



2020

COMPREHENSIVE
ANNUAL
FINANCIAL REPORT

San Marcos | California

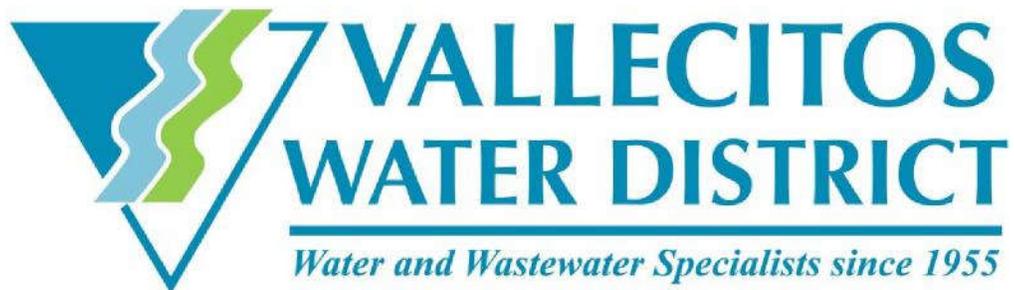
For fiscal year ended June 30, 2020



WWW.VWD.ORG

This page intentionally left blank





Comprehensive Annual Financial Report
FOR THE YEAR ENDED JUNE 30, 2020
Prepared by the Finance Department

VALLECITOS WATER DISTRICT
201 Vallecitos De Oro
San Marcos, CA 92069

This page intentionally left blank



**VALLECITOS WATER DISTRICT
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2020
TABLE OF CONTENTS**

Introductory Section

Letter of Transmittal.....	3
Government Finance Officers Association Award.....	9
List of Principal Officials.....	10
Organization Chart.....	11
Service Area Map.....	12

Financial Section

Independent Auditor’s Report.....	15
--	-----------

Management’s Discussion & Analysis.....	19
--	-----------

Basic Financial Statements:

Statement of Net Position.....	28
Statement of Revenues, Expenses, and Changes in Net Position.....	29
Statement of Cash Flows.....	30
Notes to the Basic Financial Statements.....	32

Required Supplementary Information:

Schedule of Plan’s Proportionate Share of the Net Pension Liability.....	58
Schedule of Contributions – Defined Benefit Pension Plan.....	59
Schedule of Changes in Net OPEB (Asset) Liability and Related Ratios.....	60
Schedule of OPEB Contributions.....	61

Statistical Section

Net Position by Component.....	66
Changes in Net Position.....	67
Revenues by Source.....	68
Expenses by Function.....	69
Active Water Meters by Size.....	70
Water Purchases and Sales.....	71
Variable Water Rates.....	72
Fixed Water and Sewer Rates.....	72
Principal Water Customers.....	73
Net Outstanding Long-Term Debt.....	74
Pledged Revenue Coverage.....	75
Assessed Valuation.....	76
Demographic and Economic Statistics.....	77
Largest Employers in San Diego County.....	78
Total Employees by Function.....	79
Capital Assets.....	80

This page intentionally left blank

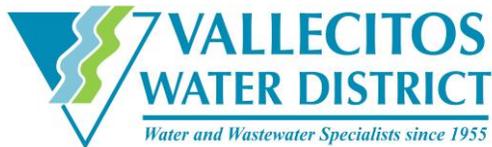


INTRODUCTORY SECTION



This page intentionally left blank





201 Vallecitos de Oro · San Marcos, California · 92069-1453 · (760) 744-0460

Date: November 18, 2020
To: Honorable Board of Directors
Regarding: Fiscal Year 2019/20 CAFR

I am pleased to present the Vallecitos Water District's (the "District") Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2020.

This report was prepared by the District's Finance Department following guidelines set forth by the Government Accounting Standards Board (GASB) and generally accepted accounting principles (GAAP). Responsibility for the accuracy of the data presented and the completeness and fairness of the presentation, including all disclosures, rests with the District's management. We believe the data, as presented, is accurate in all material respects and that it is presented in a manner that provides a fair representation of the financial position and results of the District's operations. Included are all disclosures we believe necessary to enhance your understanding of the financial condition of the District. GAAP requires that management provide a narrative introduction, overview, and analysis, to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A), which should be read in conjunction with this report. The District's MD&A can be found immediately following the Independent Auditor's Report.

The District's financial statements have been audited by Davis Farr LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the District for the fiscal year ended June 30, 2020, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was reasonable basis for rendering an unmodified opinion that the District's financial statements for the fiscal year ended June 30, 2020, are fairly presented in conformity with GAAP. The Independent Auditor's Report is presented as the first component of the financial section of this report.

REPORTING ENTITY

The District is a publicly-owned water and sewer agency, originally founded on March 12, 1955 as the San Marcos County Water District and authorized as a California special district by the State Legislature, with an entitlement to import water under the provisions of the Municipal Water District Act of 1911. Its ordinances, policies, taxes, and rates for service are set by five Directors, elected by voters in their respective divisions, to serve staggered four-year terms on its Governing Board. The District is a "revenue neutral" public agency, meaning that each end-user pays only their fair share of the District's costs of water acquisitions, construction, operation, maintenance, renewal, and replacement of the public water and sewer facilities.

The General Manager reports directly to the Board of Directors and through District management,

oversees day-to-day operations. There are four Managers overseeing the departments of Operations and Maintenance, Administrative Services, Finance, and Engineering. These and other lines of reporting are shown on the organization chart on page 11.

Over the last 65 years, the District has grown from a handful of customers and two employees to become an organization operating a network with more than 634 miles of pipelines, 19 operational reservoirs, a reclaimed water facility, and two of the largest prestressed concrete tanks in the world. The character of the service area has also changed from predominantly dry-land farming and cattle ranching, to businesses, colleges, high-tech industries, and large master-planned communities.

Today the District provides water service to nearly 22,000 potable water accounts within approximately 45.37 square miles of north San Diego county. Most of the potable water sold to customers is purchased through the San Diego County Water Authority (SDCWA). Much of this water is purchased from the region's water importer, the Metropolitan Water District of Southern California (MWD).

The Vallecitos Water District receives high-quality desalinated water directly from the Claude "Bud" Lewis Desalination Plant in Carlsbad, California. The direct connection pipe, located at the corner of Pawnee and Cherokee Streets in San Marcos, delivers as much as 4,083-acre feet of desalinated water annually to Vallecitos' distribution system. This equates to approximately 27 percent of the District's annual supply and is enough water to meet the needs of more than 8,100 families for one year. The District also entered into an agreement with the neighboring Olivenhain Municipal Water District to treat imported raw water, on behalf of the Vallecitos Water District. These two actions have brought regional water treatment closer to our customers and helped reduce dependence on water treatment facilities located outside San Diego County. These new water sources diversify the District's water supply and improves reliability.

The District also owns and operates a wastewater collection and recycling system providing public sewer service to more than 20,000 customer accounts within portions of the cities of San Marcos, Escondido, Carlsbad, Vista and the communities of Lake San Marcos, Twin Oaks Valley and other unincorporated areas. Most of the wastewater collected is conveyed to the District's Meadowlark Water Reclamation Facility (MRF), which can recycle up to 74 percent of the wastewater generated in the District's service area. Recycled water is used to irrigate golf courses, schools, public parks, roadway landscapes, and various other approved uses along the north San Diego county coast. The use of recycled water reduces dependency on imported supplies and provides a local supply, thereby diversifying regional water resources.

BUDGETING CONTROLS

The District views the budget as an essential tool for proper financial management. The budget is developed with input from the various departments of the organization and is adopted prior to the start of each fiscal year. It is designed and presented for the general needs of the District, its staff, and customers. It is a comprehensive and balanced financial plan that features District services, resources and their allocation, financial policies, and other useful information to allow the users to gain a general understanding of the District's financial status and future. Monthly comparison reports of budget to actual are distributed and reviewed by all department heads, with top level information provided to the Board at the monthly board meetings.

BUDGET SUMMARY

The District's Fiscal Year 2021 budget is \$90.6 million, with operating expenditures of \$56.0 million, capital expenditures of \$24.3 million, vehicles and equipment of \$0.9 million, debt service of \$5.4 million, and CalPERS Unfunded Accrued Liability (UAL) funding of \$4.0 million. The District's goal is to provide the most effective and efficient service possible while maintaining affordability of the water supply for the community.

The Vallecitos Water District's operating expenditures consist of two major sectors: potable water, and sewer, totaling \$56,036,000 for Fiscal Year 2021. Revenues from potable water are projected to be \$41,260,000, about \$4,390,000 (9.6%) less than the Fiscal Year 2020 budget. Water purchases are expected to decrease as a result of less water supply needed from SDCWA, due to the COVID-19



pandemic. Sewer revenues are projected to be \$17,330,000, about \$850,000 more than the Fiscal Year 2020 budget, because of estimated growth and demand increases. The remaining revenue of \$3.7 million comes from reclaimed water sales, pumping charges, interest and other miscellaneous income.

The 2020-21 Capital Improvement Program (CIP) budget consists of 57 projects and a budget of \$24.3 million. The budget emphasizes long-term planning for on-going programs while functioning within fiscal constraints and population growth. This year's

CIP budget decreased by \$1.1 million compared to last year's projection, which is due to decreases in the sizes of new projects to be worked on in 2021. New project requests for Fiscal Year 2021 were \$3.3 million as compared to \$4.9 million in Fiscal Year 2020.

ACCOUNTING SYSTEM

The Finance Department is responsible for providing financial services to the District, including financial accounting, reporting, payroll, accounts payable, investment of funds, billing and collection of water and wastewater charges, taxes, and other revenues. The District's books and records are maintained on an enterprise basis, matching revenues against the costs of providing services. Revenues and expenses are recorded on the accrual basis in the period in which revenue is earned and expenses are incurred.

INTERNAL CONTROLS

Vallecitos Water District operates within a system of internal controls established and continually reviewed by management. This provides reasonable assurance that assets are adequately safeguarded, and transactions are recorded correctly according to District policies and procedures. When establishing or reviewing controls, management must also consider the cost of the control and the value of the benefit derived from its utilization. Management maintains and implements all sensitive controls, and those controls whose value adequately exceeds their cost.

Management believes the District's internal controls, procedures, and policies adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions. In addition, the District maintains controls to provide for compliance with all finance related legal and contractual provisions. Management believes the activities reported within the presented Comprehensive Annual

Financial Report comply with these finance related legal and contractual provisions, including bond covenants and fiduciary responsibilities.

MISSION, CURRENT ECONOMIC CONDITIONS, AND OUTLOOK

The mission of the District is to provide exceptional and sustainable water and wastewater services to the customers of the Vallecitos Water District.

The primary issue affecting the District is the coronavirus (COVID-19) pandemic. Vallecitos' tap water is available, plentiful and safe. As always, Vallecitos is committed to providing safe, reliable drinking water for our customers at all times. Despite widespread fears about COVID-19, there is no evidence that the coronavirus is transmitted through water. According to the Center for Disease Control and the World Health Organization, COVID-19, like the flu, is spread from person to person contact, breathing or contacting respiratory droplets from an infected person, and contacting surfaces contaminated with a virus. There is currently no evidence to support that COVID-19 is transmitted through drinking water. COVID-19 can be disinfected through the use of ozone, chlorine and other treatment processes used in processing tap water. Drinking water provided by Vallecitos' wholesalers is treated by a combination of technologies – including sedimentation, filtration and disinfection – that chemically deactivate and physically remove bacteria, contaminants and viruses, including the COVID-19.



The current pandemic has impacted the District in various ways, including:

- closing the lobby to the public
- developing and implementing new ways for customers to pay bills
- implementing teleconferencing for board and staff meetings
- executing telecommuting plans as warranted
- working with customers impacted by the economic fallout of the pandemic
- postponing water shutoffs due to late payments

Throughout the pandemic, the District has found ways to adapt to the ever-changing conditions. The economic impacts of the pandemic are still being studied, but the District made quick steps to reduce expenditures once the impacts of the pandemic were identified.

While the outlook for San Diego County has slowed over the last three years, population within the District's service area continues to increase albeit at a reduced rate. As of June 2020, it is estimated that the District served 109,300 residents. The San Diego Association of Governments (SANDAG), the regional planning agency, has estimated the District's growth will continue for a decade or more. The District projects an ultimate customer population of 124,000 residents.

THE FUTURE

The coming years will continue to pose challenges for those in California's water community. Assembly Bill 1668, Senate Bill 606 and Executive Order B-37-16 establish an indoor residential per person water use goal of 55 gallons per day through 2025, 52.5 gallons from 2025 to 2030 and 50 gallons beginning in 2030.

Separate from legislation, but just as important, is California's weather and water supplies. The State of California currently has ample supplies within its system of reservoirs with many above 100% of average. The National Oceanic and Atmospheric Administration's (NOAA) winter forecast for the U.S. favors warmer, drier conditions across the southern tier of the U.S., and cooler, wetter conditions in the North, thanks in part to an ongoing La Nina. Forecasters at NOAA's Climate Prediction Center — a division of the National Weather Service — are also closely monitoring persistent drought during the winter months ahead, with more than 45% of the continental U.S. now experiencing drought.

Further, finding compromise or addressing the environmental issues of California's Bay Delta are difficult. These factors along with the ever-increasing costs of energy are driving up the price of water statewide. However, through foresight, investments in drought-proof desalinated water, solar energy, conservation, and a water rate structure that incentivizes conservation, the Vallecitos Water District has maintained ample supplies for the public we serve.

As one would expect, the reduction in water usage from the pandemic can impact projected revenues and will continue to affect the District's finances. With that in mind, our success as an organization is vastly enhanced by the practices and policies put in place by the Board of Directors to ensure the strength and stability of the District, even as we move forward into uncertain times. We are fully confident that with these policies and practices, supported by dedicated and talented staff, the District will achieve continued success as an organization and thus assure the well-being of the people we serve.

AWARDS AND ACKNOWLEDGMENTS

Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Vallecitos Water District for its comprehensive annual financial report for the fiscal year ended June 30, 2019. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

In addition to the Certificate of Achievement for Excellence in Financial Reporting, the District has received the following awards:

The *Special District Leadership Foundation* has certified Vallecitos with both the “District of Distinction” and the “District Transparency Certificate of Excellence” for outstanding efforts to promote a transparent, well-governed public agency. These certifications were made annually starting in 2016 through 2020.

I would like to thank all of the staff involved for their efforts in preparing this Comprehensive Annual Financial Report and for their hard work to ensure a successful outcome. I would also like to thank the firm of Davis Farr LLP, for their professional work and opinion. To the Board of Directors, staff and I acknowledge and appreciate their continued support and direction in achieving excellence in financial management.



Glenn Pruim, General Manager



D. Westley Owen, Finance Manager



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**Vallecitos Water District
California**

For its Comprehensive Annual
Financial Report
For the Fiscal Year Ended

June 30, 2019

Christopher P. Morrill

Executive Director/CEO

LIST OF PRINCIPAL OFFICIALS

Our Mission

The mission of Vallecitos Water District is to operate as water and wastewater specialists providing exceptional and sustainable services. This mission is reflected in this Comprehensive Annual Financial Report and in the attitudes and commitment of the Vallecitos Water District staff and Board Members.



