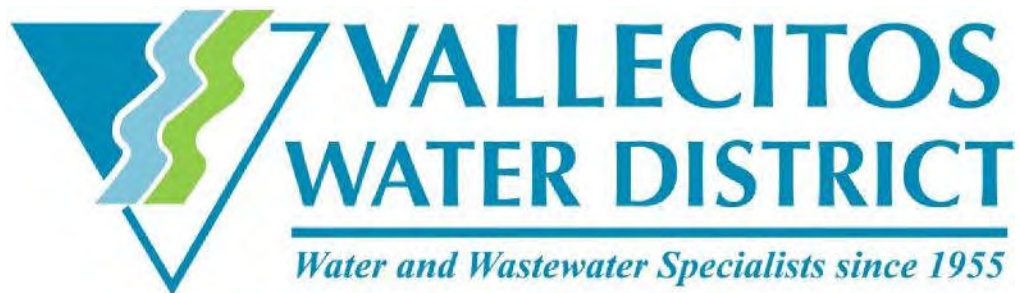


ANNUAL COMPREHENSIVE FINANCIAL REPORT



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Annual Comprehensive Financial Report
FOR THE YEAR ENDED JUNE 30, 2023
Prepared by the Finance Department

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

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**VALLECITOS WATER DISTRICT
ANNUAL COMPREHENSIVE FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2023
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.....	31
Statement of Cash Flows.....	32
Notes to the Basic Financial Statements.....	34
Required Supplementary Information:	
Schedule of Plan’s Proportionate Share of the Net Pension Liability.....	68
Schedule of Contributions – Defined Benefit Pension Plan.....	69
Schedule of Changes in Net OPEB (Asset) Liability and Related Ratios.....	70
Schedule of OPEB Contributions.....	71

Statistical Section

Net Position by Component.....	76
Changes in Net Position.....	77
Revenues by Source.....	78
Expenses by Function.....	79
Active Water Meters by Size.....	80
Water Purchases and Sales.....	81
Variable Water Rates.....	82
Fixed Water and Sewer Rates.....	82
Principal Water Customers.....	83
Net Outstanding Long-Term Debt.....	84
Pledged Revenue Coverage.....	85
Assessed Valuation	86
Demographic and Economic Statistics.....	87
Largest Employers in San Diego County.....	88
Total Employees by Function.....	89
Capital Assets.....	90

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INTRODUCTORY SECTION



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

Date: December 6, 2023
To: Honorable Board of Directors and customers served by Vallecitos Water District
Regarding: Fiscal Year 2022/23 ACFR

I am pleased to present the Vallecitos Water District's (the "District") Annual Comprehensive Financial Report (ACFR) for the fiscal year ended June 30, 2023.

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 The Pun Group, 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, 2023, 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, 2023, 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. With the help from the Assistant General Manager and through District management, the General Manager 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 66 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 water storage 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 over 22,000 potable water accounts within approximately 45.48 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 water sources diversify the District's water supply and improve reliability.

The District also owns and operates a wastewater collection and recycling system providing public wastewater 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. A large portion 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 2024 budget is \$103.7 million, with operating expenditures of \$66.3 million, capital expenditures of \$30.3 million, vehicles and equipment of \$1.6 million, and debt service of \$5.5 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 operations consist of two major sectors: potable water, and wastewater. Budgeted operating expenses total \$66.3 million for Fiscal Year 2024, an increase of \$4.4 million over Fiscal Year 2023 budget. The operational increase of \$4.4 million primarily is attributable to a \$2.4 million increase in water purchases as a result of San Diego County Water Authority (SDCWA) rate



increases. Budgeted revenues total \$72.3 million for Fiscal Year 2024. Revenues from potable water are projected to be \$49.4 million, about \$2.8 million (6.0%) more than the Fiscal Year 2023 budget. Sewer revenues are projected to be \$18.3 million, about the same as the Fiscal Year 2023 budget. The remaining revenue of \$4.6 million comes from reclaimed water sales, pumping charges, interest and other miscellaneous income.

The 2023-24 Capital Improvement Program (CIP) budget consists of 80 projects and a budget of \$30.3 million. The budget emphasizes long-term planning for on-going programs while functioning within fiscal constraints and population growth. This year's CIP budget increased by \$0.6 million compared to last year's projection, which is due to increases in new projects budgeted in 2024. New projects budgeted for Fiscal Year 2024 were \$11.0 million as compared to \$8.1 million in Fiscal Year 2023.

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. Because the cost of a control should not exceed the benefits to be derived, the objective is to provide reasonable, rather than absolute assurance, that the financial statements are free of any material misstatement.

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 Annual Comprehensive 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 reliable and sustainable water and wastewater services to the customers of the Vallecitos Water District.

The District will continue to provide reliable and sustainable services by:

- Proactively, innovatively, and continuously improving the quality and efficiency of our operations and service;
- Supporting and retaining highly trained staff that is knowledgeable, engaged, team oriented and responsive to the community and other agencies;
- Providing support for the good of the region to remain a respected and active industry partner, and;
- Providing continuous outreach and education to our customers on issues and topics that impact the services we provide and our role as water and wastewater specialists.

The District continues to face numerous economic challenges including nationwide inflation and supply chain problems stemming from the COVID-19 pandemic. The District also faces water supply cost increases, drought in California, and the uncertainty of Colorado River water, which combined are the primary sources of our imported water.

Population within the District's service area continues to increase albeit at a reduced rate. As of June 2023, it is estimated that the District served 111,721 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.

Other future legislative concerns include:

- Eventually transitioning the District's fleet to electric vehicles and securing the infrastructure to power such a fleet
- State mandated performance standards for water loss for urban retail water suppliers
- State mandated water use efficiency standards
- Water quality and treatment for Per- and Polyfluoroalkyl Substances (PFAS)

Separate from legislation, but just as important, is California's weather and water supplies. Shortages on the Colorado River and years of drought in California have impacted State water supplies drastically. U.S. Bureau of Reclamation officials warn that water cuts may be necessary.

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, unpredictable patterns 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 through 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

Fitch ratings recently upgraded its rating to 'AAA' for the Vallecitos Water District. 'AAA' is the highest possible rating available from Fitch.

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 Annual Comprehensive Financial Report for the fiscal years ended June 30, 2019 through June 30, 2022. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized Annual Comprehensive 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.

