maintained for that purpose for each calendar year. Unless otherwise expressly directed by the Board at the time of adoption, all ordinances and resolutions adopted by the Board may be referred to in the minutes of the meetings of the Board by number and title, but the same shall be recorded in full in separate books kept for that purpose for each calendar year.

B. The Board President or other person who may preside at the meeting, or the Secretary, shall authenticate the minutes, ordinances and resolutions after these have been transcribed into the appropriate books, and when so authenticated, these shall constitute the official minutes, ordinances and resolutions of the Board.

C. The Minute Book, the Ordinance Book and the Resolution Book shall be kept at the office of the Secretary at the principal place of business of the District.

Section 1.7: District Seal

The seal, an impression of which is herewith affixed to this document, bearing the words "Vallecitos Water District, Organized March 24, 1955," is adopted as the official seal of this District.

Section 1.8: Standing Advisory Committees

A. The District shall have the following standing advisory committees, each of whose function is to advise the Board of Directors and General Manager with respect to the subjects under its jurisdiction: Engineering/Equipment, Finance/Investment, Public Awareness/Personnel/Policy, and Legal/Legislative Affairs. Other standing committees may be established by the Board President. The precise and/or additional duties and responsibilities of each standing committee shall be as specified by the President from time to time. Each standing committee shall have two (2) members appointed by the President from the members of the Board; however, in no event shall the same two (2) members be permitted to serve together on more than one (1) standing committee without the unanimous approval of the Board. The President shall appoint a committee chairman from the two (2) members of the Board serving on each committee; however, no member shall be permitted to chair more than one (1) standing committee without the unanimous approval of the Board.

B. Ad Hoc advisory committees for special purposes not falling within the assigned function of an existing standing committee may be created and appointments made thereto from the members of the Board, not to exceed two (2) such members on any one ad hoc committee, from time to time by the President. Ad hoc committees may include members of the public and said appointment shall be made by the Board.

C. All committee members shall serve at the pleasure of the Board President. The General Manager shall be an ex-officio non-voting member of each committee. Each committee shall meet at such times, places, and frequency as may be directed by its chairman, by the President, or by the Board in accordance with the Ralph M. Brown Act, as amended. Each committee shall cause to be prepared and filed promptly with the Board current minutes of all of its meetings.

#### Section 1.9: Board Reorganization

A. Following a District election, on the first Tuesday after the first Monday in November in each even numbered year, the Board shall reorganize at the first meeting after the election is certified by the Registrar of Voters and appoint or reappoint its officers pursuant to the County Water District Act in conformance with the Uniform District Election Law, Elections Code, §23500 et. seq.

B. In addition to the minimum reorganization requirement, Board policy determines that the Board will reorganize annually to provide that each elected Director will have the opportunity to hold the office of President once during their first term. The President serves at the pleasure of the Board.

C. Each elected Director, who desires, shall have an opportunity to hold a position on the Encina Wastewater Authority and San Diego County Water Authority Boards at least once during their four-year term.

#### Section 1.10: Adoption of Ordinances and Resolutions

Except as otherwise provided by law, ordinances and resolutions of the District shall be adopted, amended, and repealed (in whole or in part) by the Board only in the following manner:

A. Ordinances shall be adopted by the Board, and may be amended or repealed (in whole or in part) only by an ordinance adopted by the Board. The Board may adopt the ordinance (in whole or in part) as originally proposed or as modified by the Board.

B. Formal resolutions, that is, resolutions which are numbered and titled documents separate from the minutes of the meetings of the Board and required to be kept in the Resolution Book shall be adopted by the Board, and may be amended or repealed (in whole or in part) only by a formal resolution or an ordinance adopted by the Board, only at a duly held meeting of the Board. The number and title of formal resolutions may but are not required to be, set forth in the agenda for the meeting.

C. At the time of presentation to the Board of the proposed ordinance or the proposed formal resolution, as the case may be, the reading in full thereof shall be deemed waived unless otherwise requested by any member of the Board. Ordinances and formal resolutions adopted by the Board shall contain the signed approval and attestation of the then Presiding Officer and Secretary, respectively, of the District.