Clockwise: Hal Martin, Betty Evans (center), Craig Elitharp, Mike Sannella and James Hernandez

Board of Directors

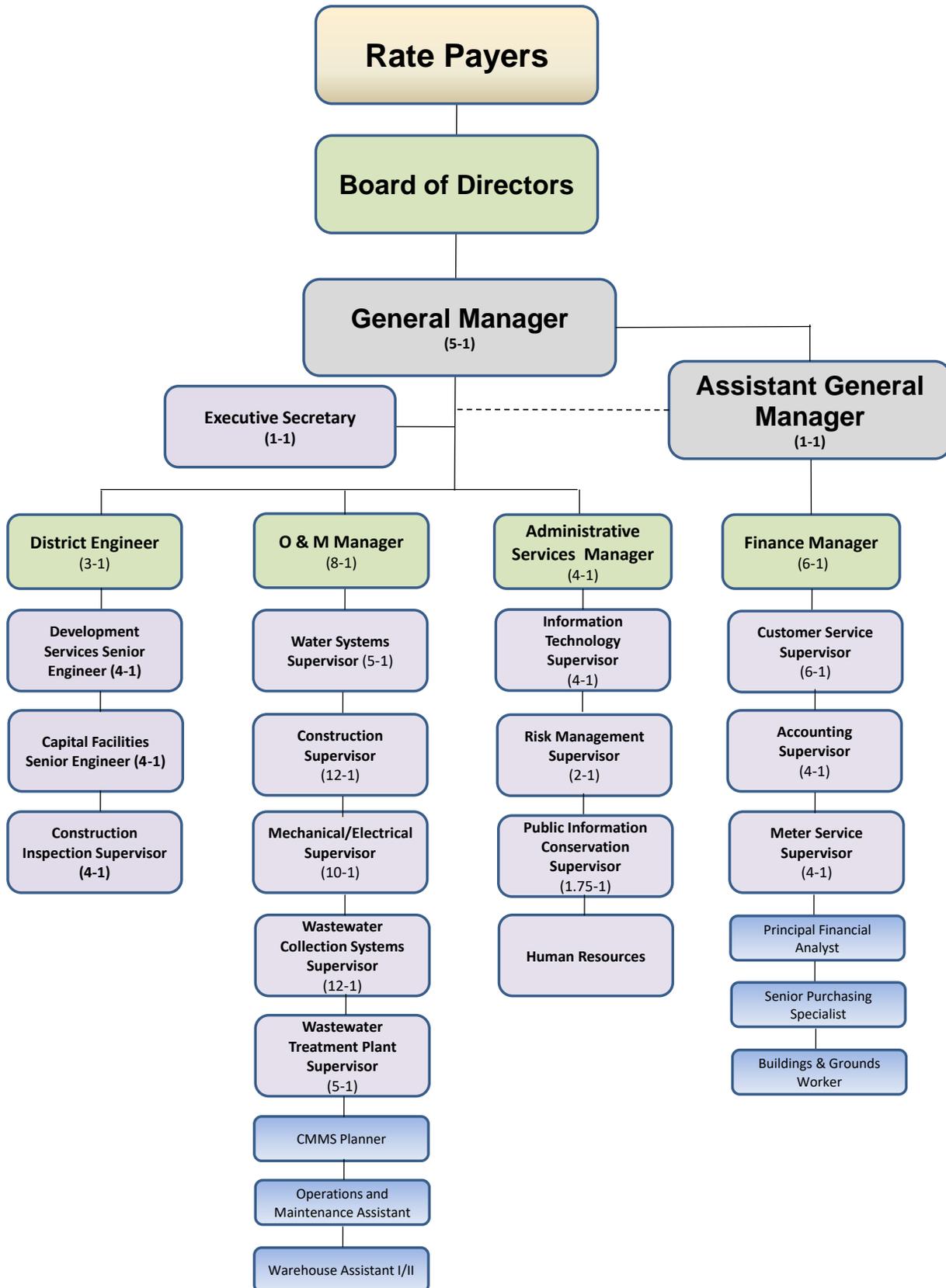
Betty Evans, President
Mike Sannella, Vice President
Craig Elitharp
Hal Martin
James Hernandez

District Financial Management

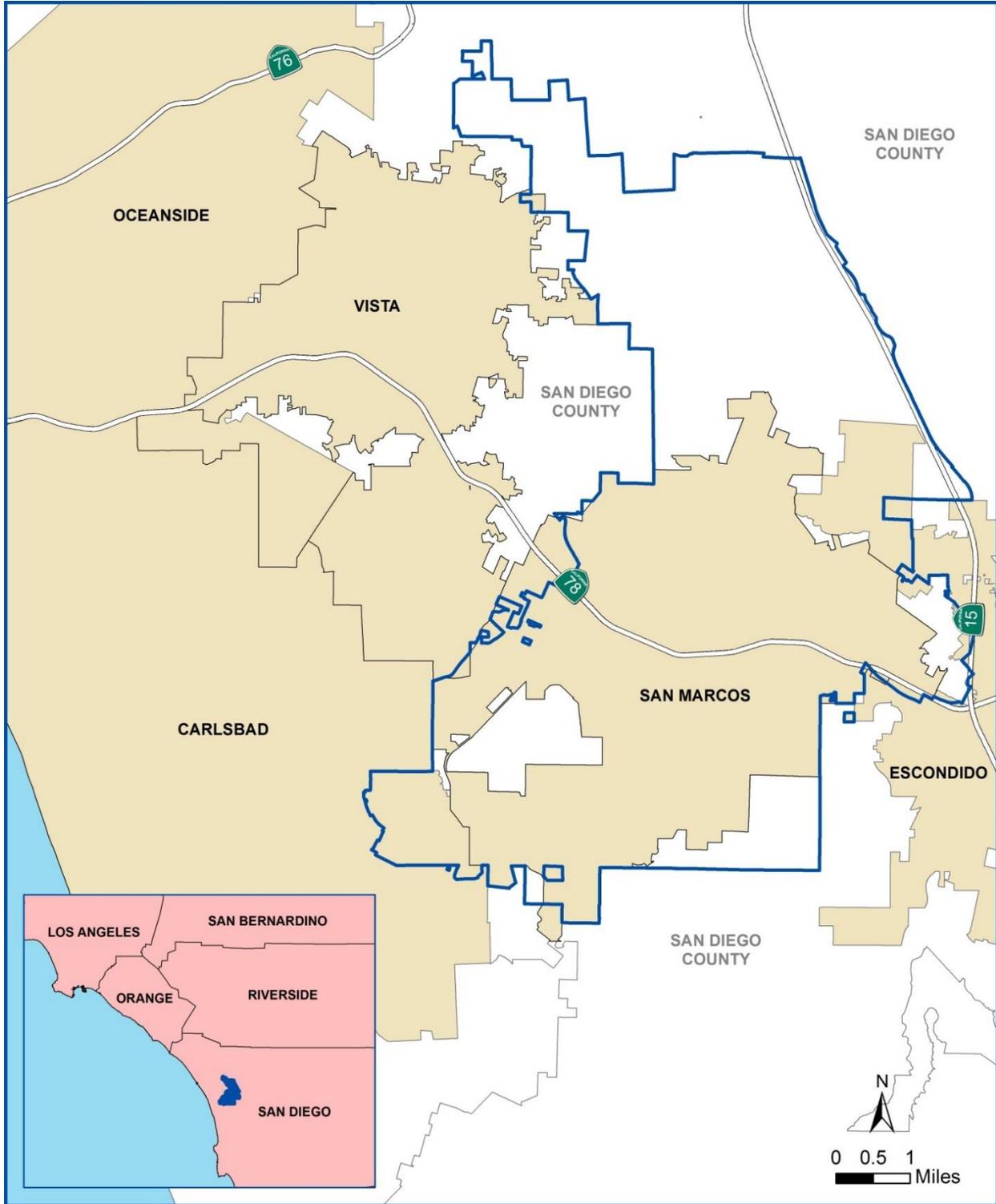
Glenn Pruum, General Manager
D. Westley Owen, Finance Manager

Vallecitos Water District is a public agency organized in 1955, proudly serving the City of San Marcos, portions of Escondido, Carlsbad, Vista, and the surrounding unincorporated areas.

VALLECITOS WATER DISTRICT ORGANIZATION CHART



VALLECITOS WATER DISTRICT SERVICE AREA MAP



FINANCIAL SECTION



This page intentionally left blank



Independent Auditor's Report

Board of Directors
Vallecitos Water District
San Marcos, California

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, 2020, 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, 2020, 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.

Report on Summarized Comparative Information

We have previously audited the Vallecitos Water District's 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 3, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 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 (asset) liability and the 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 *introductory section and statistical section* are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section and statistical section are 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. The introductory section and the statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 12, 2020 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, 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.

DavisFarrLLP

Irvine, California
November 12, 2020

This page intentionally left blank



MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ended June 30, 2020

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, 2020. 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, 2020 (2019/20), the following highlights impacted, or have the potential to impact, the finances of the District.

- The District adopted rate increases effective March 1, 2020 and experienced only slight decrease in overall demand for water from customers in fiscal year 2020. As a result, water sales increased by \$1.1 million or 3.8% from fiscal year 2018/19 to 2019/20.
- In fiscal year 2020 the District made a one-time additional discretionary payment of \$8,054,000 to the California Public Employee Retirement System (CalPERS) to reduce the unfunded accrued liability. The District anticipates paying off the full unfunded accrued liability over the next two fiscal years. This will result in significant interest savings to the District.
- In 2019/20, the District received \$6.8 million in capital facility fees from development, compared to \$8.9 million received the prior year. This decrease is less than the anticipated slow down in development due to COVID-19.
- The District expended \$12.2 million in capital asset acquisition and construction compared to \$9.1 million the prior year.
- The District paid down \$3.5 million in long-term debt without incurring any additional debt.
- The District realized a net income before capital contributions of \$2.6 million, and after capital contributions of \$8.4 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.

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements, which are comprised of the following: 1) Statement of Net Position, 2) Statement of Revenues, Expenses and Changes in Net Position, 3) Statement of Cash Flows, and 4) Notes to the Financial Statements. This report also contains other supplementary information in addition to the basic financial statements.

MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Statement of Net Position

This statement presents information on all of the District’s assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or weakening.

Statement of Revenues, Expenses, and Changes in Net Position

This statement presents information showing how the District’s net position changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Statement of Cash Flows

Reports cash receipts, cash payments, and net changes in cash resulting from operating activities, noncapital financing activities, capital and related financing activities, and investing activities for the fiscal year. This statement differs from the Statement of Revenues, Expenses, and Changes in Net Position because the Statement of Cash Flows only accounts for transactions that result in cash receipts or disbursements.

Notes to the Basic Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data supplied in each of the specific financial statements listed above including a description of the accounting policies used and material disclosures required by generally accepted accounting principles that are not otherwise presented in the financial statements.

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District’s progress in funding its obligation to provide pension and other post employment benefits to its employees.

ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

During fiscal year 2020 the increase in net position of \$11,009,177 resulted from the increase in total assets and deferred outflows combined with the decrease in total liabilities and increase in deferred inflows. Deferred outflows/inflows are defined in Note 1(P) of the Notes to the Financial Statements.

Analysis of Net Position

The increase in net position of \$11.0 million is attributable to contributed capital and net income.

- Cash and investments increased by \$1.2 million during fiscal year 19/20 inclusive of the market value adjustment on investments.

VALLECITOS WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS (continued)

Vallecitos Water District's Net Position				
	2019/20	2018/19	Change	
			Amount	%
Cash and investments	\$ 79,616,510	\$ 78,400,938	\$ 1,215,572	1.6%
Capital assets	236,602,338	239,530,071	(2,927,733)	-1.2%
Other assets	43,807,766	40,176,676	3,631,090	9.0%
Total Assets	360,026,614	358,107,685	1,918,929	0.5%
Deferred Outflows of Resources	16,054,368	9,193,344	6,861,024	74.6%
Current liabilities	16,319,931	16,313,795	6,136	0.0%
Noncurrent liabilities	67,727,034	70,454,625	(2,727,591)	-3.9%
Total Liabilities	84,046,965	86,768,420	(2,721,455)	-3.1%
Deferred Inflows of Resources	1,845,245	1,353,014	492,231	36.4%
Net Position				
Net investment in capital assets	189,626,103	189,150,329	475,774	0.3%
Restricted	78,979	68,620	10,359	15.1%
Unrestricted	100,483,690	89,960,646	10,523,044	11.7%
Total Net Position	\$ 290,188,772	\$ 279,179,595	\$ 11,009,177	3.9%

Analysis of Net Position (continued)

- The capital assets decreased by \$2.9 million primarily as a result of assets depreciating.
- Other assets increased as a result of investments in the Encina Wastewater Authority (EWA).
- Deferred Outflows of Resources increased by \$6.8 million as a result of the one-time additional discretionary payment of \$8.1 million to CalPERS to reduce the unfunded accrued liability.
- Long-term debt was paid-down by \$3.5 million, which resulted in the \$2.7 million decrease in noncurrent liabilities.

Analysis of Revenues and Expenses

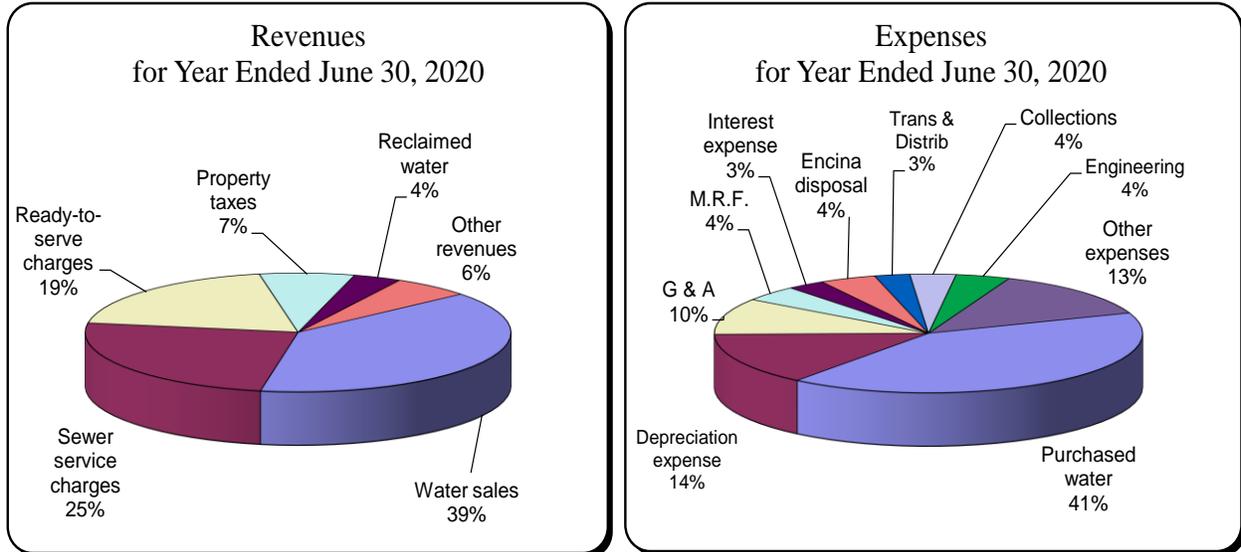
The composition of revenues and expenses for the 2019/20 fiscal year is illustrated in the following graphs. Water sales, ready-to-serve charges, and wastewater service charges continue to be the main sources of revenue funding District operations. Water sales are commodity charges assessed to cover 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 loss of \$964,979 include non-cash depreciation and amortization expense of \$10,022,954. 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)

ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS (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	
	2019/20	2018/19	Amount	%
Water sales	\$ 28,407,203	\$ 27,339,732	\$ 1,067,471	3.9%
Wastewater service charges	18,012,258	18,077,717	(65,459)	-0.4%
Ready-to-serve charges	14,275,830	13,931,114	344,716	2.5%
Property taxes	5,257,751	4,975,086	282,665	5.7%
Reclaimed water sales	2,663,436	2,725,110	(61,674)	-2.3%
Other revenues	4,348,279	4,832,396	(484,117)	-10.0%
Total Revenues	72,964,757	71,881,155	1,083,602	1.5%
Purchased water	28,874,402	28,535,460	338,942	1.2%
Depreciation expense	10,022,954	9,726,503	296,451	3.0%
General and administrative	6,964,466	5,326,781	1,637,685	30.7%
Meadowlark Reclamation Facility (M.R.F.)	2,981,824	3,091,684	(109,860)	-3.6%
Interest expense	2,003,074	2,128,335	(125,261)	-5.9%
Encina disposal	2,994,404	2,512,824	481,580	19.2%
Engineering	2,878,442	2,740,725	137,717	5.0%
Collections	2,440,911	2,237,130	203,781	9.1%
Transmission & Distribution	1,870,778	2,464,824	(594,046)	-24.1%
Other expenses	9,350,178	7,654,544	1,695,634	22.2%
Total Expenses	70,381,433	66,418,810	3,962,623	6.0%
Net Income/(Loss) before contributions	2,583,324	5,462,345	(2,879,021)	-52.7%
Capital contributions	8,425,853	11,555,431	(3,129,578)	-27.1%
Change in Net Position	11,009,177	17,017,776	(6,008,599)	-35.3%
Total Net Position at Beginning of Year Restated	279,179,595	262,161,819	17,017,776	6.5%
Total Net Position, End of Year	\$ 290,188,772	\$ 279,179,595	\$ 11,009,177	3.9%

VALLECITOS WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS (continued)

- The increases in water purchases and water sales reflect increases in water costs from San Diego County Water Authority (SDCWA) and rate increases adopted by Vallecitos effective March 1, 2020.
- Property tax receipts continue to increase primarily from discontinued Redevelopment Agencies in fiscal year 19/20.
- Other revenues decreased by \$0.5 million in fiscal year 19/20. 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.
- The \$1.6 million increase in General and administrative expenses was due primarily to increases in pension expense as a result of GASB 68 adjustments and increased staffing-related costs in fiscal year 19/20.
- Encina disposal increased as a result of increased operating costs at the Encina Wastewater Authority (EWA) in fiscal year 19/20. The District is billed for operating costs based on the District's ownership percentage of EWA.
- Transmission & distribution decreased by \$0.6 million as a result of less repair costs due to main breaks in fiscal year 2020 when compared to fiscal year 2019.
- Other expenses increased by \$1.7 million due, in large part, to recognizing a loss on investment in EWA. The District recognizes the change in EWA's assets, liabilities, and changes in net position based on the District's ownership percentage of EWA.
- Capital contributions decreased from fiscal year 2019 to fiscal year 2020 due to fluctuations in contributed cash and assets received from developers.

RESTRICTIONS, COMMITMENTS, AND LIMITATIONS

The District's net revenue requirement is 1.15 times the total debt service of the District. The District's 2019/20 net revenue was 4.25 times debt service as calculated per the official statement for the bonds. Debt per capita within the District is \$480 exclusive of other debt such as San Diego County Water Authority and Metropolitan Water District.

Capital Projects

The District has two capital projects that have been contracted for at least the design phase before 2019/20 totaling \$1,060,712. More information about these projects can be found in Note 11 of the Notes to the Basic Financial Statements.