In addition to the Certificate of Achievement for Excellence in Financial Reporting, the District has recently 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. The District is currently in a "Silver" Status and has set a goal to achieve "Platinum" certification.

2022 “Award for Achievement” – Information Technology Practices by the Municipal Information Systems Association of California for meeting or surpassing local government standards in technology.

2022 “Excellence in Journalism” First Place Award from the San Diego Press Club for the District's "Imagine a Day Without Water" video.

2022 “Excellence in Journalism” Second Place Award from the San Diego Press Club for video editing on the District's "2022 WaterSmart Landscape Contest Winners" video.

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2023 “Award for Achievement” – Information Technology Practices by the Municipal Information Systems Association of California for meeting or surpassing local government standards in technology.

2023 “First Place award in the Television/Online Video, Community Service/Public Affairs Reporting” category* from the San Diego Press Club for the District's Landscape Optimization Program video series. *Joint entry with the San Diego County Water Authority.

2023 “Collection System of the Year” (medium-sized agency) awards from the California Water Environment Association

Won the 1st place award from the San Diego section of CWEA

Won the 2nd place statewide award from the CWEA

2023 “WaterSense Promotional Partner of the Year” from the United States Environmental Protection Agency (USEPA) for creating WaterSense videos that are shared with other agencies nationwide.

I would like to thank all of the staff involved for their efforts in preparing this Annual Comprehensive Financial Report and for their hard work to ensure a successful outcome. I would also like to thank the firm of The Pun Group, 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 Pruum, General Manager



D. Westley Owen, Chief Financial Officer



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**Vallecitos Water District
California**

For its Annual Comprehensive
Financial Report
For the Fiscal Year Ended

June 30, 2022

Christopher P. Morrill

Executive Director/CEO

LIST OF PRINCIPAL OFFICIALS

June 30, 2023

Our Mission

The water and wastewater specialists – providing reliable and sustainable services.

The mission of reliable and sustainable services is reflected in this Annual Comprehensive Financial Report and in the attitudes and commitment of the Vallecitos Water District staff and Board Members.



Clockwise: Craig Elitharp, James Hernandez (center), Jim Pennock, Erik Groset, and Tiffany Boyd-Hodgson

Board of Directors

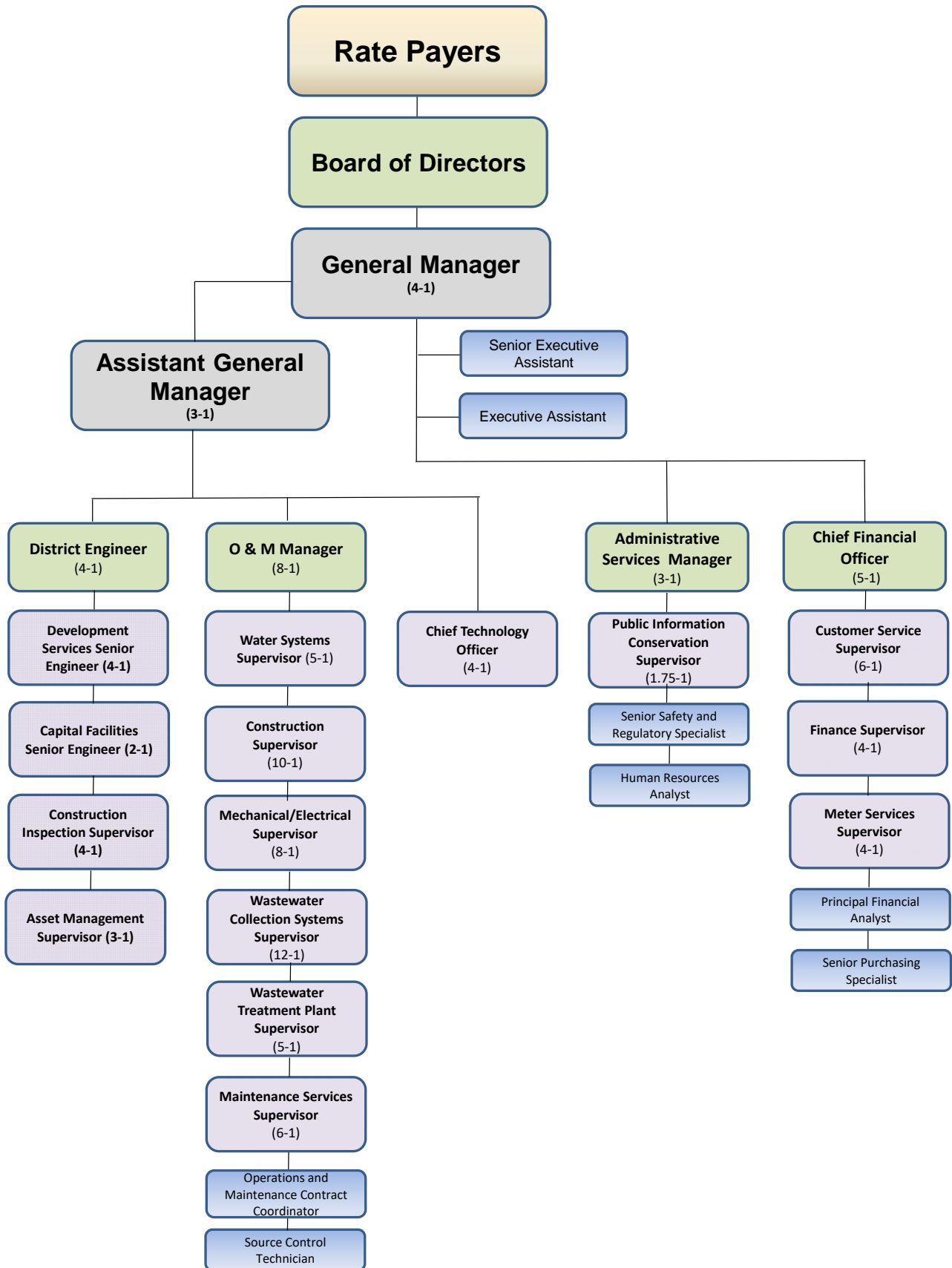
James Hernandez, President
Tiffany Boyd-Hodgson, Ph.D., Vice President
Erik Groset
Craig Elitharp
Jim Pennock