D. Minute resolutions, as distinguished from formal resolutions, shall be adopted by the Board, and may be amended or repealed (in whole or in part) only by a minute resolution or a formal resolution or an ordinance adopted by the Board, only at a duly held meeting of the Board.

SECTION 2: DISTRICT MEMBERSHIPS, PER DIEM COMPENSATION, REIMBURSEMENTS, ETHICS TRAINING AND ELIGIBILITY FOR EMPLOYEE BENEFITS

Section 2.1: Authorized District Memberships

The Board has determined it to be in the best interests of the District, and its constituents, to maintain memberships in affiliated national, state, and local organizations which have applicability to the functions of the District. The District shall hold membership in the following organizations:

- American Water Works Association (AWWA)
- Association of California Water Agencies (ACWA)
- California Association of Sanitation Agencies (CASA)
- California Special Districts Association (CSDA)
- California Water Environment Association
- Council of Water Utilities
- North County Water Group
- San Diego North Economic Development Council (SDNEDC)
- Southern California Alliance of Publicly Owned Treatment Works (SCAP)
- Urban Water Institute
- Water Education Foundation (WEF)
- Water Environment Federation
- WaterReuse

In addition to the above listed organizations, the Board may remove existing memberships or approve additional memberships and authorize attendance at meetings, events, or conferences by motion from time to time. The General Manager may approve District membership of, and employee participation in, professional, technical, and business related associations and organizations.

Section 2.2: Per Diem Compensation

Each Director shall receive compensation of \$200 per diem for attending meetings of the Board or for each day's service as a member of the Board, not to exceed compensation for one meeting in any 24-hour period or ten meetings per month. The Board may consider an annual increase in the per diem equivalent to the San Diego Consumer Price Index (CPI-U), up to a maximum of 5 percent, following the operative date of the last adjustment. Public notice

shall be provided annually in accordance with Water Code Section 20203 if an increase is to be considered. Any increase adopted by this Section shall become effective 60 days from the date of approval. Compensable meetings which are pre-designated and considered occasions that constitute performance of official duties include the following:

A. Regular, Adjourned, and Special meetings of the Board, including pre-meetings with the Board Chair.

B. Committee Meetings, limited to the two Directors serving on the committee, other meetings, such as District sponsored special functions, open houses, and community out-reach functions, including pre-meetings with the appropriate representative(s).

C. Meetings of other public agencies of which the District is a member or sub-member agency such as the Encina Wastewater Authority, San Diego County Water Authority, the Metropolitan Water District of Southern California, and Local Agency Formation Commission (LAFCO), including pre-meetings with the appropriate representative(s).

D. Conferences, meetings, and other functions in which the District is a member of as listed in Section 2.1 above, and which have a significant and meaningful link to the purposes, policies, and interests of the District.

E. Meetings which provide educational training including ethics training in accordance with Government Code Section 53232.1.

F. Other meetings or conferences which the Board approves as an agenda item at a regular meeting that serves a benefit to the District and constitute the performance of official duties.

Any amounts paid as a per diem compensation by other organizations shall be deducted from the \$200 District per diem.

Board members shall report on meetings or conferences attended at a regularly scheduled Board meeting after the event, which may include a written report that can be distributed to all Board members electronically.

### Section 2.3: Reimbursement of Expenses and Reporting

Each Director shall be entitled to payment and/or reimbursement for actual and necessary expenses incurred in the performance of official duties including expenses incurred relating to travel, meals, lodging, and other actual and necessary expenses incurred for attendance at meetings and conferences of organizations listed in Section 2.1 or approved in accordance with Section 2.2F. Lodging expenses may not exceed the maximum group rate published by the conference or activity sponsor. Requests for Reimbursement must be submitted on a District approved Expense Form and shall include receipts documenting each expense in accordance with District Resolution 1365.

