

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.

VALLECITOS WATER DISTRICT

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	10,975,897	4,926,610
Net Position, Beginning of Year as Previously Stated	254,319,757	249,393,147
Prior Period Adjustment	(3,133,835)	-
Total Net Position, Beginning of Year	251,185,922	249,393,147
Total Net Position, End of Year	\$ 262,161,819	\$ 254,319,757

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	5,486,664
Ending cash & cash equivalents	\$ 36,104,897

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 & Investments in millions (excluding market value adjustment)</i>		
	2017/18	2016/17
Sources:		
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
Uses:		
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%
Net Position				
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

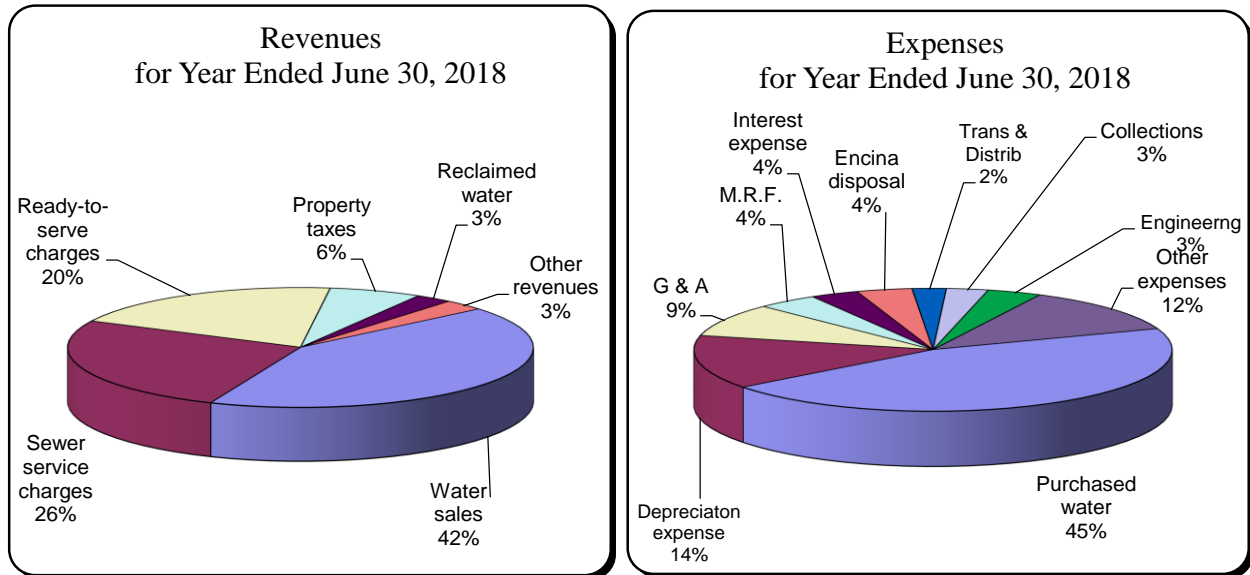
The composition of revenues and expenses for the 2017/18 fiscal year is illustrated in the following graphs. Water sales, ready-to-serve charges, and wastewater service charges continue to be the main sources of revenue funding District operations. Water sales are commodity charges assessed to cover 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.

VALLECITOS WATER DISTRICT

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%
Total Revenues	69,309,945	62,114,109	7,195,836	11.6%
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%
Total Expenses	68,022,779	63,948,189	4,074,590	6.4%
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%
Change in Net Position	10,975,897	4,926,610	6,049,287	122.8%
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%
Total Net Position, End of Year	\$ 262,161,819	\$ 254,319,757	\$ 7,842,062	3.1%

VALLECITOS WATER DISTRICT

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 25th (maximum of \$3.9 million in year 2030) and each December 26th (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 2nd 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 1st and principal is due each October 1st. 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.

VALLECITOS WATER DISTRICT

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 31st and September 30th. 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.

VALLECITOS WATER DISTRICT

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.

BASIC FINANCIAL STATEMENTS

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

	2018	2017
ASSETS		
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
DEFERRED OUTFLOWS OF RESOURCES		
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
LIABILITIES		
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
DEFERRED INFLOWS OF RESOURCES		
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
NET POSITION		
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)

	2018	2017
OPERATING REVENUES		
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
OPERATING EXPENSES		
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)
NON-OPERATING REVENUES (EXPENSES)		
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)**

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
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
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Receipts from taxes and assessments	4,448,517	4,154,654
Net Cash Provided by Noncapital Financing Activities	4,448,517	4,154,654
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
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)
CASH FLOWS FROM INVESTING ACTIVITIES		
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	\$ 36,104,897	\$ 30,618,233
Reconciliation of cash and cash equivalents to statement of net 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
Total cash and cash equivalents	\$ 36,104,897	\$ 30,618,233

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)
(Continued)**

	2018	2017
Reconciliation of Operating Income (Loss) to net Cash Provided by Operating Activities:		
Operating income (loss)	\$ 479,315	\$ (1,549,069)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation expense	9,624,575	9,425,308
Changes in operating assets and liabilities:		
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	208,761	(33,975)
Total Adjustments	9,011,892	8,217,424
Net Cash Provided by Operating Activities	\$ 9,491,207	\$ 6,668,355
Noncash Investing Capital and Financing Activities:		
Contribution of assets by developers	\$ 3,379,192	\$ 893,450
Net change in investment fair values	\$ (271,451)	\$ (220,021)

See accompanying notes to the financial statements.

**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 SIGNFICANT 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	\$ 65,947,436	\$ 2,214,111	\$ 28,301,610	\$ 1,136,361	\$ 2,792,271	\$ 31,503,083

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:

	2017
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.

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

Actuarial Cost Method:	Entry Age Normal
Actuarial Assumptions:	
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 ⁽¹⁾	Derived using CalPERS' Membership Data for all funds
Pre-Retirement Turnover ⁽²⁾	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter.

⁽¹⁾ 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 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 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⁽¹⁾</u>	<u>Real Return Years 11+⁽²⁾</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. 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.

	Total Pension Liability	Increase (Decrease) Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(c) = (a) - (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. 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:

	Discount Rate - 1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate + 1% (8.15%)
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:

	Deferred Outflows of Resources	Deferred Inflows of Resources
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	-
Total	<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:

Measurement Period Ended June 30:	Deferred Outflows/(Inflows) of Resources
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:

Actuarial Cost Method:	Entry Age Normal
Actuarial Assumptions:	
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 ⁽¹⁾	Derived using CalPERS' Membership Data for all funds
Pre-Retirement Turnover ⁽²⁾	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

⁽¹⁾ 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 under Forms and Publications.

⁽²⁾ 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 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%)
Net OPEB Liability	\$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:

	1% Decrease	Current Healthcare Cost Trend Rates	1% Increase
	(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)
Net OPEB Liability	\$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)

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

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:

Fiscal Year Ended June 30:	Deferred Outflows/(Inflows) of Resources
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
Assets:				
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
Liabilities:				
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
Net Position:				
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
Revenues:				
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>
Expenses:				
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
Net cash provided (used) by:				
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
Total OPEB liability	
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
Plan Fiduciary Net Position	
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)

	2018	2017
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	(364,911)	(498,731)
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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