District Financial Management

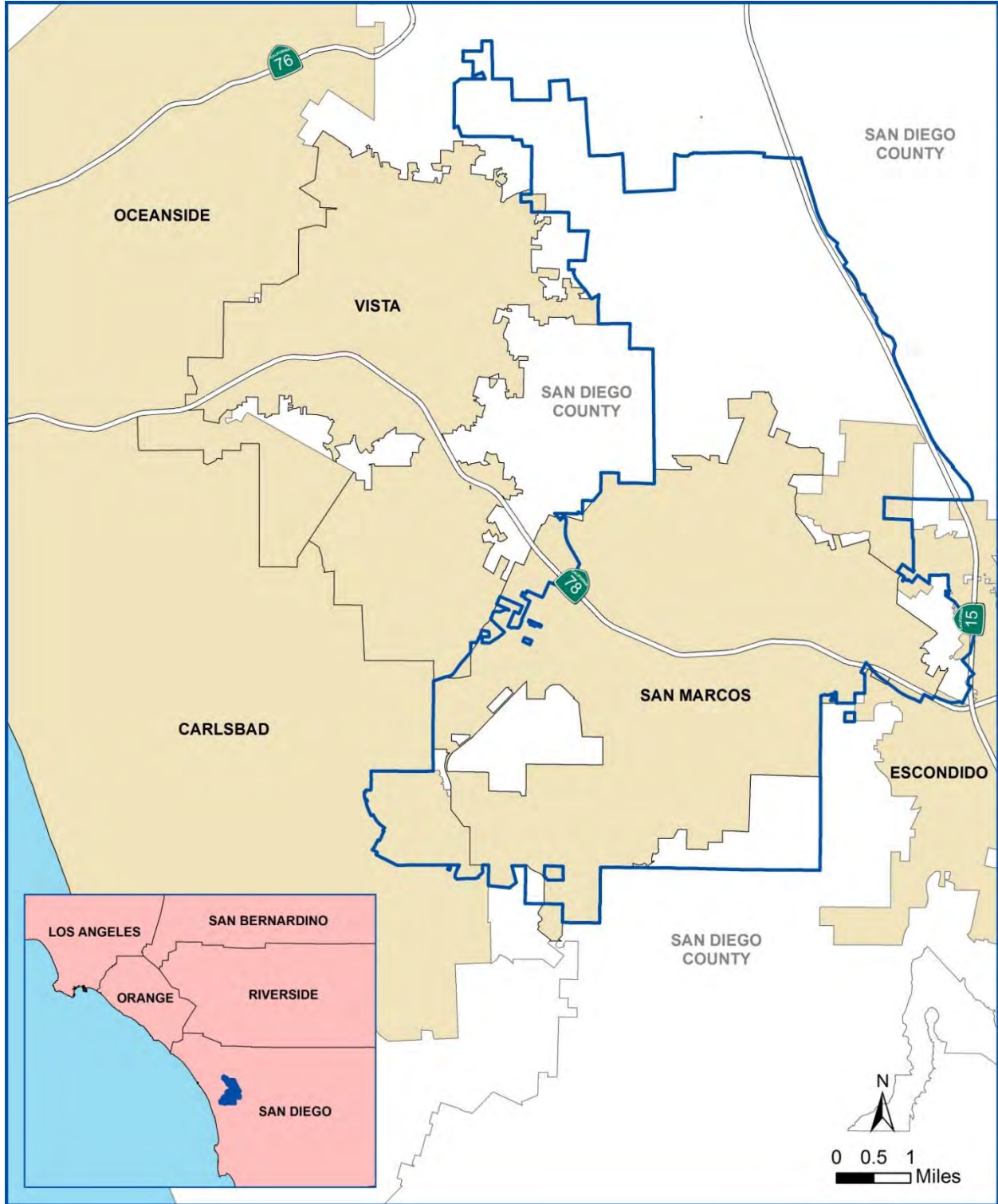
Glenn Pruim, General Manager
D. Westley Owen, Chief Financial Officer

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



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INDEPENDENT AUDITORS' REPORT

Board of Directors
Vallecitos Water District
San Marcos, California

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Vallecitos Water District, California (the "District"), which comprise the statement of net position as of June 30, 2023, and the related statements of revenues, expenses, and changes in net position, and cash flows, for the year then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District, as of June 30, 2023, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of a Matter

Implementation of GASB Statement No. 96

As described in Notes 1P, 1X and 14 to the financial statements, the District implemented GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. The implementation of GASB Statement No. 96 requires the District to record amortizable subscription assets as well as corresponding subscription liabilities. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

The District's basic financial statements for the year ended June 30, 2022 were audited by other auditors whose report thereon dated December 2, 2022 expressed an unmodified opinion. The summarized comparative information presented herein as of and for the year ended June 30, 2022 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with auditing standards generally accepted in the United States of America and the *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Board of Directors
Vallecitos Water District
San Marcos, California

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of the Plan's Proportionate Share of the Net Pension Liability, the Schedule of Contributions – Defined Benefit Pension Plan, the Schedule of Changes in the Net OPEB (Asset) Liability and Related Ratios, and the Schedule of OPEB Contributions as listed in the table of contents, 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.

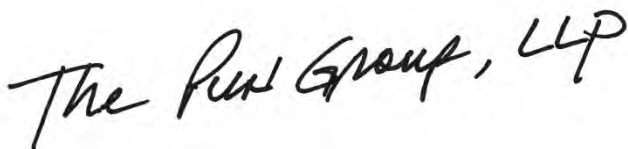
Other Information

Management is responsible for the other information included in the annual report. The other information comprises the Introductory and Statistical Sections but does not include the basic financial statements and our auditors' report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2023 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "The PwC Group, LLP". The signature is written in a cursive, flowing style.

San Diego, California
November 30, 2023

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ended June 30, 2023

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, 2023. 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, 2023 (2022/23), the following highlights impacted, or have the potential to impact, the finances of the District.