VALLECITOS WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's capital assets (net of accumulated depreciation) as of June 30, 2020, totaled \$236.6 million, which represents a 1.22% decrease from the prior fiscal year.

	2019/20	2018/19
Land	\$ 4,981,505	\$ 4,981,505
Construction in Progress	5,928,082	8,795,099
Total Capital Assets, Not Depreciated	10,909,587	13,776,604
Water Transmission and Distribution System	207,170,931	204,106,247
Wastewater System	147,311,505	141,807,671
Buildings	17,287,789	17,236,207
Transportation Equipment	5,297,564	5,061,992
Field and Shop Equipment	11,152,818	11,041,945
Office Equipment	2,815,443	2,097,643
Accumulated Depreciation	(165,343,299)	(155,598,238)
Total Capital Assets, Being Depreciated, Net	225,692,751	225,753,467
Total Capital Assets, Net	\$ 236,602,338	\$ 239,530,071

As indicated by the figures in the table above, the majority of capital assets added during the fiscal year were related to the Water Transmission and Distribution System and the Wastewater System. Additional information on the District's capital assets can be found in Note 4 of the Notes to the Basic Financial Statements.

Long-Term Debt

At June 30, 2020, the District had \$52.5 million in outstanding long-term debt, a decrease of \$3.5 million, or 6.26%, from the prior year. The outstanding debt, including amortized bond issuance costs, consisted of the following obligations:

	2019/20	2018/19
Revenue Refunding Bonds	\$ 46,864,542	\$ 49,249,511
Certificates of Participation (COP)	2,266,000	2,991,000
Bank Loan	3,400,000	3,800,000
Total Long-Term Debt	\$ 52,530,542	\$ 56,040,511

Additional information on the District's long-term debt can be found in Note 6 of the Notes to the Basic Financial Statements.

MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)

ECONOMIC FACTORS AND NEXT YEAR’S BUDGET AND RATES

The District considered the following economic factors in establishing 2020/21 budget amounts:

- Increases in residential water usage and decreases in commercial water usage due to the COVID-19 pandemic
- Decreases in customer’s ability to pay bills due to COVID-19
- Decline in construction and development as a result of the COVID-19 pandemic
- Increasing regulatory compliance

As a result of these factors, the 2020/21 budget includes:

- Water sales reflective of the District’s established COVID-19 financial plan
- Increases in delinquency fees and bad debt expense
- 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.

This page intentionally left blank



BASIC FINANCIAL STATEMENTS

VALLECITOS WATER DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2020
(with prior year summarized comparative totals)

	2020	2019
ASSETS		
Current Assets:		
Cash and cash equivalents (note 2)	\$ 24,646,964	\$ 24,672,679
Restricted cash and cash equivalents (note 2)	3,159,750	3,105,251
Investments (note 2)	51,809,796	50,623,008
Accounts receivable, net:		
Water and wastewater sales and services, net (note 3)	7,784,056	7,118,259
Taxes and assessments (note 3)	140,940	129,937
Other governmental entities	678,799	1,016,632
Other	509,954	509,798
Accrued interest receivable	302,408	355,496
Inventories	902,192	1,036,613
Prepaid items	376,040	398,762
Total Current Assets	90,310,899	88,966,435
Noncurrent Assets:		
Restricted capital facility fees	78,979	68,620
Net OPEB asset (note 9)	85,884	8,572
Investment in Encina Wastewater Authority (note 5)	32,948,514	29,533,987
Capital assets not being depreciated (note 4)	10,909,587	13,776,604
Capital assets being depreciated, net (note 4)	225,692,751	225,753,467
Total Noncurrent Assets	269,715,715	269,141,250
Total Assets	360,026,614	358,107,685
DEFERRED OUTFLOWS OF RESOURCES		
Pension related (note 8)	12,771,685	6,115,714
OPEB related (note 9)	888,125	522,110
Deferred charges from debt retirement	2,394,558	2,555,520
Total Deferred Outflows of Resources	16,054,368	9,193,344
LIABILITIES		
Current Liabilities:		
Accounts payable	9,609,849	9,360,726
Accrued compensation	199,506	475,428
Construction and service deposits	796,358	1,027,110
Interest payable	1,045,784	1,100,595
Current portion of long term debt (note 6)	3,628,969	3,509,969
Current portion of compensated absences (note 6)	1,039,465	839,967
Total Current Liabilities	16,319,931	16,313,795
Noncurrent Liabilities:		
Loan payable (note 6)	3,000,000	3,400,000
Long term debt (note 6)	45,901,574	49,130,543
Compensated absences (note 6)	599,776	553,007
Net pension liability (note 8)	18,225,684	17,371,075
Total Noncurrent Liabilities	67,727,034	70,454,625
Total Liabilities	84,046,965	86,768,420
DEFERRED INFLOWS OF RESOURCES		
Pension related (note 8)	1,641,664	1,353,014
OPEB related (note 9)	203,581	-
Total Deferred Inflows	1,845,245	1,353,014
NET POSITION		
Net investment in capital assets (note 7)	189,626,103	189,150,329
Restricted for future capital projects	78,979	68,620
Unrestricted	100,483,690	89,960,646
Total Net Position	\$ 290,188,772	\$ 279,179,595

See accompanying notes to the basic financial statements.

VALLECITOS WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2020
(with prior year summarized comparative totals)

	<u>2020</u>	<u>2019</u>
OPERATING REVENUES		
Water sales	\$ 28,407,203	\$ 27,339,732
Wastewater service charges	18,012,258	18,077,717
Ready-to-serve charges	14,275,830	13,931,114
Reclaimed water sales	2,663,436	2,725,110
Pumping charges	394,029	302,676
Other services and abatements	<u>1,132,786</u>	<u>1,803,809</u>
Total Operating Revenues	<u>64,885,542</u>	<u>64,180,158</u>
OPERATING EXPENSES		
Purchased water	28,874,402	28,535,460
General and administrative	6,964,466	5,326,781
Meadowlark wastewater treatment plant	2,981,824	3,091,684
Encina disposal	2,994,404	2,512,824
Collection and conveyance	2,440,911	2,237,130
Engineering	2,878,442	2,740,725
Transmission and distribution	1,870,778	2,464,824
Customer accounts	1,262,706	1,161,704
Information technology	1,826,485	1,587,704
Meter reading and repairs	826,259	664,213
Buildings and grounds	609,951	629,659
Equipment and vehicles	503,306	418,315
Other water operating expenses	454,717	389,732
Other wastewater operating expenses	673,873	548,495
Water quality and treatment	714,930	568,416
Tanks and reservoirs	375,385	400,706
Pumping	<u>808,239</u>	<u>866,870</u>
Total Operating Expenses	<u>57,061,078</u>	<u>54,145,242</u>
Operating income before overhead absorption	7,824,464	10,034,916
Overhead absorption	<u>1,233,511</u>	<u>1,309,635</u>
Operating income before depreciation and amortization	9,057,975	11,344,551
Depreciation and amortization	<u>(10,022,954)</u>	<u>(9,726,503)</u>
Operating Income	<u>(964,979)</u>	<u>1,618,048</u>
NON-OPERATING REVENUES (EXPENSES)		
Property taxes	5,257,751	4,975,086
Interest income	1,663,564	1,576,811
Unrealized gain (loss) of investments	1,060,739	1,081,223
Change in Encina Joint Venture assets	(2,527,838)	(1,728,365)
Interest expense	(2,003,074)	(2,128,335)
Other non-operating revenues/(expenses), net	<u>97,161</u>	<u>67,877</u>
Total Non-Operating Revenues (Expenses), Net	<u>3,548,303</u>	<u>3,844,297</u>
Net income (loss) before capital contributions	2,583,324	5,462,345
CAPITAL CONTRIBUTIONS	<u>8,425,853</u>	<u>11,555,431</u>
Change in net position	11,009,177	17,017,776
Total Net Position, Beginning of Year	<u>279,179,595</u>	<u>262,161,819</u>
Total Net Position, End of Year	<u>\$ 290,188,772</u>	<u>\$ 279,179,595</u>

See accompanying notes to the basic financial statements.

**VALLECITOS WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2020
(with prior year summarized comparative totals)**

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from water and wastewater customers	\$ 64,557,422	\$ 64,507,117
Payments for water	(28,606,417)	(29,198,616)
Payments for services and supplies	(7,960,853)	(8,918,505)
Payments for employee wages, benefits, and related costs	<u>(24,026,319)</u>	<u>(15,818,716)</u>
Net Cash Provided by Operating Activities	<u>3,963,833</u>	<u>10,571,280</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Receipts from taxes and assessments	<u>5,246,748</u>	<u>4,953,591</u>
Net Cash Provided by Noncapital Financing Activities	<u>5,246,748</u>	<u>4,953,591</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Receipts relating to annexation fees and cell tower rentals	61,603	55,334
Acquisition and construction of capital assets	(12,182,380)	(9,150,715)
Principal paid on long-term debt	(3,145,000)	(3,046,000)
Interest payments on long-term debt	(2,264,498)	(2,402,069)
Capacity fees received	<u>6,757,875</u>	<u>8,868,923</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(10,772,400)</u>	<u>(5,674,527)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(24,243,907)	(31,973,789)
Proceeds from calls and maturities of investments	24,160,309	12,401,448
Investment earnings received	<u>1,674,201</u>	<u>1,395,030</u>
Net Cash Provided (Used) by Investing Activities	<u>1,590,603</u>	<u>(18,177,311)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	28,784	(8,326,967)
Cash and Cash Equivalents, Beginning of Year	<u>27,777,930</u>	<u>36,104,897</u>
Cash and Cash Equivalents, End of Year	<u>\$ 27,806,714</u>	<u>\$ 27,777,930</u>
Reconciliation of cash and cash equivalents to statement of net assets:		
Cash and cash equivalents	24,646,964	24,672,679
Restricted cash and cash equivalents	<u>3,159,750</u>	<u>3,105,251</u>
Total cash and cash equivalents	<u>\$ 27,806,714</u>	<u>\$ 27,777,930</u>

See accompanying notes to the basic financial statements.

**VALLECITOS WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2020
(with prior year summarized comparative totals)
(Continued)**

Reconciliation of Operating Income (Loss) to net Cash Provided by Operating Activities:	<u>2020</u>	<u>2019</u>
Operating income (loss)	\$ (964,979)	\$ 1,618,048
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	10,022,954	9,726,503
Changes in operating assets and liabilities:		
Accounts receivable from water and wastewater sales and services	(665,797)	1,256,107
Accounts receivable from other governmental entities	337,833	(884,946)
Accounts receivable - other	(156)	(44,202)
Inventories	134,421	(268,013)
Prepaid expenses	22,722	11,299
Net OPEB asset	(77,312)	(8,572)
Accounts payable	858,948	(94,811)
Accrued compensation	(275,922)	1,322
Compensated absences	246,267	(77,181)
Deferred Outflows - pension related	(6,655,971)	(107,127)
Deferred Inflows - pension related	288,650	214,208
Deferred Outflows - OPEB related	(366,015)	1,578,408
Deferred Inflows - OPEB related	203,581	(26,054)
Net pension liability	854,609	(399,773)
Net OPEB liability	<u>-</u>	<u>(1,923,936)</u>
Total Adjustments	<u>4,928,812</u>	<u>8,953,232</u>
Net Cash Provided by Operating Activities	<u>\$ 3,963,833</u>	<u>\$ 10,571,280</u>
Noncash Investing, Capital and Financing Activities:		
Contribution of assets by developers	1,358,896	2,456,745
Change in fair value of investments	1,060,739	1,081,223

See accompanying notes to the basic financial statements.

**VALLECITOS WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020**

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 21,925 active water meters and 20,773 active sewer accounts as of June 30, 2020.

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
(Continued)
YEAR ENDED JUNE 30, 2020**

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
(Continued)
YEAR ENDED JUNE 30, 2020**

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, 2020 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, 2020
Levy Date:	July 1, 2020
Due Date:	First Installment - November 1, 2019 Second Installment - February 1, 2020
Delinquent Date:	First Installment - December 10, 2019 Second Installment - April 10, 2020

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:

**VALLECITOS WATER DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 (Continued)
 YEAR ENDED JUNE 30, 2020**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

December 10, 2019	30% Advance - First Installment
January 24, 2020	Balance on First Installment (to 55%)
April 8, 2020	10% Advance - Second Installment
May 13, 2020	Balance of Second Installment (to 95%)
August 1, 2020	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.

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

	<u>Useful Life</u>
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

**VALLECITOS WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
(Continued)
YEAR ENDED JUNE 30, 2020**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. These 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 two times (2x) the employee's annual accrual rate or 240 vacation hours, whichever is greater. When an employee has accumulated the maximum hours, no further hours are accrued. In addition, an employee can accrue up to the sick leave balance cap of 1040 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.

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.

VALLECITOS WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
(Continued)
YEAR ENDED JUNE 30, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2018
Measurement Date	June 30, 2019
Measurement Period	July 1, 2018 to June 30, 2019

T. Other Post-Employment Benefits

For purposes of measuring the net OPEB (asset) 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	June 30, 2019
Measurement Date	June 30, 2019
Measurement Period	July 1, 2018 to June 30, 2019

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.

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.

**VALLECITOS WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
(Continued)
YEAR ENDED JUNE 30, 2020**

2. CASH AND INVESTMENTS

Cash and investments are classified in the accompanying financial statements as of June 30, 2020:

Cash and cash equivalents	\$ 24,646,964
Restricted cash and cash equivalents	3,159,750
Investments	<u>51,809,796</u>
Total cash and investments	<u>\$ 79,616,510</u>

Cash and investments consist of the following at June 30, 2020:

Cash on hand	\$ 2,000
Deposits with financial institutions	390,405
Investments	<u>79,224,105</u>
Total cash and investments	<u>\$ 79,616,510</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.

<u>INVESTMENT TYPE</u>	<u>MAXIMUM MATURITY</u>	<u>MAXIMUM SPECIFIED % OF PORTFOLIO</u>
Asset-Backed Securities	5 years	20%
Bankers' Acceptances	180 days	20%
Collateralized Bank Deposits	None	100%
Commercial Paper	270 days	25%
County Pooled Investment Funds	None	100%
Local Agency Investment Fund (LAIF)	None	100%
Medium-Term Notes	5 years	25%
Mutual Funds and Money Market Mutual Funds	None	20%
Negotiable Certificates of Deposit	5 years	20%
Non-negotiable Certificates of Deposit	5 years	20%
Repurchase Agreements	1 year	25%
State Obligations— CA and Others	5 years	25%
Supranational Obligations	5 years	25%
U.S. Agency and U.S. Treasury Obligations	5 years	100%

VALLECITOS WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
(Continued)
YEAR ENDED JUNE 30, 2020

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
(Continued)
YEAR ENDED JUNE 30, 2020**

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, 2020 are as follows:

Type of Investment	Total	12 months or less	One to Three Years	Three to Five Years
Treasury Securities	\$ 16,847,536	\$ 3,016,766	\$ 10,641,825	\$ 3,188,945
Federal Agency Securities	19,975,248	-	14,193,673	5,781,575
Local Agency Investment Fund	17,817,340	17,817,340	-	-
Commercial Paper	849,557	849,557	-	-
Corporate Medium-Term Notes	9,312,024	3,056,135	6,255,889	-
Asset Backed Securities	1,392,936	-	1,115,608	277,328
Supranational	1,524,663	754,735	769,928	-
Money Market Mutual Funds	1,044,396	1,044,396	-	-
Negotiable Certificates of Deposit	1,744,431	1,744,431	-	-
San Diego County Investment Pool	5,556,224	5,556,224	-	-
Held by Fiscal Agent:				
Money Market Funds	3,159,750	3,159,750	-	-
Total	<u>\$ 79,224,105</u>	<u>\$ 36,999,334</u>	<u>\$ 32,976,923</u>	<u>\$ 9,247,848</u>

Credit Risk

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

**VALLECITOS WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
(Continued)
YEAR ENDED JUNE 30, 2020**

2. CASH AND INVESTMENTS (Continued)

Investment	Total	Minimum Legal Rating	Not Required to be Rated	AAA	AA	A	A-1/A-1+	Unrated
U.S. Treasury Securities	\$ 16,847,536	N/A	\$ 16,847,536	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. Government Sponsored Agency Securities:								
FFCB	6,640,785	N/A	-	6,640,785	-	-	-	-
FHLB	5,663,537	N/A	-	5,663,537	-	-	-	-
FHLMC	3,983,401	N/A	-	3,983,401	-	-	-	-
FNMA	3,687,525	N/A	-	3,687,525	-	-	-	-
Local Agency Investment Fund	17,817,340	N/A	-	-	-	-	-	17,817,340
Commercial Paper	849,557	A	-	-	-	-	849,557	-
Corporate Medium-Term Notes	9,312,024	A	-	-	2,413,490	6,898,534	-	-
Asset Backed Securities	1,392,936	AA	-	1,392,936	-	-	-	-
Supranational	1,524,663	AA	-	1,524,663	-	-	-	-
Money Market Mutual Funds	1,044,396	AAA	-	1,044,396	-	-	-	-
Negotiable Certificates of Deposit	1,744,431	A	-	-	-	-	1,004,930	739,501
San Diego County Investment Pool	5,556,224	N/A	-	5,556,224	-	-	-	-
Held by Fiscal Agent:								
Money Market Mutual Funds	3,159,750	AAA	-	3,159,750	-	-	-	-
Total	<u>\$ 79,224,105</u>		<u>\$ 16,847,536</u>	<u>\$ 32,653,217</u>	<u>\$ 2,413,490</u>	<u>\$ 6,898,534</u>	<u>\$ 1,854,487</u>	<u>\$ 18,556,841</u>