Director expenses and per diems shall be reported on a cumulative quarterly basis, (attaching a summary of per diems and expenses from District appointed positions to other agencies).

Section 2.4: Ethics training

In accordance with Government Code Section 53234, Board members and any designated employees shall have at least (2) hours of ethics training every two (2) years. Certificates of completion of ethics training shall be maintained for at least five (5) years.

Section 2.5: Eligibility for Employee Benefits

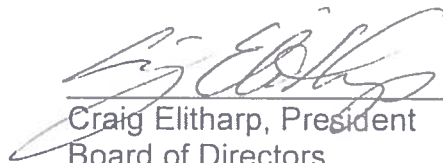
Members of the Board shall be eligible for all benefits, allowable by law, the same as full time, regular employees.

ALL OTHER ORDINANCES OR AMENDMENTS IN CONFLICT HEREWITH ARE HEREBY REPEALED.


This Ordinance shall become effective upon adoption, and a summary shall be published one time in a newspaper of general circulation within the District.

PASSED, APPROVED, AND ADOPTED by the Board of Directors of the Vallecitos Water District at a regular meeting held this 1<sup>st</sup> day of February, 2017, by the following roll call vote:

- AYES: EVANS, HERNANDEZ, MARTIN, SANNELLA, ELITHARP
- NOES:
- ABSTAIN:
- ABSENT:

  
 \_\_\_\_\_  
 Craig Elitharp, President  
 Board of Directors  
 Vallecitos Water District

ATTEST:

  
 \_\_\_\_\_  
 Glenn Pruum, Secretary  
 Board of Directors  
 Vallecitos Water District

## Board President Schedule

<u>Year</u>	<u>President</u>	<u>Vice President</u>	<u>Date Assumed Seat</u>
2013	Jim Hernandez	Betty Ferguson	December 19, 2012
2014	Hal Martin	Jim Poltl	December 10, 2013
2015	Betty Evans	Mike Sannella	December 10, 2014
2016	Mike Sannella	Craig Elitharp	December 8, 2015
2017	Craig Elitharp	Jim Hernandez	December 7, 2016
2018	Jim Hernandez	Hal Martin	December 6, 2017

**DATE: DECEMBER 5, 2018**  
**TO: BOARD OF DIRECTORS**  
**SUBJECT: COMMITTEE APPOINTEES AND REPRESENTATIVES**

**BACKGROUND:**

Ordinance No. 203 provides that the Board President appoint a Chair and second member to each standing advisory committee from the members of the Board. The President also makes recommendations for District representation at outside agencies of which the District is a member agency. The current appointments are presented in the attachment.

**DISCUSSION:**

The incoming President will present standing Committee appointments as well as recommend the District representatives to the following organizations:

- Encina Wastewater Authority (EWA) Board of Directors – 2 Board positions and 1 alternate
- San Diego County Water Authority (SDCWA) – 1 Board position
- California Association of Sanitation Agencies (CASA) – 1 Delegate and 2 alternates
- Association of California Water Agencies/Joint Powers Insurance Agency (ACWA/JPIA) – 1 Delegate and 1 alternate

Appointments to ACWA and CASA committees or Boards are determined by those organizations and not established by the District Board of Directors.

**FISCAL IMPACT:**

None.

**RECOMMENDATION:**

Request Board direction regarding Committee appointments and Agency Representatives.

**ATTACHMENT:**

Current District Committee Assignments and Agency Representatives.

**Board Member Appointments  
December 6, 2017 – December 5, 2018**

**Board Officers**

President	Jim Hernandez
Vice President	Hal Martin
Secretary	Glenn Pruim
Assistant Secretary	Rhondi Emmanuel
Treasurer	Vacant
Assistant Treasurer	Glenn Pruim