- Fitch Ratings upgraded the District's credit rating from AA+ to AAA with the outlook of stable. Fitch's AAA-rated bonds are considered to have the highest degree of creditworthiness and a strong financial profile with exceptionally low risk for default.
- The District experienced a 9.7% decrease in demand for water from customers in fiscal year 2023 due to higher rainfall as compared to fiscal year 2022 as well as conservation efforts. As a result, water sales decreased by \$3.7 million or 13.1% from fiscal year 2021/22 to 2022/23.
- In 2022/23, the District received \$6.8 million in capital facility fees from development, compared to \$8.6 million received the prior year. This decrease was slightly less than expected given the notable pickup in development as economic activity increases.
- The District expended \$13.7 million in capital asset acquisition and construction compared to \$11.3 million the prior year.
- On October 3, 2022 the District made the final payment on a 10-year debt originally issued for \$7.1 million. In total, the District paid down \$3.5 million in long-term debt during the year without incurring any additional debt.
- The District realized a net loss before capital contributions of \$5.8 million and after capital contributions of \$12.0 million, the District's net position increased by \$6.3 million.

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 2023 the increase in net position of \$6.3 million resulted from the increase in total assets and deferred inflows. Deferred inflows are defined in Note 1(P) of the Notes to the Financial Statements.

Analysis of Net Position

The increase in net position of \$6.3 million is attributable to contributed capital and renewed construction.

- Cash and investments increased by \$2.2 million during fiscal year 22/23 inclusive of the fair 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				
	2022/23	2021/22	Change	
			Amount	%
Cash and investments	\$ 120,925,991	\$ 118,688,048	\$ 2,237,943	1.9%
Capital assets	239,494,542	235,692,496	3,802,046	1.6%
Other assets	54,948,143	59,400,236	(4,452,093)	-7.5%
Total Assets	415,368,676	413,780,780	1,587,896	0.4%
Deferred Outflows of Resources	12,995,129	5,633,043	7,362,086	130.7%
Current liabilities	17,321,164	18,432,977	(1,111,813)	-6.0%
Noncurrent liabilities	78,279,794	70,483,930	7,795,864	11.1%
Total Liabilities	95,600,958	88,916,907	6,684,051	7.5%
Deferred Inflows of Resources	12,505,746	16,507,192	(4,001,446)	-24.2%
Net Position				
Net investment in capital assets	180,814,979	176,920,414	3,894,565	2.2%
Restricted	116,536	120,798	(4,262)	-3.5%
Unrestricted	139,325,586	136,948,512	2,377,074	1.7%
Total Net Position	\$ 320,257,101	\$ 313,989,724	\$ 6,267,377	2.0%

Analysis of Net Position (continued)

- Capital assets increased by \$3.8 million primarily as a result of renewed construction.
- Other assets decreased as a result of decreases in the Net Pension asset and the Net OPEB asset.
- Deferred Outflows of Resources increased \$7.4 million due to a significant increase in the deferred outflows related to actuarial assumptions.
- An increase in net pension liability resulted in an increase in non-current liabilities.
- Deferred Inflows of Resources decreased \$4.0 million due to a significant decrease in the deferred inflows related to investment earnings on pension.

Analysis of Revenues and Expenses

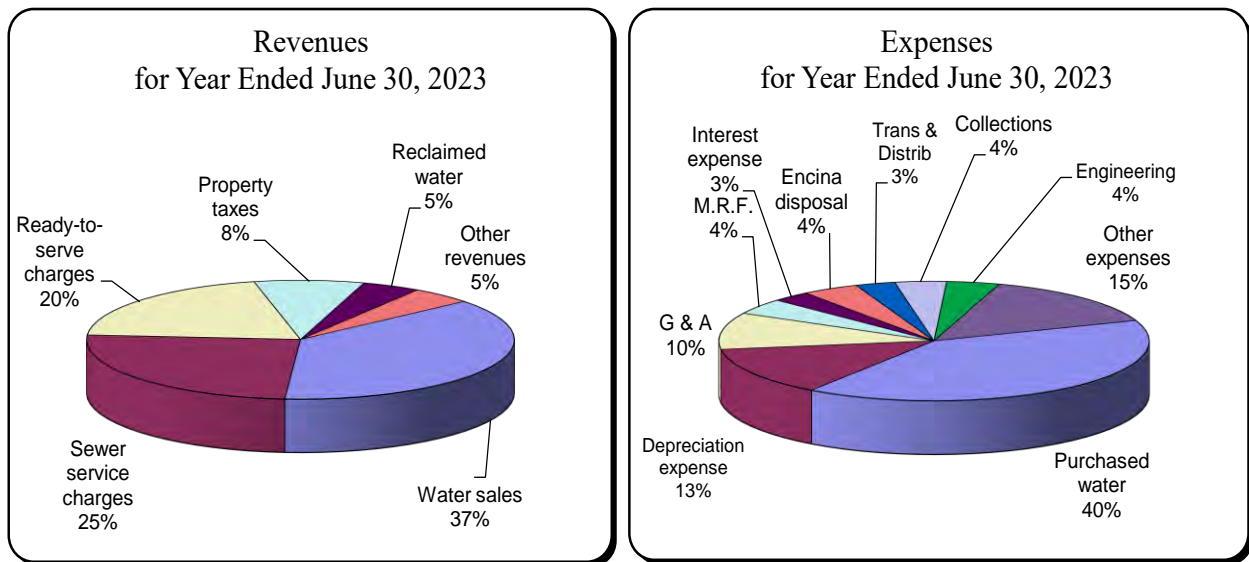
The composition of revenues and expenses for the 2022/23 fiscal year is illustrated in the following graphs. Water sales, ready-to-serve charges, and wastewater service charges continue to be the main sources of revenue funding District operations. Water sales are commodity charges assessed to cover 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 \$8,162,590 include non-cash depreciation and amortization expense of \$10,545,653. 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	
	2022/23	2021/22	Amount	%
Water sales	\$ 27,854,470	\$ 31,505,160	\$ (3,650,690)	-11.6%
Wastewater service charges	18,696,469	18,441,073	255,396	1.4%
Ready-to-serve charges	15,172,712	14,735,282	437,430	3.0%
Property taxes	6,198,160	5,655,563	542,597	9.6%
Reclaimed water sales	3,293,684	2,801,135	492,549	17.6%
Other revenues	3,491,795	3,808,683	(316,888)	-8.3%
Total Revenues	74,707,290	76,946,896	(2,239,606)	-2.9%
Purchased water	32,318,877	33,300,987	(982,110)	-2.9%
Depreciation expense	10,545,653	10,184,911	360,742	3.5%
General and administrative	8,001,116	4,505,293	3,495,823	77.6%
Meadowlark Reclamation Facility (M.R.F.)	3,456,343	2,551,888	904,455	35.4%
Interest expense	2,310,885	2,552,562	(241,677)	-9.5%
Encina disposal	3,436,547	2,964,671	471,876	15.9%
Engineering	3,180,548	2,157,043	1,023,505	47.4%
Collections	3,122,895	2,024,857	1,098,038	54.2%
Transmission & Distribution	2,395,205	1,519,562	875,643	57.6%
Other expenses	11,704,044	8,918,374	2,785,670	31.2%
Total Expenses	80,472,113	70,680,148	9,791,965	13.9%
Net Income/(Loss) before contributions	(5,764,823)	6,266,748	(12,031,571)	-192.0%
Capital contributions	12,032,200	11,293,812	738,388	6.5%
Change in Net Position	6,267,377	17,560,560	(11,293,183)	-64.3%
Total Net Position, Beginning of Year as Restated	313,989,724	296,429,164	17,560,560	5.9%
Total Net Position, End of Year	\$ 320,257,101	\$ 313,989,724	\$ 6,267,377	2.0%

MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)

ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS (continued)

- The decrease in water sales reflects decreases in demand due to slightly higher rainfall and conservation efforts. Decreases in water purchases reflect these decreases in demand offset by increases in water costs from San Diego County Water Authority (SDCWA).
- Reclaimed water sales increased in correlation with increased costs of producing reclaimed water at the Meadowlark Reclamation Facility (MRF).
- The \$3.5 million increase in General and administrative expenses was due primarily to increases in pension expense as a result of GASB 68 adjustments.
- Meadowlark Reclamation Facility (MRF) expenses increased as a result of increased chemical and power costs at MRF in fiscal year 22/23.
- Engineering increased by \$1.0 million as a result of increases in pension expense as a result of GASB 68 adjustments.
- Collections increased by \$1.1 million as a result of more outside services in fiscal year 2023 and increases in pension expense as a result of GASB 68 adjustments.
- Transmission & distribution increased by \$0.9 million as a result of more main breaks during Fiscal Year 2023 when compared to the prior year and the increases in pension expense as a result of GASB 68 adjustments.
- Other expenses increased by \$2.8 million due, in large part, to recognizing a \$3.7 million loss on investment in Encina Wastewater Authority in 2023 and only \$462 thousand in 2022, an increase of \$3.2 million.
- Capital contributions increased from fiscal year 2022 to fiscal year 2023 due to increased development.

RESTRICTIONS, COMMITMENTS, AND LIMITATIONS

The District’s net revenue requirement is 1.15 times the total debt service of the District. The District’s 2022/23 net revenue was 2.68 times debt service as calculated per the official statement for the bonds. Debt per capita within the District is \$621 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 2022/23 totaling \$1,844,800. More information about these projects can be found in Note 13 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, 2023, totaled \$239.5 million, which represents a 1.6% increase from the prior fiscal year.

	2022/23	2021/22
Land	\$ 4,981,505	\$ 4,981,505
Construction in Progress	12,343,216	9,352,435
Total Capital Assets, Not Depreciated	<u>17,324,721</u>	<u>14,333,940</u>
Water Transmission and Distribution System	215,102,524	210,220,621
Wastewater System	161,783,503	158,222,022
Buildings	17,896,037	17,713,492
Transportation Equipment	7,503,947	5,567,811
Field and Shop Equipment	11,685,691	11,312,166
Office Equipment	2,596,433	2,635,772
Subscription Assets	367,206	72,320
Accumulated Depreciation	<u>(194,765,520)</u>	<u>(184,385,648)</u>
Total Capital Assets, Being Depreciated, Net	<u>222,169,821</u>	<u>221,358,556</u>
Total Capital Assets, Net	<u>\$ 239,494,542</u>	<u>\$ 235,692,496</u>

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 5 of the Notes to the Basic Financial Statements.

Long-Term Debt

At June 30, 2023, the District had \$69.6 million in outstanding long-term debt, an decrease of \$3.8 million, or 5.2%, from the prior year. The outstanding debt, including amortized bond issuance costs, consisted of the following obligations:

	2022/23	2021/22
Revenue Refunding Bonds	\$ 39,064,635	\$ 41,774,604
2021A Certificates of Participation (COP)	28,087,095	28,177,707
2012 Certificates of Participation (COP)	-	772,000
Bank Loan	2,200,000	2,600,000
Subscription Liability	239,044	48,348
Total Long-Term Debt	<u>\$ 69,590,774</u>	<u>\$ 73,372,659</u>

Additional information on the District’s long-term debt can be found in Note 7 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 2023/24 budget amounts:

- Only slight increases in water usage by customers as the District is in a state of water supply restrictions
- Cost of service study and rate structure study completed and adopted by the board September 28, 2022
- Increases in construction and development
- Increasing regulatory compliance

As a result of these factors, the 2023/24 budget includes:

- Water sales reflective of slight increases in water usage
- Rate increases as determined by the revenue requirement established in the cost of service study
- Staffing levels remaining steady as the District continues to scrutinize the need for all positions and only fill positions if absolutely necessary

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

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BASIC FINANCIAL STATEMENTS

Vallecitos Water District
Statement of Net Position
June 30, 2023
(with prior year summarized comparative totals)

	2023	2022 (as restated)
ASSETS		
Current assets:		
Cash and cash equivalents (note 2)	\$ 61,584,599	\$ 55,950,794
Restricted cash and cash equivalents (note 2)	8,998,041	12,526,944
Investments (note 2)	50,343,351	50,210,310
Accounts receivable, net:		
Water and wastewater sales and services, net (note 3)	7,795,731	8,758,559
Taxes and assessments, net (note 3)	197,999	183,253
Other governmental entities	996,819	714,750
Other	1,209,203	638,151
Interest receivable	650,949	270,472
Lease receivable (note 4)	46,805	42,585
Inventories	1,477,308	1,099,029
Prepaid items	465,823	458,653
Total current assets	133,766,628	130,853,500
Noncurrent assets:		
Capital assets, nondepreciable (note 5)	17,324,721	14,333,940
Capital assets, depreciable/amortizable, net (note 5)	222,169,821	221,358,556
Capital assets, net	239,494,542	235,692,496
Restricted capital facility fees	116,536	120,798
Investment in Encina Wastewater Authority (note 6)	41,479,075	40,679,013
Net pension asset (note 10)	-	4,538,678
Net OPEB asset (note 11)	9,151	1,346,746
Lease receivable (note 4)	502,744	549,549
Total noncurrent assets	281,602,048	282,927,280
Total assets	415,368,676	413,780,780
DEFERRED OUTFLOWS OF RESOURCES		
Pension-related deferred outflows of resources (note 10)	10,063,439	2,964,502
OPEB-related deferred outflows of resources (note 11)	1,018,520	594,908
Deferred amount on refunding	1,913,170	2,073,633
Total deferred outflows of resources	12,995,129	5,633,043