Credit ratings of investments as of June 30, 2020 were as follows:

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, 2020 are as follows:

Issue	Investment Type	Reported Amount	Percentage of Portfolio
Federal Farm Credit Banks	U.S. Government Sponsored	\$ 6,640,785	8.38%
Federal Home Loan Bank	U.S. Government Sponsored	5,663,537	7.15%
Federal Home Loan Mortgage Association	U.S. Government Sponsored	3,983,401	5.03%

The District has the following recurring fair value measurements as of June 30, 2020:

	Total	Quoted Prices Level 1	Observable Inputs Level 2	Unobservable Inputs Level 3
U.S. Treasury Securities	\$ 16,847,536	\$ -	\$ 16,847,536	\$ -
U.S. Government Sponsored Agency Securities:				
FFCB	6,640,785	-	6,640,785	-
FHLB	5,663,537	-	5,663,537	-
FHLMC	3,983,401	-	3,983,401	-
FNMA	3,687,525	-	3,687,525	-
Commercial Paper	849,557	-	849,557	-
Corporate Medium Term Notes	9,312,024	-	9,312,024	-
Asset Backed Securities	1,392,936	-	1,392,936	-
Supranational	1,524,663	-	1,524,663	-
Negotiable Certificates of Deposit	1,744,431	-	1,744,431	-
Total Investments at Fair Value	51,646,395	<u>\$ -</u>	<u>\$ 51,646,395</u>	<u>\$ -</u>

Investments not subject to categorization:

Money Market Mutual Funds	4,204,146
Local Agency Investment Fund (LAIF)	17,817,340
San Diego County Investment Pool	5,556,224
Total	<u>\$ 79,224,105</u>

VALLECITOS WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
(Continued)
YEAR ENDED JUNE 30, 2020

3. ACCOUNTS RECEIVABLE

Customer Account Receivable

The customer accounts receivable balance at June 30, 2020 consist of the following:

Water and wastewater sales and services	\$ 7,833,570
Allowance for uncollectible accounts	<u>(49,514)</u>
Accounts Receivable - water and wastewater, net	<u><u>\$ 7,784,056</u></u>

Property Tax Receivable

Taxes and assessments receivable of \$145,591 have been reduced by an allowance for estimated uncollectible taxes of \$4,651 for a net receivable of \$140,940 at June 30, 2020.

4. CAPITAL ASSETS

Changes in capital assets are as follows:

	June 30, 2019	Additions/ Transfers	Deletions/ Transfers	June 30, 2020
Capital Assets, Not Depreciated:				
Land	\$ 4,981,505	\$ -	\$ -	\$ 4,981,505
Construction-in-progress	<u>8,795,099</u>	<u>7,054,376</u>	<u>(9,921,393)</u>	<u>5,928,082</u>
Total Capital Assets, Not Depreciated	<u>13,776,604</u>	<u>7,054,376</u>	<u>(9,921,393)</u>	<u>10,909,587</u>
Capital Assets, Being Depreciated:				
Water transmission and distribution system	204,106,247	3,070,195	(5,511)	207,170,931
Wastewater system	141,807,671	5,513,064	(9,230)	147,311,505
Buildings	17,236,207	51,582	-	17,287,789
Transportation equipment	5,061,992	452,468	(216,896)	5,297,564
Field and shop equipment	11,041,945	110,873	-	11,152,818
Office equipment	<u>2,097,643</u>	<u>764,056</u>	<u>(46,256)</u>	<u>2,815,443</u>
Total Capital Assets, Being Depreciated	<u>381,351,705</u>	<u>9,962,238</u>	<u>(277,893)</u>	<u>391,036,050</u>
Less: Accumulated Depreciation:				
Water transmission and distribution system	(78,616,361)	(4,797,509)	5,511	(83,408,359)
Wastewater system	(49,038,797)	(2,818,544)	9,230	(51,848,111)
Buildings	(15,385,815)	(1,371,317)	-	(16,757,132)
Transportation equipment	(3,340,497)	(381,848)	216,896	(3,505,449)
Field and shop equipment	(7,166,661)	(421,950)	-	(7,588,611)
Office equipment	<u>(2,050,107)</u>	<u>(231,786)</u>	<u>46,256</u>	<u>(2,235,637)</u>
Total Accumulated Depreciation	<u>(155,598,238)</u>	<u>(10,022,954)</u>	<u>277,893</u>	<u>(165,343,299)</u>
Total Capital Assets, Being Depreciated, Net	<u>225,753,467</u>	<u>(60,716)</u>	<u>-</u>	<u>225,692,751</u>
Total Capital Assets, Net	<u><u>\$ 239,530,071</u></u>	<u><u>\$ 6,993,660</u></u>	<u><u>\$ (9,921,393)</u></u>	<u><u>\$ 236,602,338</u></u>

Depreciation expense for the year ended June 30, 2020 is 10,022,954 and is included in Depreciation and Amortization expense on the Statement of Revenues, Expenses, and Changes in Net Position.

**VALLECITOS WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
(Continued)
YEAR ENDED JUNE 30, 2020**

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, 2020, 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%

The latest available financial statements of EWA, dated June 30, 2019, are available directly from EWA's website (<https://www.encinajpa.com/transparency/fiscal-responsibility>), and depict the following:

Total assets	\$ 152,500,860
Deferred outflows of resources	4,048,620
Total liabilities	19,447,330
Deferred inflows of resources	800,443
Total net position	136,301,707
Increase in net position	8,734,016

6. LONG TERM DEBT

The following is a summary of long-term debt transactions for the fiscal year ended June 30, 2020:

	Balance June 30, 2019	Additions	Deletions	Balance June 30, 2020	Due within one year
2008 UBOC Loan	\$ 3,800,000	\$ -	\$ (400,000)	\$ 3,400,000	\$ 400,000
2012 COP	2,991,000	-	(725,000)	2,266,000	739,000
2015 Refunding Revenue Bonds	43,410,000	-	(2,020,000)	41,390,000	2,125,000
Bond Premium	5,839,511	-	(364,969)	5,474,542	364,969
Compensated Absences	1,392,975	1,090,598	(844,331)	1,639,242	1,039,465
Total	<u>\$ 57,433,486</u>	<u>\$ 1,090,598</u>	<u>\$ (4,354,300)</u>	<u>\$ 54,169,784</u>	<u>\$ 4,668,434</u>

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% (1.07200% at June 30, 2020). Principal payments of \$200,000 plus interest are payable semi-annually. The loan matures in 2029.

**VALLECITOS WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
(Continued)
YEAR ENDED JUNE 30, 2020**

6. LONG TERM DEBT (Continued)

The District's outstanding loan is secured with the pledge of Net Revenues. The outstanding debt contains (1) a provision that in an event of default, the bank may declare all sums of interest and principal and any other amounts owing under the note immediately due and payable, without notice of default, presentment or demand for payment, protest or notice of nonpayment or dishonor or any other notices or demands and (2) From and after the occurrence of an Event of Default up through and including the maturity date, inclusive, and for so long as any event of default is continuing, interest shall accrue on the unpaid principal owing under the note at a rate per annum equal to the bank's reference rate plus 3%.

The annual requirements to amortize the 2008 Loan Payable outstanding at June 30, 2020 are as follows:

Fiscal Year	Principal	Interest	Total
2021	\$ 400,000	\$ 77,673	\$ 477,673
2022	400,000	67,650	467,650
2023	400,000	57,628	457,628
2024	400,000	47,606	447,606
2025	400,000	37,584	437,584
2026-2029	<u>1,400,000</u>	<u>32,572</u>	<u>1,432,572</u>
Total	<u>\$ 3,400,000</u>	<u>\$ 320,713</u>	<u>\$ 3,720,713</u>

2012 Certificates of Participation

On December 5, 2012, the Board of Directors of Vallecitos Water District authorized the issuance of direct placement 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 District's outstanding certificates of participation are secured with the pledge of Net Revenues. The outstanding debt contains (1) a provision that in an event of default, the holder of any outstanding Parity Obligations is entitled to accelerate such Indebtedness, Bank may declare all sums of interest and principal and any other amounts owing under the Note or under any other Loan Document immediately due and payable, without notice of default, presentment or demand for payment, protest or notice of nonpayment or dishonor or any other notices or demands. Otherwise, an Event of Default hereunder shall not result in an acceleration of Borrower's obligations hereunder or under the Note and (2) a provision that the District may prepay all, but not less than all of the aggregate unpaid amounts after giving the Original Purchaser 30 days' prior written notice and at a price of 101% of the principal amount so paid.

The annual requirements to amortize the 2012 Certificates of Participation outstanding at June 30, 2020 are as follows:

Fiscal Year	Principal	Interest	Total
2021	\$ 739,000	\$ 37,551	\$ 776,551
2022	755,000	22,760	777,760
2023	<u>772,000</u>	<u>7,643</u>	<u>779,643</u>
Total	<u>\$ 2,266,000</u>	<u>\$ 67,954</u>	<u>\$ 2,333,954</u>

**VALLECITOS WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
(Continued)
YEAR ENDED JUNE 30, 2020**

6. LONG TERM DEBT (Continued)

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 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, 2020 are as follows:

Fiscal Year	Principal	Interest	Total
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	2,465,000	1,672,625	4,137,625
2025	2,590,000	1,546,250	4,136,250
2026-2030	15,080,000	5,597,750	20,677,750
2031-2035	12,110,000	2,017,500	14,127,500
2036	<u>2,440,000</u>	<u>61,000</u>	<u>2,501,000</u>
Total	<u>\$ 41,390,000</u>	<u>\$ 16,611,750</u>	<u>\$ 58,001,750</u>

7. NET POSITION

Net investment in capital assets at June 30, 2020 consists of the following:

Capital assets not being depreciated	\$ 10,909,587
Net capital assets being depreciated	225,692,751
Notes payable	(3,400,000)
Certificates of participation	(2,266,000)
Refunding bonds	(41,390,000)
Bond premium	(5,474,543)
Deferred charges from debt retirement	2,394,558
Add back: unspent bond proceeds	<u>3,159,750</u>
Total net investment in capital assets	<u>\$ 189,626,103</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.

**VALLECITOS WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
(Continued)
YEAR ENDED JUNE 30, 2020**

8. DEFINED BENEFIT PENSION PLAN (Continued)

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.

The Plan's provisions and benefits in effect at June 30, 2020 are summarized as follows:

	Prior to January 1, 2013	On or after January 1, 2013
Hire date	<u>2013</u>	<u>2013</u>
Benefit formula	3.0% at 60	2.0% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 60	52 - 62
Monthly benefits, as a % of eligible compensation	2.0% to 3.0%	1.0% to 2.0%
Required employee contribution rates	7.78%	6.25%
Required employer contribution rates	14.40%	6.84%

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.

**VALLECITOS WATER DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 (Continued)
 YEAR ENDED JUNE 30, 2020**

8. DEFINED BENEFIT PENSION PLAN (Continued)

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, 2019, using an annual actuarial valuation as of June 30, 2018 rolled forward to June 30, 2019 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	2.50%
Salary Increases	Varies by Entry Age and Service
Mortality Rate ⁽¹⁾	Derived using CalPERS' Membership Data for all funds
Pre-Retirement Turnover ⁽²⁾	Contract COLA up to 2.50% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.50% thereafter.

All other actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the fiscal years 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

Change of Assumptions

There was no change of assumptions in 2019.

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**VALLECITOS WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
(Continued)
YEAR ENDED JUNE 30, 2020**

8. DEFINED BENEFIT PENSION PLAN (Continued)

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, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all of the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ 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 rounded 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 adjusted to account for assumed administrative expenses.

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, 2018.

<u>Asset Class</u> ⁽¹⁾	<u>Assumed Asset Allocation</u>	<u>Real Return Years 1 - 10</u> ⁽²⁾	<u>Real Return Years 11+</u> ⁽³⁾
Global Equity	50.00%	4.80%	5.98%
Fixed Income	28.00	1.00	2.62
Inflation Assets	-	0.77	1.81
Private Equity	8.00	6.30	7.23
Real Assets	13.00	3.75	4.93
Liquidity	1.00	-	(0.92)

(1) In the system's CAFR, Fixed income is included in Global Debt Securities; Liquidity is included in short-term investments; inflation Assets are included in both Global Equity Securities and Global Debt Securities.

(2) An expected inflation of 2.00% used for this period.

(3) An expected inflation of 2.92% 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.

**VALLECITOS WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
(Continued)
YEAR ENDED JUNE 30, 2020**

8. DEFINED BENEFIT PENSION PLAN (Continued)

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 (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (c) = (a) - (b)
Balance at: 6/30/2018	\$ 77,320,943	\$ 59,949,868	\$ 17,371,075
Balance at: 6/30/2019	<u>82,196,732</u>	<u>63,971,049</u>	<u>18,225,683</u>
Net Changes during 2018-19	<u>\$ 4,875,789</u>	<u>\$ 4,021,181</u>	<u>\$ 854,608</u>

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 measurement date June 30, 2018 and 2019 was as follows:

Proportionate Share - June 30, 2018	Miscellaneous 0.46093%
Proportionate Share - June 30, 2019	<u>0.45513%</u>
Change - Increase (Decrease)	<u>(0.00580%)</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	\$ 29,281,395	\$ 18,225,684	\$ 9,099,975

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.

**VALLECITOS WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
(Continued)
YEAR ENDED JUNE 30, 2020**

8. DEFINED BENEFIT PENSION PLAN (Continued)

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.

The EARSL for the Plan for the measurement date ending June 30, 2019 is 3.8 years, which was obtained by dividing the total service years of 530,470 (the sum of remaining service lifetimes of the active employees) by 140,593 (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, 2019 (the measurement date), the District incurred pension expense of \$4,047,353 for the Plan.

As of June 30, 2020, the District has deferred outflows and deferred inflows of resources related to pensions as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension Contributions Made Subsequent to Measurement Date	\$ 10,394,064	\$ -
Changes of Assumptions	869,085	308,083
Differences between Expected and Actual Experience	1,265,851	98,078
Net Difference between Projected and Actual Investment Earnings	-	318,641
Difference in Actual vs. Project Contributions	-	774,706
Change in Employer's Proportion	242,685	142,156
Total	<u>\$ 12,771,685</u>	<u>\$ 1,641,664</u>

Contributions subsequent to the measurement date of \$10,394,064 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:

**VALLECITOS WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
(Continued)
YEAR ENDED JUNE 30, 2020**

8. DEFINED BENEFIT PENSION PLAN (Continued)

Measurement Period Ended June 30:	Deferred Outflows/(Inflows) of Resources
2021	\$ 1,083,026
2022	(394,127)
2023	(17,331)
2024	64,389
2025	-
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 the age of 65. At June 30, 2020, there were twenty-eight retired employees who met these eligibility requirements and are, therefore, receiving the benefits.

Plan Description

The Plan is part of the Public Agency portion of the California Employers' Retiree Benefit Trust Fund (CERBT), an agent multiple-employer plan administered by California Public Employees' Retirement System (PERS), which acts as a common investment and administrative agent for participating public employers within the State of California. Benefit provisions and all other requirements are established by state statute and the Board. Copies of PERS' annual financial report may be obtained from their Executive Office, 400 P Street, Sacramento, CA 95814.

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.

**VALLECITOS WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
(Continued)
YEAR ENDED JUNE 30, 2020**

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

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

Employees Covered

As of the June 30, 2019 measurement date, the following current and former employees were covered by the benefit terms under the Plan:

Active employees	63
Inactive employees or beneficiaries currently receiving benefits	28
Inactive employees entitled to, but not yet receiving benefits	-
Total	91

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, 2020, the District's cash contributions were \$371,394 of direct payments and the estimated implied subsidy was \$118,204 resulting in total payments of \$489,598.

Net OPEB (Asset) Liability

The District's net OPEB (asset) liability was measured as of June 30, 2019 and the total OPEB liability used to calculate the net OPEB (asset) liability was determined by an actuarial valuation dated June 30, 2019 that was rolled forward to determine the June 30, 2019 total OPEB liability, based on the following actuarial methods and assumptions:

Actuarial Cost Method:	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	6.00%
Inflation	2.75%
Salary Increases	2.75% per annum, in aggregate
Investment Rate of Return	6.00%, assuming actuarially determined contributions funded into CERBT Investment Strategy 2
Mortality Rate	2017 CalPERS Mortality for Miscellaneous and Schools Employees
Pre-Retirement Turnover	2017 CalPERS Turnover for Miscellaneous Employees
Healthcare Trend Rate	Based on recent premium experience assuming 1%-1% increase due to market trends then reduced to a rate reflecting medical price inflation

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.