**Standing Committees**

**Engineering/Equipment**

Jim Hernandez (chair)  
Craig Elitharp

**Legal/Legislative Affairs**

Mike Sannella (chair)  
Hal Martin

**Finance/Investment**

Hal Martin (chair)  
Mike Sannella

**Public Awareness/Personnel/Policy**

Betty Evans (chair)  
Jim Hernandez

**ACWA Appointed Representatives**

**ACWA Energy Committee**

Member: Craig Elitharp

**ACWA Water Quality Committee**

Member: Craig Elitharp

**ACWA Groundwater Committee**

Member: Jim Hernandez

**ACWA Region 10 Board**

Member: Betty Evans

**ACWA Membership Committee**

Member: Hal Martin

**Board appointed Representatives**

**ACWA Joint Powers Insurance Authority:**

Delegate: Hal Martin  
Alternate: Betty Evans

**CASA:**

Delegate: Craig Elitharp  
Alternate: Betty Evans

**Encina Wastewater Authority:**

Delegates: Jim Hernandez,  
Craig Elitharp  
Alternate: Glenn Pruim

**San Diego County Water Authority:**

Delegate: Betty Evans

**San Diego North Economic Development Council (SDNEDC) Delegate: Mike Sannella**



**DATE: DECEMBER 5, 2018**  
**TO: BOARD OF DIRECTORS**  
**SUBJECT: APPROVAL OF GENERAL MANAGER'S EMPLOYMENT AGREEMENT**

**BACKGROUND:**

On November 21, 2016, the District entered into an employment agreement (Agreement) with Mr. Glenn Pruim for the position of General Manager. Among other provisions, the Agreement specified a term of two years, with an expiration date of November 21, 2018. The Agreement was amended on April 5, 2017, and December 20, 2017, but those amendments did not change the expiration date of the Agreement. On Wednesday, November 21, 2018, the Board approved an extension to the Agreement until Wednesday, December 19, 2018, to allow for completion of negotiations for a new agreement.

**DISCUSSION:**

The District's Board of Directors and their designated negotiator met in closed session on Wednesday, November 21, 2018, to discuss terms for a new employment agreement with Mr. Pruim. The terms offered by the Board were acceptable to Mr. Pruim and a First Amended Employment Agreement (copy attached) incorporating those terms has been prepared by legal counsel and is presented for the Board's consideration.

The terms of the proposed First Amended Employment Agreement are similar to those in the Agreement and the two amendments, with the significant financial terms of agreement as follows:

- The term of the proposed agreement is for 4 years, beginning Wednesday, December 5, 2018
- The General Manager's salary will increase by 3% upon execution of the First Amended Employment Agreement
- The General Manager shall be eligible for merit-based salary increases, in conjunction with annual performance evaluations, of up to 3% of salary
- The General Manager remains eligible for the same Cost-of-Living adjustments as other management employees
- The General Manager will be provided with 40 hours of Executive Leave per year
- The General Manager will continue to receive benefits offered by the District at the same level as other management employees

**FISCAL IMPACT:**

The fiscal impact of the 3% salary increase is \$7,202 and can be accommodated in the current budget. The impact of future salary adjustments will be included in subsequent budgets.

**RECOMMENDATION:**

Approve the General Manager's Employment Agreement.

**ATTACHMENT:**

First Amended Employment Agreement Between Vallecitos Water District and Glenn Pruim

**FIRST AMENDED EMPLOYMENT AGREEMENT  
BETWEEN  
VALLECITOS WATER DISTRICT  
AND GLENN PRUIM**

This First Amended Employment Agreement (hereinafter “Amended Agreement”) is entered into by and between the VALLECITOS WATER DISTRICT, a California water district organized and operating pursuant to Water Code section 30000 et seq. (hereinafter “District”), and Glenn Pruim (“Employee”). This Amended Agreement shall be effective December 5, 2018, upon approval of the District Board of Directors and execution by the parties.

**R-E-C-I-T-A-L-S**

A. The District is an independent Special District formed in 1955 which provides water, wastewater and reclamation services to approximately 100,000 people in a 45 square-mile area that includes the City of San Marcos, the community of Lake San Marcos, portions of the Cities of Carlsbad, Escondido and Vista and other surrounding unincorporated areas of the County of San Diego.