(Continued)

Vallecitos Water District
Statement of Net Position (Continued)
June 30, 2023
(with prior year summarized comparative totals)

	2023	2022 (as restated)
LIABILITIES		
Current liabilities:		
Accounts payable	10,724,477	10,409,035
Accrued compensation	290,092	269,835
Construction and service deposits	1,175,556	1,600,645
Interest payable	1,190,562	1,618,591
Compensated absences, current portion (note 8)	943,124	994,142
Current portion of long-term debt (note 7)	2,997,353	3,540,729
Total current liabilities	17,321,164	18,432,977
Noncurrent liabilities:		
Compensated absences (note 8)	728,511	652,000
Net pension liability (note 10)	10,957,862	-
Long-term debt, excluding current portion (note 7)	66,593,421	69,831,930
Total noncurrent liabilities	78,279,794	70,483,930
Total liabilities	95,600,958	88,916,907
DEFERRED INFLOWS OF RESOURCES		
Pension-related deferred inflows of resources (note 10)	11,656,434	14,852,884
OPEB-related deferred inflows of resources (note 11)	341,966	1,085,675
Lease-related deferred inflows of resources (note 4)	507,346	568,633
Total deferred inflows of resources	12,505,746	16,507,192
NET POSITION		
Net investment in capital assets (note 9)	180,814,979	176,920,414
Restricted for:		
Future capital projects	116,536	120,798
Total restricted	116,536	120,798
Unrestricted	139,325,586	136,948,512
Total net position	\$ 320,257,101	\$ 313,989,724

(Concluded)

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Vallecitos Water District
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2023
(with prior year summarized comparative totals)

	2023	2022 (as restated)
OPERATING REVENUES		
Water sales	\$ 27,854,470	\$ 31,505,160
Wastewater service charges	18,696,469	18,441,073
Ready-to-serve charges	15,172,712	14,735,282
Reclaimed water sales	3,293,684	2,801,135
Pumping charges	349,951	407,955
Other services and abatements	920,276	1,516,144
Total operating revenues	66,287,562	69,406,749
OPERATING EXPENSES		
Purchased water	32,318,877	33,300,987
General and administrative	8,001,116	4,505,293
Meadowlark wastewater treatment plant	3,456,343	2,551,888
Encina disposal	3,436,547	2,964,671
Collection and conveyance	3,122,895	2,024,857
Engineering	3,180,548	2,157,043
Transmission and distribution	2,395,205	1,519,562
Customer accounts	1,385,070	807,437
Information technology	1,930,924	1,493,134
Meter reading and repairs	922,551	545,335
Buildings and grounds	1,189,476	888,658
Equipment and vehicles	612,508	393,328
Other water operating expenses	527,071	321,431
Other wastewater operating expenses	768,364	525,215
Water quality and treatment	821,261	580,515
Tanks and reservoirs	526,918	307,858
Pumping	1,107,762	883,974
Total operating expenses	65,703,436	55,771,186
Operating income before overhead absorption	584,126	13,635,563
Overhead absorption	1,798,937	1,506,798
Operating income before depreciation and amortization	2,383,063	15,142,361
Depreciation and amortization	(10,545,653)	(10,184,911)
Operating income (loss)	(8,162,590)	4,957,450
NONOPERATING REVENUES (EXPENSES)		
Property taxes	6,198,160	5,655,563
Interest income (loss)	2,159,617	931,458
Unrealized gain (loss) on investments	(188,013)	(3,288,913)
Change in Encina Joint Venture assets	(3,705,951)	(461,926)
Interest expense	(2,310,885)	(2,552,562)
Other nonoperating revenues/(expenses), net	244,839	1,025,678
Total nonoperating revenues (expenses)	2,397,767	1,309,298
Income (loss) before capital contributions	(5,764,823)	6,266,748
Capital Contributions	12,032,200	11,293,812
Changes in net position	6,267,377	17,560,560
Net position, beginning of year, as restated (note 14)	313,989,724	296,429,164
Net position, end of year	\$ 320,257,101	\$ 313,989,724

Vallecitos Water District
Statement of Cash Flows
For the Year Ended June 30, 2023
(with prior year summarized comparative totals)

	2023	2022 (as restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from water and wastewater customers	\$ 66,397,269	\$ 67,431,166
Payments for water	(32,792,124)	(32,672,374)
Payments for services and supplies	(10,171,868)	(10,245,788)
Payments for employee wages, benefits, and related costs	(15,667,831)	(15,299,634)
Net cash provided by operating activities	7,765,446	9,213,370
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Receipts from taxes and assessments	6,183,414	5,608,516
Net cash provided by noncapital financing activities	6,183,414	5,608,516
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Receipts relating to annexation fees	192,960	949,562
Acquisition and construction of capital assets	(13,734,802)	(11,288,593)
Principal paid on long-term debt	(3,517,000)	(3,413,972)
Interest paid on long-term debt	(3,039,154)	(2,220,755)
Proceeds from issuance of debt	-	25,550,000
Proceeds from bond premium	-	2,718,318
Proceeds from leases	38,526	41,780
Capacity fees received	6,757,425	8,615,648
Net cash provided by (used in) capital and related financing activities	(13,302,045)	20,951,988
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(11,893,386)	(19,191,721)
Proceeds from calls and maturities of investments	11,436,819	18,150,838
Investment income received	1,914,654	1,033,276
Net cash provided by (used in) investing activities	1,458,087	(7,607)
Net increase in cash and cash equivalents	2,104,902	35,766,267
Cash and cash equivalents, beginning of year	68,477,738	32,711,471
Cash and cash equivalents, end of year	\$ 70,582,640	\$ 68,477,738
FINANCIAL STATEMENT PRESENTATION		
Cash and cash equivalents	\$ 61,584,599	\$ 55,950,794
Cash and cash equivalents - restricted assets	8,998,041	12,526,944
Total cash and cash equivalents	\$ 70,582,640	\$ 68,477,738