VALLECITOS WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
(Continued)
YEAR ENDED JUNE 30, 2020

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

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

Asset Class	Target Allocation	Assumed Gross Return
Global Equity	40.00%	7.795%
Global Fixed Income	43.00%	4.500%
TIPS	5.00%	3.250%
REITs	8.00%	7.500%
Commodities	4.00%	7.795%
Total	<u>100.00%</u>	

Discount Rate

The discount rate used to measure the total OPEB liability was 6.00 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 (Asset) Liability

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

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability/ (Asset) (c) = (a) - (b)
Balance at June 30, 2019 (Measurement Date June 30, 2018)	\$ 5,438,246	\$ 5,446,818	\$ (8,572)
Changes recognized for the measurement period:			
Service cost	186,376	-	186,376
Interest	329,053	382,495	(53,442)
Contributions - employer	-	457,180	(457,180)
Net investment income	(213,148)	-	(213,148)
Changes in Assumptions	458,911	-	458,911
Benefit payments	(457,180)	(457,180)	-
Administrative expense	-	(1,171)	1,171
Net changes	<u>304,012</u>	<u>381,324</u>	<u>(77,312)</u>
Balance at June 30, 2020 (Measurement Date June 30, 2019)	<u>\$ 5,742,258</u>	<u>\$ 5,828,142</u>	<u>\$ (85,884)</u>

Sensitivity of the Net OPEB (Asset) Liability to Changes in the Discount Rate

The following presents the net OPEB (asset) 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, 2019:

**VALLECITOS WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
(Continued)
YEAR ENDED JUNE 30, 2020**

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

	1% Decrease (5.00%)	Current Discount Rate (6.00%)	1% Increase (7.00%)
Net OPEB (Asset) Liability	\$262,784	\$(85,884)	\$(408,148)

Sensitivity of the Net OPEB (Asset) Liability to Changes in the Health Care Cost Trend Rates

The following presents the net OPEB (asset) 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, 2019:

	1% Decrease 6.50% for 6 years decreasing to 3.50% thereafter	Current Healthcare Cost Trend Rates 7.50% for 6 years decreasing to 4.50% thereafter	1% Increase 8.50% for 6 years decreasing to 5.50% thereafter
Net OPEB (Asset) Liability	\$(531,963)	\$(85,884)	\$424,360

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, 2020, the District recognized OPEB expense of \$203,025. As of fiscal year, ended June 30, 2020, the District reported deferred outflows of resources related to OPEB from the following sources:

**VALLECITOS WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
(Continued)
YEAR ENDED JUNE 30, 2020**

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	\$ 489,598	\$ -
Changes of Assumptions	398,527	-
Differences between expected and actual experience	-	185,102
Differences between projected and actual return on assets	-	18,479
Total	\$ 888,125	\$ 203,581

The \$489,598 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2019 measurement date will be recognized as a reduction of the net OPEB (asset) liability during the fiscal year ending June 30, 2021. 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
2021	\$ 26,815
2022	26,813
2023	33,328
2024	23,917
2025	32,338
Thereafter	51,735

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.

At June 30, 2020, 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 \$50,000,000.

**VALLECITOS WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
(Continued)
YEAR ENDED JUNE 30, 2020**

10. RISK MANAGEMENT (Continued)

Auto Liability: Includes owned automobiles, non-owned automobiles, and hired automobiles with coverage limits of \$50,000,000 and a varying deductible up to \$5,000 depending on the vehicle.

Public Officials' Liability: Includes errors and omissions with coverage limits of \$50,000,000.

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.

11. 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 Name</u>	<u>Total Approved Contract(s)</u>	<u>Construction Costs to Date</u>	<u>Remaining Obligation</u>
2019 Sewer Lining	\$ 609,287	\$ 578,823	\$ 30,464
North Twin Oaks Tank No. 1 Refurbishment	451,425	162,061	289,364
Total	<u>\$ 1,060,712</u>	<u>\$ 740,884</u>	<u>\$ 319,828</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.

REQUIRED SUPPLEMENTARY INFORMATION

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

	Measurement Date					
	6/30/2019	6/30/2018	6/30/2017	6/30/2016	6/30/2015	6/30/2014
Proportion of the collective net pension liability	0.45705%	0.45776%	0.45080%	0.43637%	0.41797%	0.40328%
Proportionate share of the collective net pension liability	\$18,225,684	\$17,371,075	\$17,770,848	\$15,158,897	\$11,466,898	\$9,967,048
Covered payroll	\$ 9,079,529	\$ 8,696,329	\$ 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	200.73%	199.75%	191.89%	176.63%	138.23%	127.77%
Plan fiduciary net position as a percentage of the total pension liability	77.73%	77.69%	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 30, 2017 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:

On December 19, 2017, the CalPERS Board of Administration adopted new actuarial assumptions based on the recommendations in the December 2017 CalPERS Experience Study and Review of Actuarial Assumptions. This study reviewed the retirement rates, termination rates, mortality rates, rates of salary increases and inflation assumption for Public Agencies.

On December 21, 2016, the CalPERS Board of Administration lowered the discount rate from 7.500 percent to 7.000 percent using a three year phase-in beginning with the June 30, 2016 actuarial valuations. The minimum employer contributions for Fiscal Year 2018-19 determined in this valuation were calculated using a discount rate of 7.375 percent. In 2015, amounts reported reflect an adjustment of the discount rate from 7.500 percent (net of administrative expense) to 7.650 percent (without a reduction for pension plan administrative expense.) In 2014, amounts reported were based on the 7.500 percent discount rate.

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

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

	Fiscal Year					
	6/30/2020	6/30/2019	6/30/2018	6/30/2017	6/30/2016	6/30/2015
Actuarially determined contribution	\$ 2,340,064	\$ 1,210,511	\$ 1,765,087	\$ 1,690,724	\$ 1,465,868	\$ 1,304,486
Contributions in relation to the Actuarially Determined Contribution	<u>(10,394,064)</u>	<u>(2,878,512)</u>	<u>(1,765,087)</u>	<u>(1,690,724)</u>	<u>(1,465,868)</u>	<u>(1,304,486)</u>
Contribution deficiency (excess)	<u>\$ (8,054,000)</u>	<u>\$ (1,668,001)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 9,100,866	\$ 9,079,529	\$ 8,696,329	\$ 9,261,146	\$ 8,582,083	\$ 8,295,604
Contributions as a percentage of covered payroll	114.21%	31.70%	20.30%	18.26%	17.08%	15.73%

Notes to Schedule:

Fiscal Year End: 06/30/20
Valuation Date: 06/30/17

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry age Normal in accordance with the requirements of GASB 68
Amortization Method	Level percent of payroll
Asset Valuation Method	Market Value
Discount Rate	7.25%
Projected Salary Increase	4.00% to 8.50% depending on age, service, and type of employment
Inflation	2.50%
Payroll Growth	2.75% per annum plus merit
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 six years are shown.

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

	Measurement Date		
	2019	2018	2017
Total OPEB liability			
Service cost	\$ 186,376	\$ 180,948	\$ 170,304
Interest on the total OPEB liability	329,053	336,647	341,526
Actual and expected experience difference	(213,148)	-	-
Changes in assumptions	458,911	-	-
Changes in benefit terms	-	-	-
Benefit payments	(457,180)	(569,507)	(631,560)
Net change in total OPEB liability	304,012	(51,912)	(119,730)
Total OPEB liability - beginning	5,438,246	5,490,158	5,609,888
Total OPEB liability - ending (a)	<u>\$ 5,742,258</u>	<u>\$ 5,438,246</u>	<u>\$ 5,490,158</u>
Plan Fiduciary Net Position			
Contribution - employer	\$ 457,180	\$ 2,229,507	\$ 631,560
Net investment income	382,495	227,493	240,481
Benefit payments	(457,180)	(569,507)	(631,560)
Administrative expense	(1,171)	(6,897)	(1,753)
Net change in plan fiduciary net position	381,324	1,880,596	238,728
Plan fiduciary net position - beginning	5,446,818	3,566,222	3,327,494
Plan fiduciary net position - ending (b)	<u>\$ 5,828,142</u>	<u>\$ 5,446,818</u>	<u>\$ 3,566,222</u>
Net OPEB (asset) liability - ending (a)-(b)	<u>\$ (85,884)</u>	<u>\$ (8,572)</u>	<u>\$ 1,923,936</u>
Plan fiduciary net position as a percentage of the total OPEB liability	101.50%	100.16%	64.96%
Covered-employee payroll**	\$ 6,379,207	\$ 6,593,511	\$ 6,883,715
Net OPEB (asset) liability as a percentage of covered-employee payroll	-1.35%	-0.13%	27.95%

Notes to Schedule:

Changes in assumptions:

The discount rate of 6.00% was used in the valuation. The interest rate used in the prior valuation was 6.25% per year net of expenses. Historic 15 year real rates of return for each asset class along with the assumed long-term inflation assumption to set the discount rate.

Payroll assumption for the purpose of calculating service cost changed from 3.00% to 2.75% for the measurement period ended June 30, 2019.

*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.

**The Districts contribution are not determined as a measure of pay and therefore covered-employee payroll has been disclosed.

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

	Fiscal Year		
	2020	2019	2018
Actuarially Determined Contribution (ADC)	\$ 489,598	\$ 504,000	\$ 631,560
Contributions in relation to the ADC	(489,598)	(504,000)	(2,100,518)
Contribution deficiency (excess)	\$ -	\$ -	\$ (1,468,958)
Covered-employee payroll	\$ 6,264,615	\$ 6,379,207	\$ 6,593,511
Contributions as a percentage of covered-employee payroll	7.82%	7.90%	31.86%

Notes to Schedule:

Actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2020 were from the June 30, 2019 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	2.75% per annum, in aggregate
Investment Rate of Return	6.00%, assuming actuarially determined contributions funded into California Employers' Retiree Benefit Trust Investment Strategy 2.
Healthcare cost-trend rates	Based on recent premium experience, assuming 1%-1% increase due to market trends then reduced to a rate reflecting medical price inflation.
Retirement Age	Tier 1 employees - 2.0% @60 and Tier 2 employees - 3.0% @60
Mortality	The probabilities of Retirement are based on the 2017 CalPERS Experience Study The mortality assumptions are based on the 2017 CalPERS Retiree Mortality for All Employees.

*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.

This page intentionally left blank



STATISTICAL SECTION



This page intentionally left blank



Statistical Section

Governmental Accounting Standards Board (GASB) Statement No. 44, *Economic Condition Reporting: The Statistical Section*, requires statistical information as part of the Comprehensive Annual Financial Report (CAFR). The statistical section is designed to meet five objectives to help the reader assess the District's economic condition: 1) provide information on financial trends, 2) provide information on revenue capacity, 3) provide information on debt capacity, 4) provide demographic and economic information, and 5) provide operating information.

Contents

Financial Trends

These tables contain trend information to help the reader understand how the District's financial performance and well-being have changed over time.

Net Position is the accumulated value of the District's assets minus its liabilities. Changes in Net Position (total revenue less total expenses) measures the success of the District's operations during the reporting period and its ability to meet its financial commitments.

Revenue Capacity

These tables provide detailed information about the District's revenues and expenses. The tables presented in this section show the District's activities during the reporting year broken down by source to help the reader assess the District's financial health.

Debt Capacity

These tables present information to help the reader assess the affordability of the District's current levels of outstanding debt and the ability to issue additional debt in the future.

Demographic and Economic Information

These tables offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place.

Operating Information

These tables contain service and infrastructure data to help the reader understand how the information in the District's financial report relates to the services it provides and the activities it performs.

Tables

1 - 2

3 - 9

10 - 11

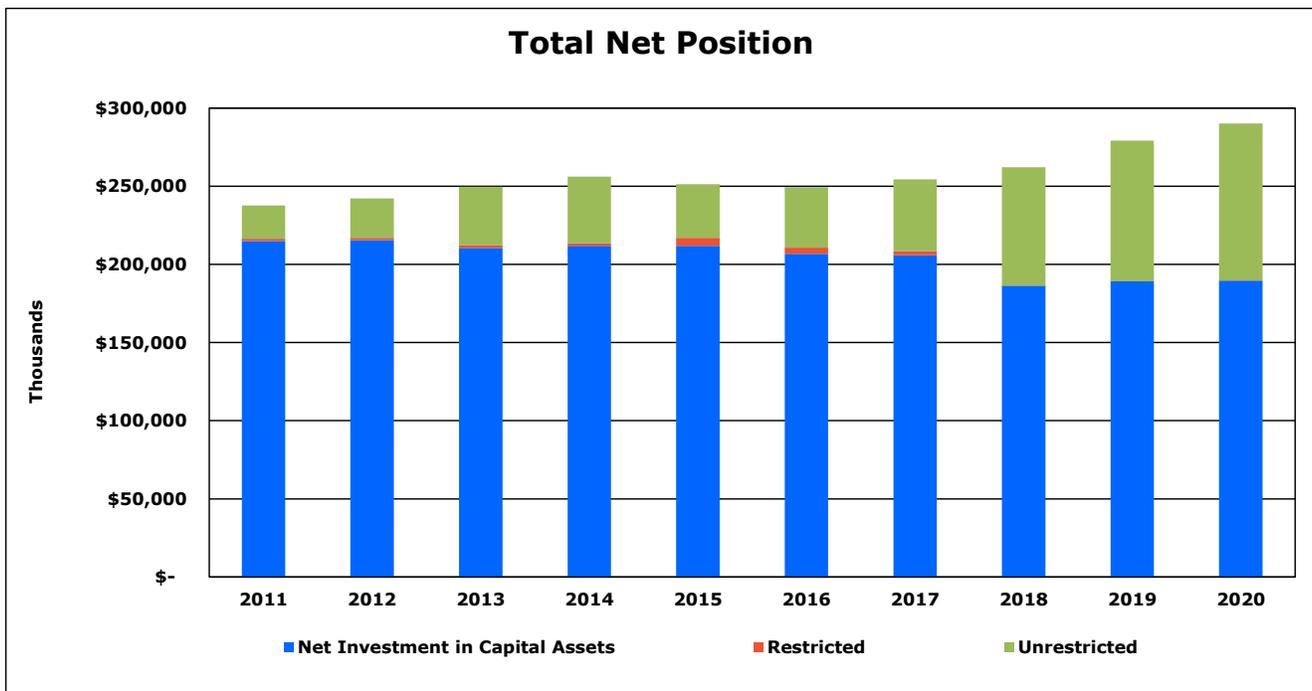
12 - 14

15 - 16

VALLECITOS WATER DISTRICT
TABLE 1 - NET POSITION BY COMPONENT
LAST TEN FISCAL YEARS

Fiscal Year ended June 30					
	2020	2019	2018	2017	2016
Net Investment in Capital Assets	\$ 189,626,103	\$ 189,150,329	\$ 186,328,145	\$ 205,840,028	\$ 206,775,864
Restricted	78,979	68,620	74,957	2,578,677	3,906,413
Unrestricted	100,483,690	89,960,646	75,758,717	45,901,052	38,710,870
Total Net Position	\$ 290,188,772	\$ 279,179,595	\$ 262,161,819	\$ 254,319,757	\$ 249,393,147

	2015	2014	2013	2012	2011
Net Investment in Capital Assets	\$ 211,866,038	\$ 211,842,759	\$ 210,637,696	\$ 215,509,964	\$ 214,976,399
Restricted	5,117,540	1,645,172	1,536,415	1,504,206	1,427,825
Unrestricted	34,287,556	42,620,873	37,577,307	25,250,602	21,266,561
Total Net Position	\$ 251,271,134	\$ 256,108,804	\$ 249,751,418	\$ 242,264,772	\$ 237,670,785