B. Glenn Pruim has been serving as the General Manager of the District under an Employment Agreement, as amended by the Amendment and Second Amendment to the Employment Agreement, and an Extension to the Employment Agreement.

C. The District desires to continue the employment of Employee as the General Manager, and has agreed to new terms of employment, as set forth in this Amended Agreement.

D. During the term of this Amended Agreement, Employee shall serve at the pleasure and direction of the District’s Board of Directors in accordance with the terms and conditions of this Agreement.

**C-O-V-E-N-A-N-T-S**

1. Employment. Employee shall serve as the General Manager of District during the term of this Agreement with full power and authority to manage and conduct the day-to-day business of the District, subject to the directions and policies of the District Board. Employee will perform such duties as outlined in Employee’s job description, which is attached hereto as Exhibit “A,” and such other legal and proper duties as may be requested by the District Board from time to time. Employee shall be required to file a 700 Form as required as a “Designated

Employee” pursuant to the District’s Conflict of Interest Code. Employee also recognizes that the job is a salaried position that will require more than forty (40) hours per week and may require Employee to travel temporarily to other locations.

2. Term. The term of this Agreement shall be four (4) years commencing on December 5, 2018 and ending on December 4, 2022.

3. Annual Salary. Employee shall receive an annual salary of Two Hundred Forty-Seven Thousand Two Hundred Eighty Dollars and Sixty-Five Cents (\$247,280.65) payable at the regular District pay periods during the employment term, subject to all applicable withholdings and deductions. During the four year term of the Amended Agreement, Employee shall receive the same cost-of-living adjustments as other full-time District management employees. In addition, the Board of Director’s shall conduct an annual performance evaluation of Employee to consider Employee’s performance and compensation. At that time, the Board of Directors will consider merit increases of up to three percent (3%) in salary, as may be determined by the Board of Directors in its sole discretion.

4. Health and Pension Benefits. Employee shall be entitled to receive health benefits on the same terms and conditions as is available to other District management employees, including medical, dental, vision, life and disability insurance, and participation in the District’s California Public Employees Retirement System (CalPERS) pension plan. Employee will contribute the same percentage to the CalPERS employee contribution as other management employees, who are CalPERS “classic members”.

5. Vacation. During the term of this Agreement, Employee shall annually accrue the equivalent of 176 hours of paid leave for vacation.

6. Sick Leave and Holidays. Employee shall accrue sick leave at the rate of 8 hours per calendar month and be eligible for District observed Holidays in accordance with the District’s MOU and Employee Handbook. Employee will be subject to the same rules as management employees for caps on leave and conversion of leave to service credit.

7. Executive Leave. Employee shall be provided with 40 hours of Executive Leave per year, granted during the first full pay period of the year. Executive Leave must be used in the year in which it is granted and cannot be carried over to the next year and is not eligible for cash out.

8. Evaluation. Board of Directors will evaluate Employee annually and jointly develop Employee goals, objectives and expectations for the next year. The written evaluation shall be on a form developed and approved by the District Board of Directors.

9. Expenses. Provided the expenditure satisfies the criteria established by the Internal Revenue Code for deductibility, District shall also reimburse Employee for reasonable business expenses, subject to approval by the District Board, including travel, entertainment, parking, and business meetings that are substantiated in accordance with the policies established from time to time by District.

10. Restriction on Outside Activities. Employee shall devote his full business time, energy, and ability exclusively to the business and interests of District and shall not, without the prior written consent of District, render services of any kind for compensation or engage in other business activity.