(Continued)

Vallecitos Water District
Statement of Cash Flows (Continued)
For the Year Ended June 30, 2023
(with prior year summarized comparative totals)

	2023	2022 (As Restated)
RECONCILIATION OF OPERATING (LOSS) TO		
NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating (loss)	\$ (8,162,590)	\$ 4,957,450
Adjustments to reconcile operating (loss) to net cash provided by operating activities:		
Depreciation and amortization	10,545,653	10,184,911
Changes in operating assets and liabilities:		
Accounts receivable from water and wastewater sales and services	962,831	(1,381,891)
Receivables from other governments	(282,069)	(304,124)
Other receivables	(571,052)	(289,568)
Inventories	(378,279)	(130,782)
Prepaid items	(7,170)	(286,906)
Net pension asset	4,538,678	(4,538,678)
Net OPEB asset	1,337,595	(1,023,974)
Accounts payable	240,945	(85,170)
Accrued compensation	45,750	(49,429)
Pension-related deferred outflows	(7,098,937)	4,236,230
Pension-related deferred inflows	(3,196,450)	8,639,096
OPEB-related deferred outflows	(423,612)	(19,683)
OPEB-related deferred inflows	(743,709)	928,619
Net pension liability	10,957,862	(11,622,731)
Net cash provided by operating activities	\$ 7,765,446	\$ 9,213,370
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Contributions of capital assets	\$ 4,049,860	\$ 1,903,549
Amortization of premiums	\$ 455,581	\$ 455,580
Unrealized gains (losses) on investments	\$ (188,012)	\$ (3,288,913)

(Concluded)

Vallecitos Water District
Notes to the Basic Financial Statements
For the Year Ended June 30, 2023

Note 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 22,270 active water meters and 20,868 active sewer accounts as of June 30, 2023.

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 financial statement presentation follows the recommendations promulgated by the Governmental Accounting Standards Board (“GASB”) commonly referred to as accounting principles generally accepted in the United States of America (“U.S. GAAP”). GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting standards. 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

The financial statements are reported using the “*economic resources*” measurement focus and 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. Grants and similar items are recognized as revenue as all eligibility requirements have been met. Interest associated with the current fiscal period is considered to be susceptible to accrual and so has been recognized as revenue of the current fiscal period.

Vallecitos Water District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 1 – Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

The District distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering water in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. Capital contributions are reported as a separate line item in the Statement of Revenues, Expenses and Changes in Net Position.

D. Cash, Cash Equivalents, and Investments

Cash and Cash Equivalents – For purposes of the statement of cash flows, cash and cash equivalents include petty cash, demand deposits with financial institutions, deposits in money market mutual funds (SEC registered), and deposits in external investment pools, and marketable securities that mature within 90 days of purchase. Such marketable securities and deposits in money market funds are carried at fair value.

Risk Disclosures – Certain disclosure requirements, if applicable for deposit and investment risk, are specified for the following areas:

- Interest Rate Risk
- Credit Risk
 - Overall
 - Custodial Credit Risk
 - Concentration of Credit Risk

Investment Valuation – GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value, establishes a framework for measuring fair value and establishes disclosures about fair value measurement. Investments, unless otherwise specified, recorded at fair value in the Statements of Net Position, are categorized based upon the level of judgement associated with the inputs used to measure their fair value. Levels of inputs are as follows:

Level 1 - Inputs are unadjusted, quoted prices for identical assets and liabilities in active markets at the measurement date.

Level 2 - Inputs, other than quoted prices included in Level 1, that are observable for the asset or liability through corroboration with market data at the measurement date.

Level 3 - Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date.

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.

Vallecitos Water District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 1 – Summary of Significant Accounting Policies (Continued)

D. Cash, Cash Equivalents, and Investments (Continued)

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.

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.

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. 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.

G. Leases Receivable

The District is a lessor for leases as detailed in Footnote 4. The District recognizes a lease receivable and a deferred inflow of resources in the financial statements.

At the commencement of the lease, the District initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflows of resources are recognized as revenue over the life of the lease term.

Key estimates and judgments include how the District determines the discount rate it uses to discount the expected lease receipts to present value, lease term and lease receipts.

The District used the estimated incremental borrowing rate as the discount rate for leases. The lease term includes the noncancellable period of the lease. Lease receipts included the measurement of the lease receivable is composed of fixed payments from the lessee.

Vallecitos Water District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 1 – Summary of Significant Accounting Policies (Continued)

G. Leases Receivable (Continued)

The District monitors changes in circumstances that would require a remeasurement of its leases and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

H. 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, 2023 has been accrued as of year- end.

I. 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
Levy Date:	July 1
Due Date:	First installment - November 1 Second installment - February 1
Delinquent Date:	First installment - December 10

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

December 10, 2022	30% advance - first installment
January 24, 2023	Balance on first installment
April 8, 2023	10% advance - second installment
May 13, 2023	Balance on second installment

J. 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.

K. 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.

Vallecitos Water District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 1 – Summary of Significant Accounting Policies (Continued)

L. 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.

M. 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.

N. 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/amortization 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:

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

O. Subscription-Based Information Technology Arrangements (SBITAs)

The District has a policy to recognize a subscription liability and a right-to-use subscription asset (subscription asset) in the financial statements. The District recognizes subscription liabilities with an initial, individual value of \$10,000 or more with a subscription term greater than one year. Variable payments based on future performance of the District’s usage of the underlying IT asset, or number of user seats are not included in the measurement of the subscription liability, rather, those variable payments are recognized as outflows of resources (expenses) in the period the obligation for those payments is incurred.

At the commencement of a SBITA, the District initially measures the subscription liability at the net present value of payments expected to be made during the subscription term. Subsequently, the subscription liability is reduced by the principal portion of subscription payments made.

Subscription assets are recorded at the amount of the initial measurement of the subscription liabilities, less any payments made to the SBITA vendor before the commencement of the subscription term, and capitalizable initial implementation cost, less any incentives received from the SBITA vendor at or before the commencement of the subscription term.