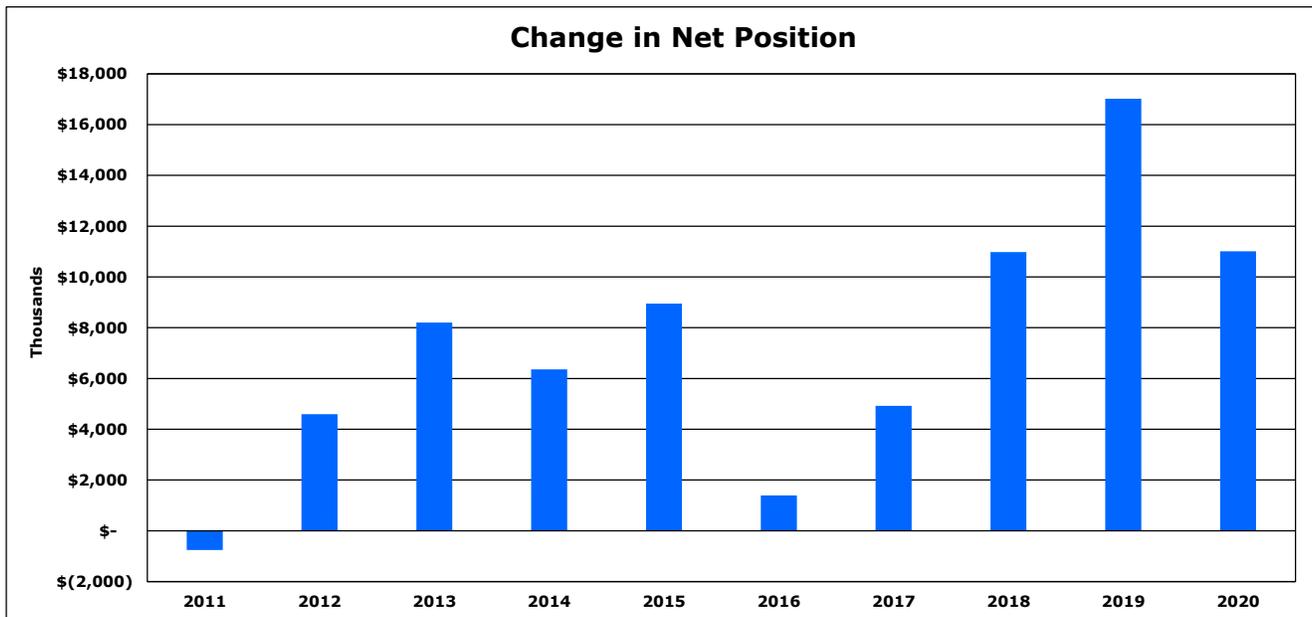


Source: Vallecitos Water District

**VALLECITOS WATER DISTRICT
TABLE 2 - CHANGES IN NET POSITION
LAST TEN FISCAL YEARS**

	Fiscal Year ended June 30				
	2020	2019	2018	2017	2016
Total Operating Revenues	\$ 64,885,542	\$ 64,180,158	\$ 64,135,261	\$ 57,422,074	\$ 51,840,554
Total Operating Expenses (1)	65,850,521	62,562,110	63,655,946	58,971,143	52,647,405
Operating Income (Loss)	(964,979)	1,618,048	479,315	(1,549,069)	(806,851)
Total Non-Operating Revenues/(Expenses), Net	3,548,303	3,844,297	807,851	(285,011)	(4,884,002)
Capital Contributions	8,425,853	11,555,431	9,688,731	6,760,690	7,083,887
Change in Net Position	11,009,177	17,017,776	10,975,897	4,926,610	1,393,034
Total Net Position, Beginning of Year	279,179,595	262,161,819	254,319,757	249,393,147	251,271,134
Prior year adjustment/equity adjustment	-	-	(3,133,835)	-	(3,271,021)
Total Net Position, End of Year	\$ 290,188,772	\$ 279,179,595	\$ 262,161,819	\$ 254,319,757	\$ 249,393,147

	2015	2014	2013	2012	2011
	Total Operating Revenues	\$ 56,026,623	\$ 55,282,649	\$ 51,404,536	\$ 45,335,932
Total Operating Expenses (1)	51,491,469	52,707,863	50,329,121	46,492,690	44,793,125
Operating Income (Loss)	4,535,154	2,574,786	1,075,415	(1,156,758)	(3,220,250)
Total Non-Operating Revenues/(Expenses), Net	(3,996,773)	779,700	(1,357,436)	(517,794)	(1,814,152)
Capital Contributions	8,414,260	3,002,900	8,484,563	6,268,539	4,278,595
Change in Net Position	8,952,641	6,357,386	8,202,542	4,593,987	(755,807)
Total Net Position, Beginning of Year	256,108,804	249,751,418	242,264,772	237,670,785	238,426,592
Prior year adjustment/equity adjustment	(13,790,311)	-	(715,896)	-	-
Total Net Position, End of Year	\$ 251,271,134	\$ 256,108,804	\$ 249,751,418	\$ 242,264,772	\$ 237,670,785



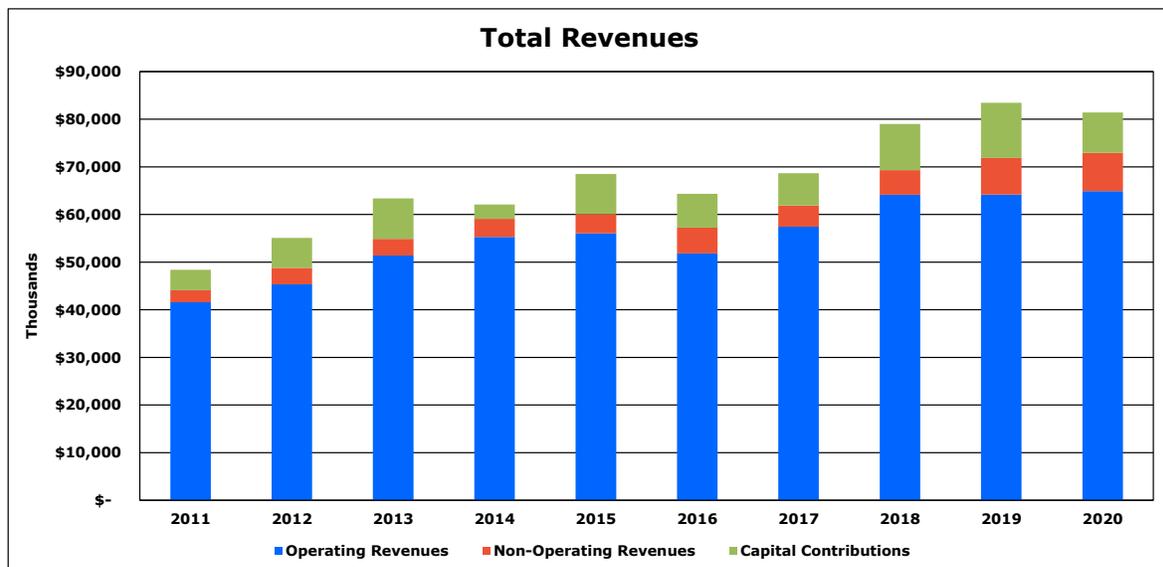
Source: Vallecitos Water District

Note: (1) Includes overhead absorption and depreciation and amortization.

**VALLECITOS WATER DISTRICT
TABLE 3 - REVENUES BY SOURCE
LAST TEN FISCAL YEARS**

	Fiscal Year ended June 30				
	2020	2019	2018	2017	2016
Water Sales	\$ 28,407,203	\$ 27,339,732	\$ 29,380,737	\$ 23,180,452	\$ 18,797,274
Wastewater Service Charges	18,012,258	18,077,717	18,000,233	17,503,448	17,286,888
Ready-To-Serve Charges	14,275,830	13,931,114	13,721,328	13,850,592	13,602,800
Reclaimed Water Sales	2,663,436	2,725,110	1,761,559	1,711,156	1,069,074
Pumping Charges	394,029	302,676	311,817	171,186	138,870
Other Services and Abatements	1,132,786	1,803,809	959,587	1,005,240	945,648
Total Operating Revenues	64,885,542	64,180,158	64,135,261	57,422,074	51,840,554
Property Taxes	5,257,751	4,975,086	4,446,432	4,162,701	3,830,522
Investment Income, net of FMV Adjustments	2,724,303	2,658,034	602,036	191,724	477,589
Annexation Fees	1,757	-	25,964	39,969	1,105,819
Other	95,404	67,877	100,252	77,620	-
Total Non-Operating Revenues	8,079,215	7,700,997	5,174,684	4,472,014	5,413,930
Capital Contributions	8,425,853	11,555,431	9,688,731	6,760,690	7,083,887
Total Revenues	\$ 81,390,610	\$ 83,436,586	\$ 78,998,676	\$ 68,654,778	\$ 64,338,371

	2015	2014	2013	2012	2011
	Water Sales	\$ 23,399,045	\$ 26,031,460	\$ 23,364,573	\$ 19,164,527
Wastewater Service Charges	16,817,149	15,128,763	14,921,894	13,780,015	12,855,742
Ready-To-Serve Charges	12,958,338	11,484,584	10,638,282	9,945,683	9,080,597
Reclaimed Water Sales	1,725,650	1,533,203	1,718,013	1,710,914	1,604,276
Pumping Charges	170,806	192,427	171,107	157,887	171,875
Other Services and Abatements	955,635	912,212	590,667	576,906	562,212
Total Operating Revenues	56,026,623	55,282,649	51,404,536	45,335,932	41,572,875
Property Taxes	3,460,439	3,077,966	3,519,081	3,397,004	2,245,553
Investment Income, net of FMV Adjustments	345,131	378,608	(46,165)	82,013	210,677
Annexation Fees	117,852	288,580	11,204	(50,947)	44,370
Other	147,870	40,935	-	28,460	38,063
Total Non-Operating Revenues	4,071,292	3,786,089	3,484,120	3,456,530	2,538,663
Capital Contributions	8,414,260	3,002,900	8,484,563	6,268,539	4,278,595
Total Revenues	\$ 68,512,175	\$ 62,071,638	\$ 63,373,219	\$ 55,061,001	\$ 48,390,133



Source: Vallecitos Water District

VALLECITOS WATER DISTRICT
TABLE 4 - EXPENSES BY FUNCTION
LAST TEN FISCAL YEARS

	Fiscal Year ended June 30				
	2020	2019	2018	2017	2016
Purchased Water	\$ 28,874,402	\$ 28,535,460	\$ 30,678,093	\$ 27,392,003	\$ 22,190,912
General and Administrative	6,964,466	5,326,781	5,940,142	5,637,471	5,851,489
Meadowlark Wastewater Treatment Plant	2,981,824	3,091,684	2,827,395	2,993,914	2,750,187
Encina Disposal	2,994,404	2,512,824	2,555,168	2,529,715	2,485,765
Collection and Conveyance	2,440,911	2,237,130	1,917,754	1,896,688	1,756,927
Engineering	2,878,442	2,740,725	2,497,803	1,988,197	1,889,037
Transmission and Distribution	1,870,778	2,464,824	1,565,815	1,747,767	1,195,405
Customer Accounts	1,262,706	1,161,704	1,092,194	958,266	904,015
Information Technology	1,826,485	1,587,704	1,490,217	1,320,845	1,347,023
Meter Reading and Repairs	826,259	664,213	712,760	625,576	713,164
Building and Grounds	609,951	629,659	659,143	629,850	546,043
Equipment and Vehicles	503,306	418,315	498,547	471,380	485,403
Other Water Operating Expenses	454,717	389,732	519,857	446,430	503,378
Other Wastewater Operating Expenses	673,873	548,495	558,212	614,248	539,112
Water Quality and Treatment	714,930	568,416	651,495	604,844	522,191
Tanks and Reservoirs	375,385	400,706	364,239	312,604	371,156
Pumping	808,239	866,870	839,884	612,069	531,774
Overhead Absorption	(1,233,511)	(1,309,635)	(1,337,347)	(1,236,032)	(1,125,180)
Depreciation and Amortization	10,022,954	9,726,503	9,624,575	9,425,308	9,189,604
Total Operating Expenses	<u>65,850,521</u>	<u>62,562,110</u>	<u>63,655,946</u>	<u>58,971,143</u>	<u>52,647,405</u>
Change in Encina Joint Venture Assets	2,527,838	1,728,365	2,151,640	2,603,384	6,789,867
Interest Expense	2,003,074	2,128,335	2,215,193	2,153,641	2,512,597
Other	-	-	-	-	995,468
Total Non-Operating Expenses	<u>4,530,912</u>	<u>3,856,700</u>	<u>4,366,833</u>	<u>4,757,025</u>	<u>10,297,932</u>
Total Expenses	<u>\$ 70,381,433</u>	<u>\$ 66,418,810</u>	<u>\$ 68,022,779</u>	<u>\$ 63,728,168</u>	<u>\$ 62,945,337</u>

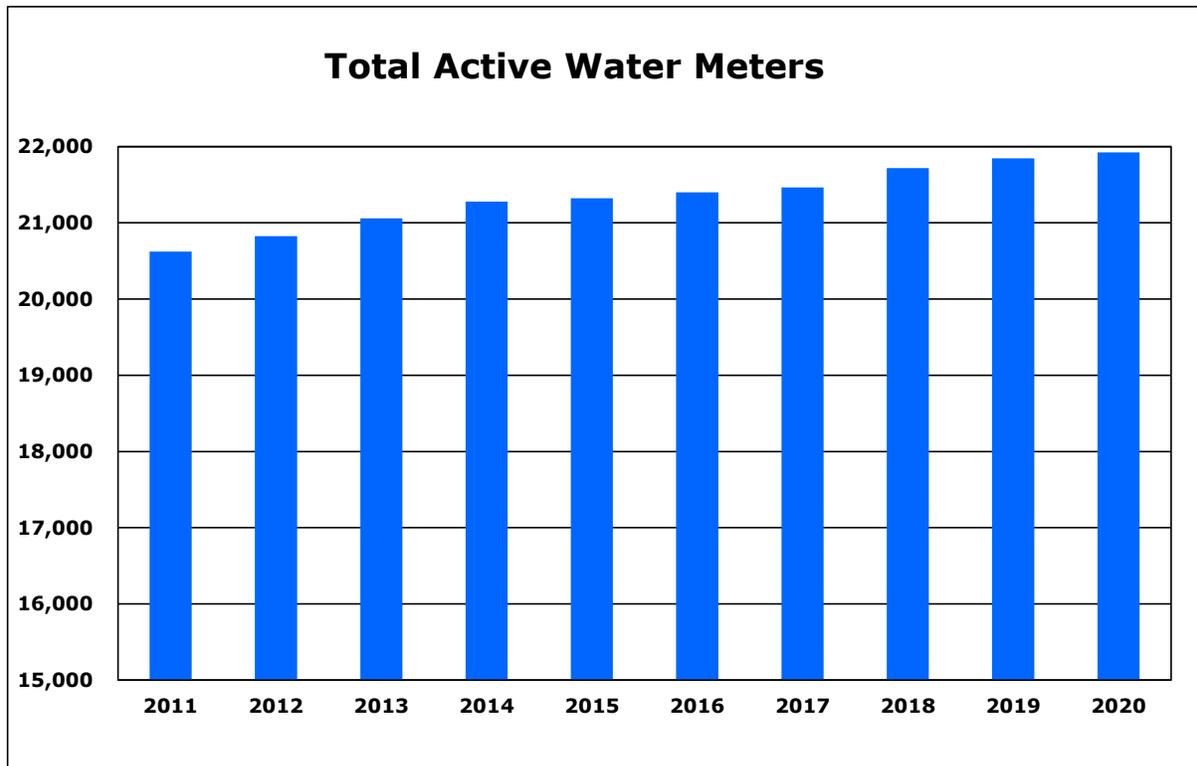
	2015	2014	2013	2012	2011
	Purchased Water	\$ 22,332,619	\$ 24,145,579	\$ 21,982,845	\$ 19,107,271
General and Administrative	5,197,584	5,173,986	4,879,580	4,842,082	5,224,802
Meadowlark Wastewater Treatment Plant	2,930,822	2,993,578	2,777,837	2,653,869	3,116,849
Encina Disposal	2,493,629	2,450,330	2,709,307	2,078,337	2,097,610
Collection and Conveyance	1,878,791	1,632,347	1,633,839	1,737,981	1,737,012
Engineering	1,939,139	1,698,699	1,703,359	1,784,054	2,078,053
Transmission and Distribution	1,279,927	1,154,882	1,068,907	1,022,862	1,122,921
Customer Accounts	914,372	825,805	886,279	950,480	995,965
Information Technology	1,045,315	865,655	831,423	813,691	758,418
Meter Reading and Repairs	661,883	614,784	561,274	504,405	511,121
Building and Grounds	529,042	600,159	496,637	495,033	565,199
Equipment and Vehicles	566,737	443,827	490,875	403,289	373,264
Other Water Operating Expenses	363,922	396,935	418,890	400,147	427,874
Other Wastewater Operating Expenses	545,551	495,999	374,529	402,564	394,043
Water Quality and Treatment	489,034	434,191	410,473	360,717	336,759
Tanks and Reservoirs	279,886	308,031	299,360	357,022	400,277
Pumping	436,432	352,823	325,591	279,569	266,670
Overhead Absorption	(1,241,173)	(1,040,244)	(477,239)	(414,977)	(303,018)
Depreciation and Amortization	8,847,957	9,160,497	8,955,355	8,714,294	8,220,514
Total Operating Expenses	<u>51,491,469</u>	<u>52,707,863</u>	<u>50,329,121</u>	<u>46,492,690</u>	<u>44,793,125</u>
Change in Encina Joint Venture Assets	5,559,372	334,093	2,040,544	1,514,166	1,662,667
Interest Expense	2,508,693	2,672,296	2,758,728	2,511,105	2,645,778
Other	-	-	42,284	-	-
Total Non-Operating Expenses	<u>8,068,065</u>	<u>3,006,389</u>	<u>4,841,556</u>	<u>4,025,271</u>	<u>4,308,445</u>
Total Expenses	<u>\$ 59,559,534</u>	<u>\$ 55,714,252</u>	<u>\$ 55,170,677</u>	<u>\$ 50,517,961</u>	<u>\$ 49,101,570</u>

Source: Vallecitos Water District

**VALLECITOS WATER DISTRICT
TABLE 5 - ACTIVE WATER METERS BY SIZE
LAST TEN FISCAL YEARS**

Meter Size	Fiscal Year ended June 30				
	2020	2019	2018	2017	2016
3/4" & 5/8"	19,473	19,441	19,353	19,163	19,144
1"	1,085	1,067	1,057	1,030	1,003
1-1/2"	753	735	716	690	685
2"	548	539	528	516	504
3" and larger	66	66	65	65	65
Total	21,925	21,848	21,719	21,464	21,401