11. Termination of Employment. Employee is an “At Will” employee who serves at the pleasure of the Board of Directors. Either the District or Employee may terminate this Agreement at any time, with or without cause, upon thirty (30) days’ advance written notice.

a. In the event this Agreement is terminated by Employee’s resignation, retirement, inability to perform the essential functions of the position even with reasonable accommodation, or for cause, Employee shall not be entitled to any severance compensation or any other compensation from District, except for such salary and benefits as Employee may have earned prior to termination. Termination for “Cause” shall include, but may not be limited to, fraud, embezzlement, misappropriation of District property, or use of undue influence as a District official, conflicts of interest, criminal activities, whether or not prosecution or conviction occurs, or Employee's repeated failure to perform the essential functions of his job, including those circumstances where such failure is because of death or disability and use of illegal drugs or abuse of legal drugs, including alcohol, after a prior warning concerning such abuse of legal drugs.

b. In the event District terminates Employee “Without Cause” at any time during the term of this Amendment Agreement, District agrees to pay Employee a lump sum severance pay equal to the lesser of six (6) months base salary or the remaining term of this Employment Agreement. Employees’ acceptance of severance pay shall be Employee’s sole

remedy for such termination, and Employee shall not be entitled to any other compensation or the continuance of any other benefits except as required by law. This provision is intended to comply with Government Code sections 53260 and 53261, as amended, and in no event shall Employee be entitled to severance benefits greater than provided for therein. In addition, if Employee were convicted of a crime involving an abuse of his office or position, Employee would be required to fully reimburse District for any severance benefits provided or any other cash settlement related to his termination, in accordance with Government Code section 53243.2. In exchange for the severance benefits to be provided, Employee will be required to sign a release and waiver of all claims arising out of his employment with and separation from District.

c. If Employee elects to retire, he agrees to give the District six (6) months written notice of such retirement and Employee will not be eligible for severance pay.

12. Miscellaneous Provisions.

a. Modification. This Agreement may not be altered in whole or in part except by a modification, in writing, executed by all the parties to this Agreement.

b. Entire Agreement. This Agreement contains all representations and the entire understanding between the parties with respect to the subject matter of this Agreement. The parties acknowledge that there have not been any oral promises or understandings that are not contained in this Agreement. Any prior correspondence, memoranda, or agreements, whether or not such correspondence, memoranda, or agreements are in conflict with this Agreement, are intended to be replaced in total by this Agreement which represents the final and complete agreement between the parties.

c. Binding Effect. This Agreement shall inure to the benefit of and be binding upon the parties and their respective successors, heirs, and assigns.

d. Unenforceable Provisions. The terms, conditions, and covenants of this Agreement shall be construed whenever possible as consistent with all applicable laws and regulations. To the extent that any provision of this Agreement, as so interpreted, is held to violate any applicable law or regulation, the remaining provisions shall nevertheless be carried into full force and effect and remain enforceable.

VALLECITOS WATER DISTRICT

Dated: \_\_\_\_\_, 2018

By \_\_\_\_\_  
Hal J. Martin, President

Dated: \_\_\_\_\_, 2018

By \_\_\_\_\_  
Glenn Pruijm, General Manager

**Exhibit “A”**  
**VALLECITOS WATER DISTRICT**  
**GENERAL MANAGER**  
**JOB DESCRIPTION**

**DEFINITION**

Under policy direction of the Board of Directors, performs high level administrative, technical, and professional work in leading, directing, and supervising the administration of District business and functions; performs related work as assigned.

**CLASS CHARACTERISTICS**

This position has overall responsibility for District policy development and activities, including water resources planning, water distribution, wastewater collection, treatment, disposal, and reclamation, fiscal management, administration, engineering, human resources, and overall operation of District functions and programs. The position is responsible for accomplishing District goals and objectives, advising and providing recommendations to the Board, and for implementing the policies of the Board on an ongoing basis.

**ESSENTIAL FUNCTIONS**

Essential functions include, but are not limited to, the following:

- Plans, organizes, coordinates, and directs through staff all work of the District; develops and directs the implementation of goals, objectives, policies, procedures, and work standards for the District; develops and implements long and short-range plans to ensure attainment of District objectives;
- Works closely with the Board of Directors, organizations, and appropriate federal and state agencies regarding District programs; advises the Board on issues and programs; prepares and recommends specific long-range plans and action proposals to the Board; coordinates the preparation and presentation of various agendas, reports, and written materials;
- Makes final interpretations of District regulations and ordinances, codes, and applicable laws;
- Directs the preparation and administration of the annual budget for the District;
- Represents the Board and the District in contacts with various governmental agencies; community groups; and business, professional, and other organizations; directs the public relations and communications policies of the District;
- Directs the development and implementation of management systems, procedures, and standards on a District-wide basis; ensures that the District is in compliance with all contractual and legal requirements regarding water supply and wastewater treatment and reclamation;
- Reviews and approves all District contracts; may negotiate contract terms;
- Directs the selection, supervision, and work evaluation of District staff; develops, monitors, and implements employee relations and staff development activities; plans, organizes, and

directs through subordinate supervisors the work of District staff and coordinates the work with outside agencies, contractors, and consultants;

- Acts as the District Employee Relations Officer; meets and confers with employees for wages, benefits, and other working conditions; prescribes the duties of employees; and fixes and alters employee's compensation pursuant to Board policy;
- Directs the preparation and examination of public and private engineering plans, specifications, designs, cost estimates, and legal descriptions for a variety of construction and maintenance projects;
- Holds regular management meetings to communicate expectations, receive feedback, resolve problems, discuss issues, develop trusting relationships, provide motivation and employee recognition, stay abreast of staff's work activities, and provide required resources for work assignments.

## **QUALIFICATIONS GUIDELINES**

### **Knowledge, Skills, and Abilities**

Knowledge of:

- Administrative principles and practices including goal setting and program and budget development and implementation;
- Principles and practices of employee supervision;
- Water resources management principles and practices;
- Wastewater collection, treatment, disposal, and reclamation principles, methods, and facilities management;
- Applicable laws and regulations affecting District administration;
- Funding sources impacting service and program development;
- Principles and practices of construction and service contract negotiation and administration.

Ability to:

- Plan, organize, administer, and coordinate a variety of services and programs;
- Select, motivate, and evaluate staff and provide for their professional development;
- Develop and implement goals, objectives, policies, procedures, work standards, and internal controls;
- Analyze complex administrative problems, evaluate alternatives, and adopt effective courses of action;
- Prepare clear and concise reports, correspondence, and other written materials;
- Establish and maintain effective working relationships with the Board of Directors, District staff; members of local, state, and federal organizations; and representatives of the community;
- Exercise sound, independent judgment within general policy guidelines;
- Operate programs within allocated budgets;
- Respond to emergency and problem situations in an effective manner;
- Develop comprehensive plans to meet future District needs/services.

### **Education & Experience**

Any combination of education or experience that would likely provide the necessary knowledge and abilities is qualifying. A typical way to obtain these knowledge and abilities would be: Bachelor's degree from an accredited four-year college or university in civil engineering, public administration, business administration, or a related field, and ten years' experience in water



production and distribution, and/or wastewater collection, treatment, disposal and/or reclamation, including five years in a managerial role. Experience working with an elected Board or commission is highly desirable.

Licenses, Certificates, and Special Requirements

- None required; however, position-related certificates and licenses will be noted.

**PHYSICAL DEMANDS AND WORK ENVIRONMENT**

The physical demands and work environment described here are representative of those that must be met by an employee to successfully perform the essential functions of this job. Employees may be required to wear and/or use personal protective and other safety equipment. Reasonable accommodations may be made to enable individuals with disabilities to perform the essential functions

While performing the duties of this job, the employee is frequently required to sit, talk, and hear. The employee is occasionally required to walk; use hands and fingers to grasp and feel objects, tools, or controls; and reach with hands and arms. The employee must occasionally lift and/or move up to 25 pounds. Specific vision abilities required by this job include close, color, and peripheral vision; depth perception; and the ability to adjust focus.

Most work is performed in an office setting. In the field, there is occasionally sufficient noise to cause employees to shout in order to be heard above the ambient noise level.

**I have reviewed this Job Description with my Supervisor and agree with its contents.**

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Employee Signature

Date

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Board President Signature

Date

*The specific statements shown in each section of this job description are not intended to be all-inclusive. They represent typical elements and criteria necessary to successfully perform the job.*