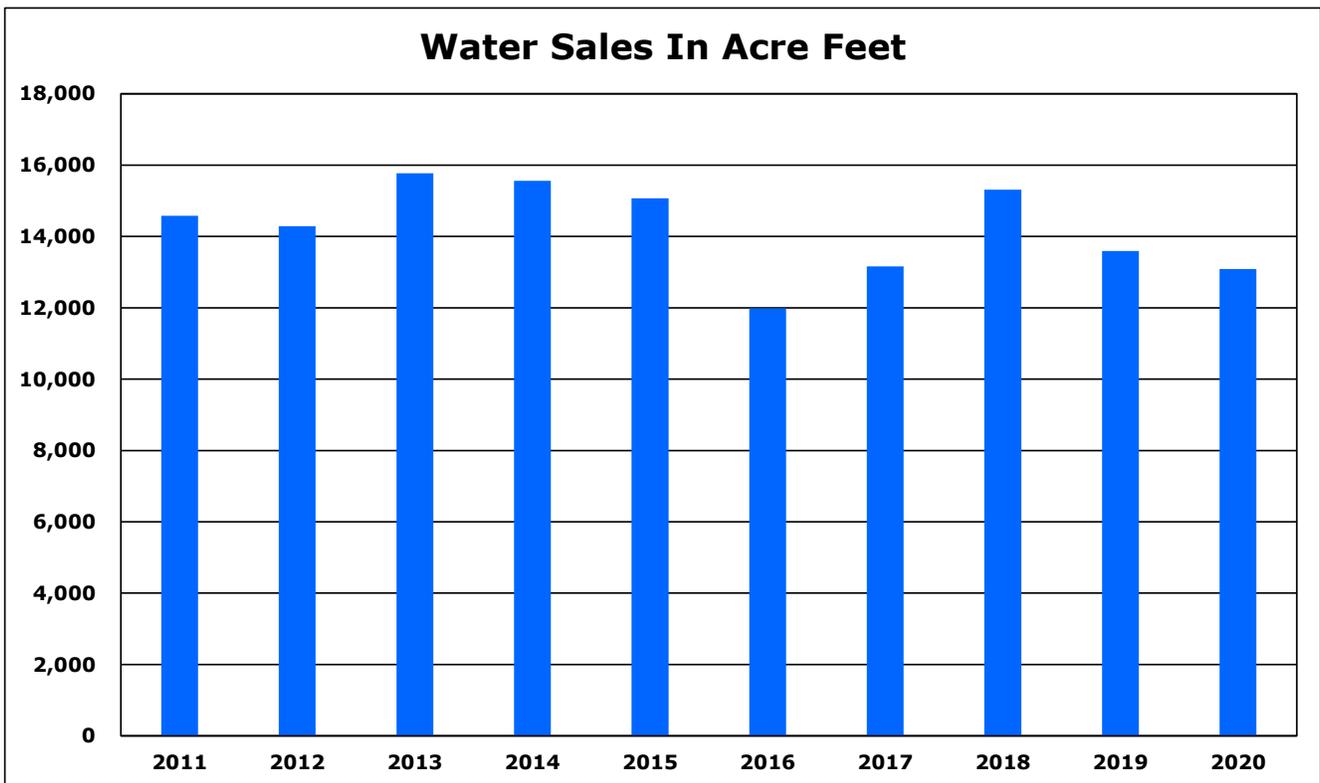
Meter Size	Fiscal Year ended June 30				
	2015	2014	2013	2012	2011
3/4" & 5/8"	19,086	19,087	18,895	18,691	18,488
1"	992	973	941	929	915
1-1/2"	681	674	673	666	662
2"	498	496	485	473	491
3" and larger	65	48	66	67	67
Total	21,322	21,278	21,060	20,826	20,623



Source: Vallecitos Water District

**VALLECITOS WATER DISTRICT
TABLE 6 - WATER PURCHASES AND SALES
LAST TEN FISCAL YEARS**

Year	Acre Feet	
	Water Purchases	Water Sales
2020	14,068	13,084
2019	14,232	13,589
2018	16,142	15,310
2017	14,411	13,157
2016	12,980	11,981
2015	15,300	15,072
2014	17,900	15,557
2013	17,430	15,769
2012	16,174	14,290
2011	15,433	14,581



Source: Vallecitos Water District

**VALLECITOS WATER DISTRICT
TABLE 7 - VARIABLE WATER RATES
LAST TEN FISCAL YEARS**

	Fiscal Year ended June 30									
	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Non-Agricultural Customers										
Tier 1	\$ 3.77	\$ 3.66	\$ 3.38	\$ 3.08	\$ 2.62	\$ 2.62	\$ 3.41	\$ 3.31	\$ 2.92	\$ 2.64
Tier 2	4.75	4.60	4.43	4.12	3.66	3.66	4.26	4.13	3.65	3.30
Tier 3	9.18	8.87	8.47	5.33	4.87	4.87	5.12	4.96	4.38	3.96
Tier 4	-	-	-	7.41	6.95	6.95	-	-	-	-
Agricultural Customers										
Participating	3.77	3.76	3.49	3.25	2.93	2.93	2.76	2.73	2.74	2.48
Non-Participating	4.75	4.60	4.43	4.12	3.66	3.66	3.41	3.31	2.92	2.64

Source: Vallecitos Water District

Note: All customers, other than Agricultural customers, are charged tiered water rates based on their meter size and usage. Agricultural customers are charged a flat rate and fall into two categories: participating and non-participating. Participating agricultural customers are enrolled in a program that provides them discounted water; however, if there is a drought, they must cut back their usage more than non-participants.

**VALLECITOS WATER DISTRICT
TABLE 8 - FIXED WATER AND SEWER RATES
LAST TEN FISCAL YEARS**

	Fiscal Year ended June 30									
	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Water Ready-to-Serve Charge										
5/8"	\$ 36.55	\$ 35.32	\$ 33.25	\$ 31.42	\$ 31.42	\$ 29.29	\$ 27.16	\$ 25.03	\$ 23.12	\$ 21.16
3/4"	36.55	36.52	36.52	36.52	36.52	35.60	34.68	33.76	33.28	31.74
1"	53.31	55.29	5,529.00	55.29	55.29	55.29	55.29	55.29	54.99	52.90
1 1/2"	137.11	130.67	120.63	110.59	110.59	110.59	110.59	110.59	110.00	105.80
2"	220.91	214.68	194.35	178.11	178.11	178.11	178.11	178.11	176.56	169.28
3"	338.23	356.22	356.22	356.22	356.22	356.22	356.22	356.22	353.10	338.56
4"	505.83	552.94	552.94	552.94	552.94	552.94	552.94	552.94	549.96	529.00
6"	1,008.63	1,105.88	1,105.88	1,105.88	1,105.88	1,105.88	1,105.88	1,105.88	1,099.93	1,058.00
10"	2,349.43	2,549.36	2,549.36	2,549.36	2,549.36	2,549.36	2,549.36	2,549.36	2,532.65	2,433.40
Multiple Units (above 1st unit)	10.06	11.18	11.18	18.26	18.26	16.35	14.43	12.52	11.57	10.58
Temporary Construction Meter	338.23	257.33	230.91	204.48	204.48	172.52	140.57	108.62	103.90	103.90
Fire Line										
Per diameter inch per service	\$ 7.55	\$ 5.87	\$ 5.87	\$ 5.87	\$ 5.87	\$ 5.00	\$ 4.13	\$ 3.26	\$ 3.12	\$ 3.12
Sewer Monthly Service Charge										
Residential - Single Family	\$ 38.99	\$ 38.99	\$ 38.99	\$ 38.99	\$ 38.99	\$ 37.45	\$ 35.91	\$ 35.91	\$ 34.04	\$ 32.22
Residential - Multi-Family	35.09	35.09	35.09	35.09	35.09	33.71	32.32	32.32	30.64	29.00
Mobile Homes	31.19	31.19	31.19	31.19	31.19	29.96	28.73	28.73	27.23	25.78
Non-residential (per 100 cu ft)	4.96	4.96	4.96	4.96	4.96	4.77	4.57	4.57	4.33	4.10
Church/theater per seat	0.31	0.31	0.31	0.31	0.31	0.30	0.32	0.32	0.31	0.29
Comm/Industrial per employee	3.51	3.51	3.51	3.51	3.51	3.37	3.23	3.23	3.06	2.90
Hotel/Motel per living unit	19.50	19.50	19.50	19.50	19.50	18.73	18.39	18.39	17.43	16.50
Laundromat per machine	32.44	32.44	32.44	32.44	32.44	31.16	29.87	29.87	28.31	26.80
Restaurant per seat	2.34	2.34	2.34	2.34	2.34	2.25	2.31	2.31	2.19	2.07
Schools per student	0.78	0.78	0.78	0.78	0.78	0.75	0.71	0.71	0.68	0.64
Minimum charge	24.56	24.56	24.56	24.56	24.56	23.59	22.63	22.63	21.45	20.30

Source: Vallecitos Water District

VALLECITOS WATER DISTRICT
TABLE 9 - PRINCIPAL WATER CUSTOMERS
CURRENT FISCAL YEAR AND NINE YEARS PRIOR

Fiscal Year Ended June 30, 2020

Customer Name	Usage (AF)	% of Water Sold
City of San Marcos	526.0	4.02%
San Marcos Unified School District	209.1	1.60%
Meadowridge HOA	122.7	0.94%
Altman Specialty Plants	126.8	0.97%
Palomar Estates West	83.8	0.64%
San Marcos Prominence Inc.	89.5	0.68%
Cal State University San Marcos	104.7	0.80%
San Elijo Hills Community Association	103.1	0.79%
Emerald Heights Association	96.1	0.73%
Coronado Ranch HOA	91.2	0.70%
Total Top Ten Customers	1,553.0	11.87%
Other Customers	11,530.8	88.13%
Total Water Billed	13,083.8	100.00%

Fiscal Year Ended June 30, 2011

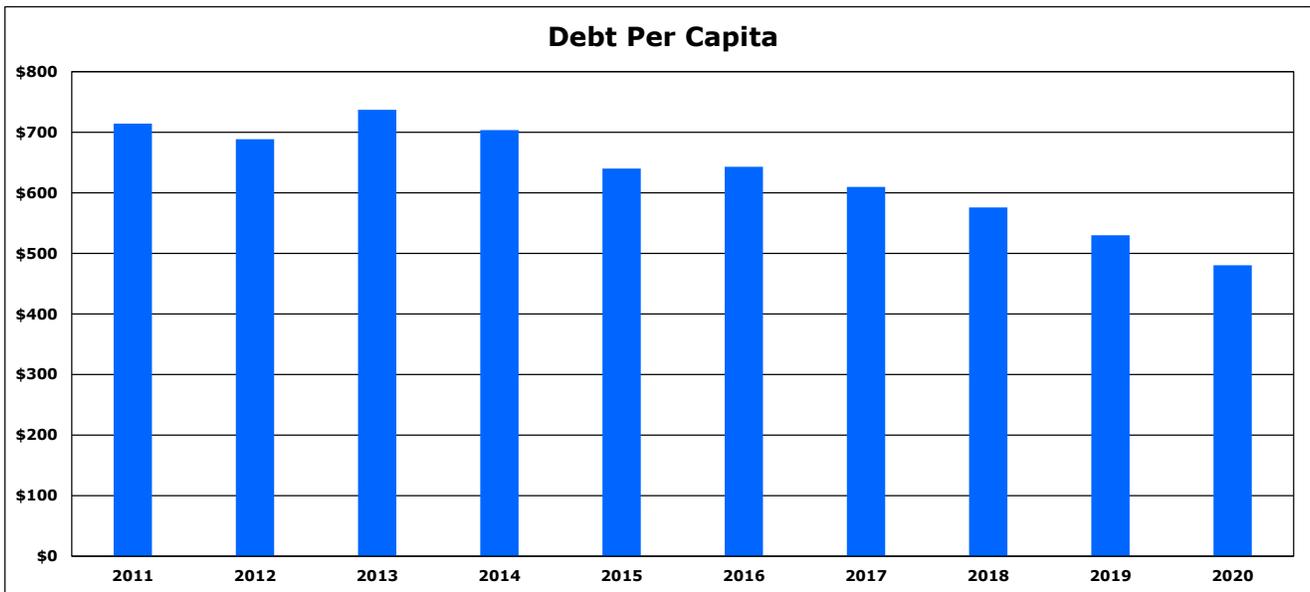
Customer Name	Usage (AF)	% of Water Sold
City of San Marcos	493.0	3.38%
San Marcos Unified School District	222.8	1.53%
Cal State University San Marcos	150.9	1.03%
Meadowridge HOA	117.3	0.80%
San Elijo Hills Community Association	132.9	0.91%
Citizens Development	131.0	0.90%
Palomar Estates West	96.2	0.66%
San Marcos Prominence Inc.	89.3	0.61%
Emerald Heights Association	112.9	0.77%
Coronado Ranch HOA	79.1	0.54%
Total Top Ten Customers	1,625.4	11.15%
Other Customers	12,955.3	88.85%
Total Water Billed	14,580.7	100.00%

Source: *Vallecitos Water District*

Note: (1) *Includes only potable water.*

**VALLECITOS WATER DISTRICT
TABLE 10 - NET OUTSTANDING LONG-TERM DEBT
LAST TEN FISCAL YEARS**

Fiscal Year	Population Estimate	Capital Lease	2015 Revenue Refunding Bonds ⁽¹⁾	2012 COP	2008 Bank Loan	2005 Series A COP ⁽¹⁾	Total	Per Capita	Percentage of Personal Income
2020	109,357	\$ -	\$ 46,864,542	\$ 2,266,000	\$ 3,400,000	\$ -	\$ 52,530,542	\$ 480	0.72%
2019	105,741	-	49,249,511	2,991,000	3,800,000	-	56,040,511	530	0.83%
2018	103,233	-	51,519,480	3,732,000	4,200,000	-	59,451,480	576	0.94%
2017	103,112	26,460	51,884,451	4,434,000	4,600,000	1,910,000	62,854,911	610	1.05%
2016	102,992	73,361	52,249,420	5,122,000	5,000,000	3,752,583	66,197,364	643	1.15%
2015	102,871	-	-	5,795,000	5,400,000	54,639,475	65,834,475	640	1.17%
2014	97,489	-	-	6,455,000	5,800,000	56,314,934	68,569,934	703	1.35%
2013	96,622	-	-	7,100,000	6,200,000	57,920,392	71,220,392	737	1.49%
2012	95,763	-	-	-	6,600,000	59,321,832	65,921,832	688	1.43%
2011	94,911	-	-	-	7,000,000	60,775,763	67,775,763	714	1.54%

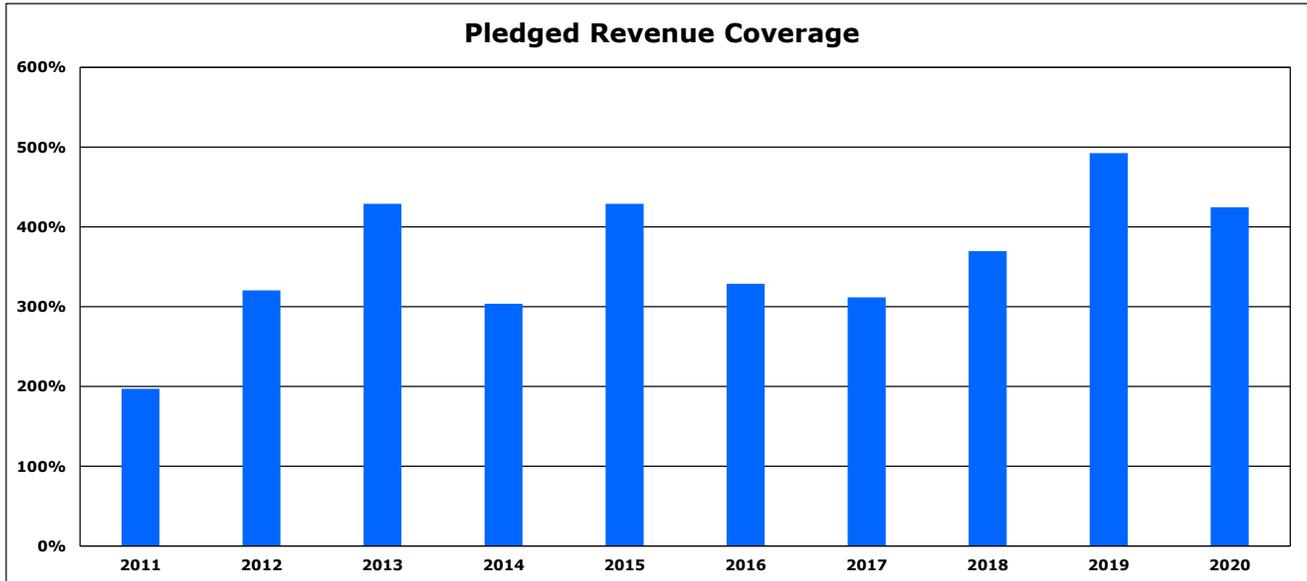


Source:
California Department of Finance
Vallecitos Water District

Notes:
(1) Includes amortized bond issuance costs.

**VALLECITOS WATER DISTRICT
TABLE 11 - PLEDGED REVENUE COVERAGE
LAST TEN FISCAL YEARS**

Fiscal Year	Total Revenues (1)	Total Operating Expenses (2)	Net Revenue Available For Debt Service	Debt Service Requirements (3)			Coverage Factor (4)
				Principal	Interest	Total	
2020	\$ 80,031,714	\$ 57,061,078	\$ 22,970,636	\$ 3,145,000	\$ 2,264,498	\$ 5,409,498	425%
2019	80,979,842	54,145,242	26,834,600	3,046,000	2,402,069	5,448,069	493%
2018	75,619,484	55,368,718	20,250,766	3,012,000	2,466,065	5,478,065	370%
2017	67,761,328	50,781,867	16,979,461	2,898,000	2,548,596	5,446,596	312%
2016	62,829,969	44,582,981	18,246,988	3,183,947	2,367,734	5,551,681	329%
2015	67,963,097	43,884,685	24,078,412	2,695,000	2,917,335	5,612,335	429%
2014	61,642,682	44,587,610	17,055,072	2,610,000	3,004,832	5,614,832	304%
2013	62,438,443	41,851,005	20,587,438	1,885,001	2,914,360	4,799,361	429%
2012	53,705,328	38,193,373	15,511,955	1,820,000	3,020,262	4,840,262	320%
2011	46,433,047	36,875,629	9,557,418	1,760,000	3,089,577	4,849,577	197%

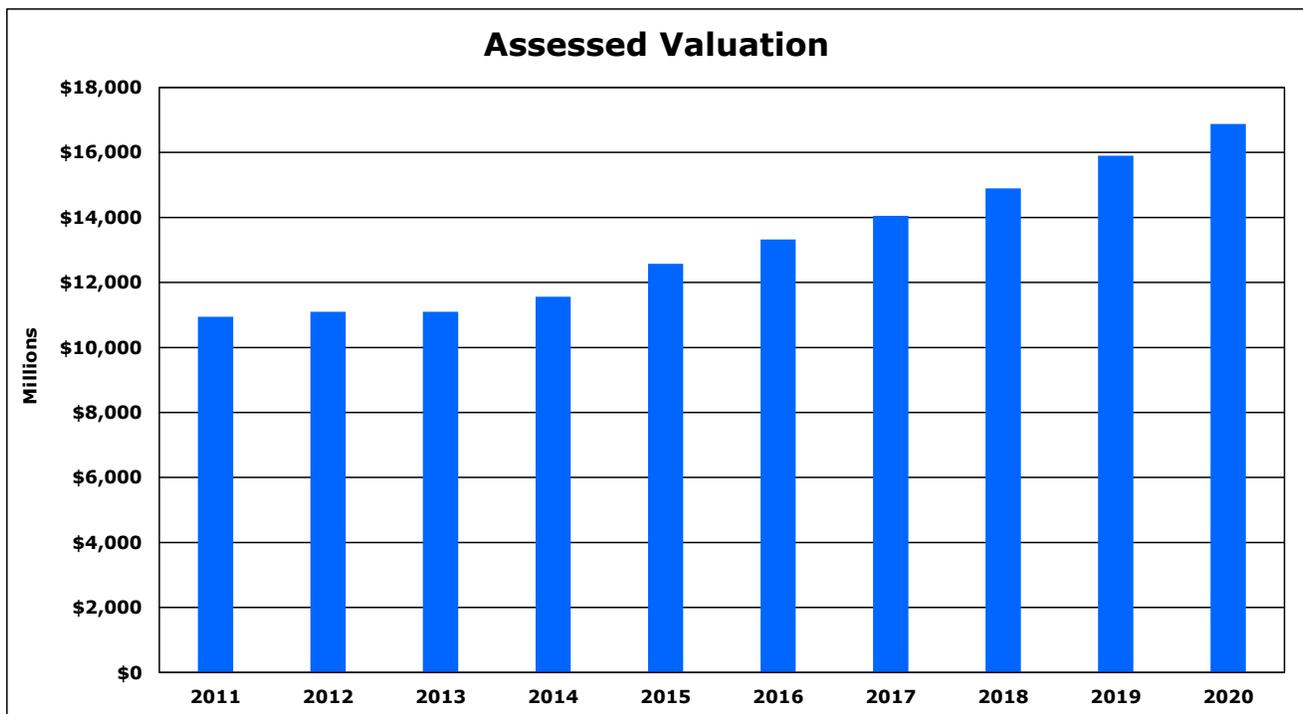


Source:
Vallecitos Water District

- Note:**
- (1) Total revenues of the District less contributed capital.
 - (2) Total operating expenses of the District excluding overhead absorption and depreciation and amortization.
 - (3) Pledged debts include the 2008 Bank Loan, 2005A and 2012 Certificates of Participation (COPS), and the 2015 Revenue Refunding Bonds.
 - (4) The District's bond covenants require a minimum coverage factor of 115%

**VALLECITOS WATER DISTRICT
TABLE 12 - ASSESSED VALUATION
LAST TEN FISCAL YEARS**

Year		Secured		Unsecured		Total	Change
2020	\$	16,492,249,912	\$	381,477,718	\$	16,873,727,630	6.11%
2019		15,530,939,622		370,551,852		15,901,491,474	6.74%
2018		14,559,870,015		338,104,245		14,897,974,260	6.03%
2017		13,723,214,216		327,489,319		14,050,703,535	5.46%
2016		13,002,974,379		320,326,468		13,323,300,847	5.97%
2015		12,241,691,036		331,083,454		12,572,774,490	8.77%
2014		11,220,883,652		337,826,991		11,558,710,643	4.15%
2013		10,749,957,402		348,712,281		11,098,669,683	-0.03%
2012		10,755,217,486		346,467,100		11,101,684,586	1.45%
2011		10,600,146,556		342,963,870		10,943,110,426	-0.65%



Source: County of San Diego Auditor and Controller

**VALLECITOS WATER DISTRICT
TABLE 13 - DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN FISCAL YEARS**

Year	Population Estimate	Average Household Size (1)	Unemployment Rate (2)	Per Capita Personal Income (3)	Total Personal Income
2020	109,357	3.21	6.1%	\$ 66,271 (4)	\$ 7,247,239,130
2019	105,741	3.17	3.3%	63,782 (4)	6,744,365,260
2018	103,233	3.18	3.6%	61,386	6,337,060,938
2017	103,112	3.17	4.2%	57,913	5,971,525,256
2016	102,992	3.15	5.0%	56,116	5,779,499,072
2015	102,871	3.14	5.3%	54,742	5,631,364,282
2014	97,489	3.13	6.5%	52,166	5,085,611,174
2013	96,622	3.10	8.2%	49,460	4,778,924,120
2012	95,763	3.09	9.5%	48,256	4,621,139,328
2011	94,911	3.07	10.7%	46,505	4,413,836,055

Source:

California Department of Finance
CALMIS, Employment Development Department (EDD)
U.S. Department of Labor Statistics, Bureau of Economic Analysis, Regional Data
Vallecitos Water District

Notes:

- (1) Values are for the City of San Marcos, which represents about 84% of the District's billable accounts.
- (2) The unemployment rates illustrated are for San Diego County. Values taken from June of each fiscal year.
- (3) Per Capita Personal Income figures illustrated are for San Diego County.
- (4) 2019 and 2020 values not available. Estimated based on average year-over-year increase from 2016-2018.

VALLECITOS WATER DISTRICT
TABLE 14 - LARGEST EMPLOYERS IN SAN DIEGO COUNTY
FISCAL YEAR 2019 AND 2010

Fiscal Year Ended June 30, 2019 ⁽¹⁾

Employer	# of Employees	% of Total Employment
Naval Base San Diego	41,607	2.72%
University of California, San Diego	38,749	2.53%
Sharp Healthcare	18,736	1.22%
County of San Diego	18,606	1.22%
San Diego Unified School District	12,996	0.85%
Scripps Health	12,348	0.81%
City of San Diego	11,598	0.76%
Qualcomm Inc.	10,300	0.67%
San Diego Community College District	6,246	0.41%
Kaiser Permanente	5,349	0.35%
Total Top Ten Employers	176,535	11.54%
Total Number of Employees in San Diego County ⁽³⁾		1,529,800

Fiscal Year Ended June 30, 2010 ⁽²⁾

Employer	# of Employees	% of Total Employment
Marine Corps Base, Camp Pendleton	60,000	4.44%
Federal Government	43,500	3.22%
United States Navy	42,000	3.11%
State of California	40,900	3.03%
University of California, San Diego	26,000	1.93%
County of San Diego	20,500	1.52%
City of San Diego	19,500	1.44%
San Diego Unified School District	15,881	1.18%
Sharp Healthcare	14,390	1.07%
Scripps Healthcare	12,700	0.94%
Total Top Ten Employers	295,371	21.87%
Total Number of Employees in San Diego County ⁽³⁾		1,350,500

Source:

(1) Data for Fiscal Year 2020 not available at time of publication;

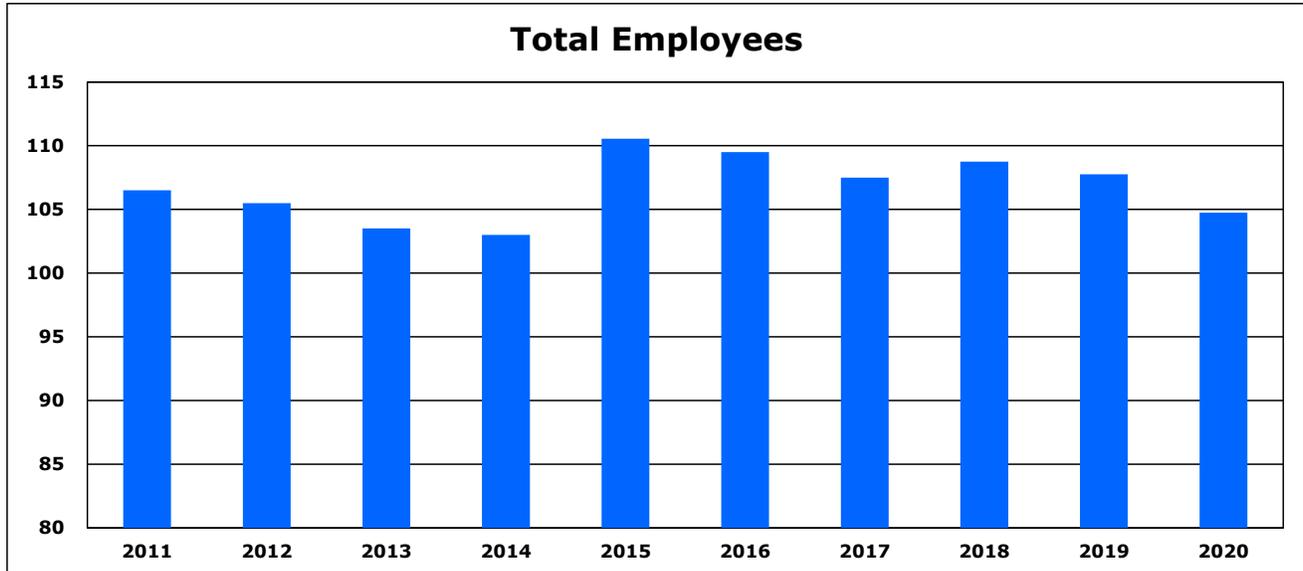
Avenu Insights and Analytics, LLC and City of San Diego

(2) The Daily Transcript, Sourcebook

(3) California Employment Development Department

**VALLECITOS WATER DISTRICT
TABLE 15 - TOTAL EMPLOYEES BY FUNCTION
LAST TEN FISCAL YEARS**

	Fiscal Year ended June 30									
	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Operations	51.00	54.00	52.00	52.00	52.00	50.10	48.00	49.00	51.00	52.00
Engineering	17.00	16.00	17.00	16.00	16.00	16.80	15.00	15.00	16.00	17.00
Finance	21.00	21.00	23.00	22.75	24.25	25.75	22.00	22.00	20.00	20.00
Administration	15.75	16.75	16.75	16.75	17.25	17.90	18.00	17.50	18.50	17.50
Total	104.75	107.75	108.75	107.50	109.50	110.55	103.00	103.50	105.50	106.50

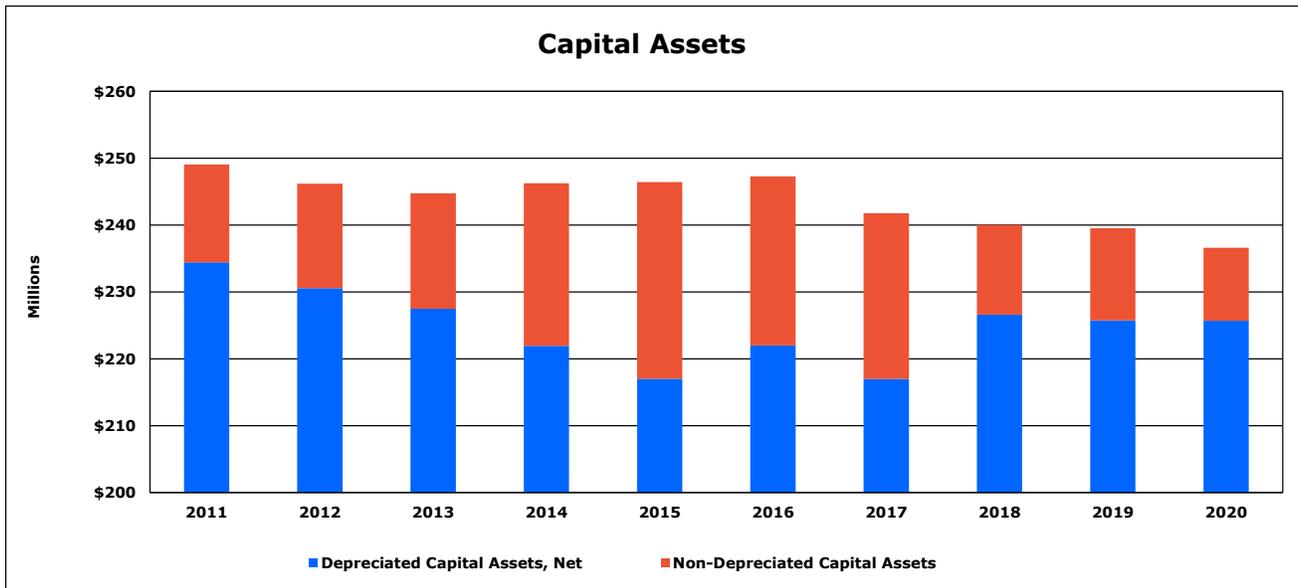


Source: Vallecitos Water District

**VALLECITOS WATER DISTRICT
TABLE 16 - CAPITAL ASSETS
LAST TEN FISCAL YEARS**

	Fiscal Year ended June 30				
	2020	2019	2018	2017	2016
Land	\$ 4,981,505	\$ 4,981,505	\$ 4,981,505	\$ 4,981,505	\$ 4,981,505
Construction in Progress	5,928,082	8,795,099	8,451,903	19,785,305	20,293,565
Total Capital Assets, Not Depreciated	10,909,587	13,776,604	13,433,408	24,766,810	25,275,070
Water Transmission and Distribution System	207,170,931	204,106,247	200,023,591	196,880,917	196,941,476
Wastewater System	147,311,505	141,807,671	140,385,064	125,580,427	123,478,344
Buildings	17,287,789	17,236,207	16,137,578	15,653,556	15,427,261
Transportation Equipment	5,297,564	5,061,992	4,777,709	4,635,046	4,515,658
Field and Shop Equipment	11,152,818	11,041,945	9,916,142	11,830,842	11,201,974
Office Equipment	2,815,443	2,097,643	2,193,125	2,351,205	2,343,625
Accumulated Depreciation	(165,343,299)	(155,598,238)	(146,831,322)	(139,942,275)	(131,897,746)
Total Capital Assets, Being Depreciated, Net	225,692,751	225,753,467	226,601,887	216,989,718	222,010,592
Total Capital Assets, Net	\$ 236,602,338	\$ 239,530,071	\$ 240,035,295	\$ 241,756,528	\$ 247,285,662

	2015	2014	2013	2012	2011
	Land	\$ 4,761,505	\$ 4,761,505	\$ 4,761,505	\$ 4,744,508
Construction in Progress	24,641,438	19,554,005	12,492,200	10,894,549	9,873,843
Total Capital Assets, Not Depreciated	29,402,943	24,315,510	17,253,705	15,639,057	14,618,351
Water Transmission and Distribution System	190,810,104	188,859,948	187,395,706	183,821,481	182,571,956
Wastewater System	117,102,203	115,788,763	115,092,483	114,106,726	110,517,704
Buildings	15,311,551	15,300,427	15,252,215	15,229,776	16,729,776
Transportation Equipment	4,130,159	4,345,521	3,793,371	3,550,629	3,539,177
Field and Shop Equipment	10,709,739	10,670,338	10,309,062	10,000,563	10,852,234
Office Equipment	2,277,078	2,449,293	2,473,211	2,414,300	2,337,185
Accumulated Depreciation	(123,314,886)	(115,478,982)	(106,836,812)	(98,565,502)	(92,125,085)
Total Capital Assets, Being Depreciated, Net	217,025,948	221,935,308	227,479,236	230,557,973	234,422,947
Total Capital Assets, Net	\$ 246,428,891	\$ 246,250,818	\$ 244,732,941	\$ 246,197,030	\$ 249,041,298



Source: Vallecitos Water District