Vallecitos Water District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 1 – Summary of Significant Accounting Policies (Continued)

O. Subscription-Based Information Technology Arrangements (SBITAs) (Continued)

Costs associated with a SBITA, other than the subscription payments, are accounted for as follows:

- ***Preliminary Project Stage:*** Outlays are expensed as incurred.
- ***Initial Implementation Stage:*** Outlays are capitalized as an addition to the subscription asset.
- ***Operation and Additional Implementation Stage:*** Outlays are expensed as incurred unless they meet specific capitalization criteria.

Upon adoption, the District elected to exclude the capitalizable outlays associated with the initial implementation stage and the operation and additional implementation stage that were incurred prior to the implementation of this Statement in the measurement of subscription assets as of July 1, 2021.

Subscription assets are reported in capital assets and subscription liabilities are reported with long-term liabilities on the statement of net position.

Subscription assets are amortized using the straight-line method over the shorter of the subscription term or the useful life of the underlying IT asset, unless the subscription contains a purchase option that the District has determined is reasonably certain of being exercised. In this case, the subscription asset is amortized over the useful life of the underlying IT asset.

Key estimates and judgments related to SBITA include how the District determines (1) the discount rate it uses to discount the expected subscription payments to present value, (2) subscription term, and (3) subscription payments.

- The District uses the interest rate charged by the SBITA vendor as the discount rate. When the interest rate charged by the SBITA vendor is not provided, the District generally uses its estimated incremental borrowing rate as the discount rate for SBITA.
- The subscription term includes the noncancellable period of the SBITA. Subscription payments included in the measurement of the subscription liability are composed of fixed payments and purchase option price that the District is reasonably certain to exercise.

The District monitors changes in circumstances that would require a remeasurement of its subscription liability and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

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.

Vallecitos Water District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 1 – Summary of Significant Accounting Policies (Continued)

P. Deferred Outflows/Inflows of Resources (Continued)

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 three items that qualify for reporting in this category. These items are related to pension, OPEB, and leases. 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% 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% of their unused sick leave hours, whereas an employee with more than five years of service is entitled to receive 50% of their unused sick leave hours.

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

The following timeframes are used for pension reporting:

Valuation date	June 30, 2021
Measurement date	June 30, 2022
Measurement period	July 1, 2021 to June 30, 2022

Vallecitos Water District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 1 – Summary of Significant Accounting Policies (Continued)

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.

The following timeframes are used for OPEB reporting:

Valuation date	June 30, 2021
Measurement date	June 30, 2022
Measurement period	July 1, 2021 to June 30, 2022

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 U.S. GAAP and, accordingly, include amounts that are based on management’s best estimates and judgments. Actual results could differ from these estimates.

W. Implementation of New GASB Pronouncements for the Year Ended June 30, 2023

During fiscal year ended June 30, 2023, the District has implemented the following new GASB Pronouncements:

- In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations* (GASB Statement No. 91), to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. Application of this statement did not have an effect on the District’s financial reporting for the fiscal year ending June 30, 2023.
- In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Application of this statement did not have an effect on the District’s financial reporting for the fiscal year ending June 30, 2023.

Vallecitos Water District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 1 – Summary of Significant Accounting Policies (Continued)

W. Implementation of New GASB Pronouncements for the Year Ended June 30, 2023 (Continued)

- In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. Application of this statement did have an effect on the District’s financial reporting for the fiscal year ending June 30, 2023. See Note 1O and Note 14.
- In April 2022, GASB issued Statement No. 99, *Omnibus 2022*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. Application of this statement did not have an effect on the District’s financial reporting for the fiscal year ending June 30, 2023.

X. Upcoming Governmental Accounting Standards Implementation

The District is currently evaluating its accounting practices to determine the potential impact on the financial statements for the following GASB Statements:

- In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections – an Amendment of GASB Statement No. 62*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. Application of this statement is effective for the District’s fiscal year ending June 30, 2024.
- In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. Application of this statement is effective for the District’s fiscal year ending June 30, 2025.

Y. 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)
For the Year Ended June 30, 2023

Note 2 – Cash and Investments

Cash and investments are classified as follows in the accompanying financial statements as of June 30, 2023:

Statement of Net Position:	
Cash and cash equivalents	\$ 61,584,599
Restricted cash and cash equivalents	8,998,041
Investments	50,343,351
Total cash and investments	\$ 120,925,991

Cash and investments consisted of the following at June 30, 2023:

Cash and investments consist of the following:	
Cash on hand	\$ 2,000
Deposits with financial institutions	2,330,553
Investments	118,593,438
Total cash and investments	\$ 120,925,991

Demand Deposits

As of June 30, 2023, the carrying amount of demand deposits was \$2,330,553 and the bank balance was \$3,246,842, of which the total amount was collateralized or insured with securities held by the pledging financial institutions in the District's name as discussed below under *Disclosures Relating Custodial Credit Risk*.

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.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Bank deposits	5 years	100%	100%
LGIPs (including LAIF and CAMP)	180 days	100%	100%
US Treasuries	5 years	100%	100%
Federal agencies/GSEs	None	100%	30%
Repurchase agreements	270 days	25%	10%
Municipal bonds	None	25%	5%
Corporate MTNs	5 years	25%	5%
Supranational obligations	None	25%	5%
Commercial paper	5 years	25%	5%
Money market mutual funds	None	20%	20%
Certificates of deposit	5 years	20%	5%
Asset-back securities	5 years	20%	5%
Banker's acceptances	1 year	20%	5%

Vallecitos Water District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 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 deposit 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 fair 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. The District's investments with LAIF include a portion of the pool funds invested in structured notes and asset-backed securities. These investments include the following:

Structured Notes - debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options. They are issued by corporations and by government-sponsored enterprises.

Asset-Backed Securities - entitle their purchaser to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as CMO's), small business loans or credit card receivables.

LAIF is overseen by the Local Investment Advisory Board, which consists of five members, in accordance with State statute. The fair value of the District's position in the pool is the same as the value of the pool shares.

Vallecitos Water District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 2 – Cash and Investments (Continued)

Investment in State Investment Pool (Continued)

As of June 30, 2023 the District had \$53,693,281 invested in LAIF, which had invested 1.46% of the pool investment funds in structured notes and asset-backed securities. LAIF is part of the State's Pooled Money Investment Account (PMIA). The District valued its investments in LAIF as of June 30 by multiplying its account balance with LAIF times a fair value factor determined by LAIF. This fair value factor was determined by dividing all LAIF participants' total aggregate fair value by total aggregate amortized cost resulting in a factor of 0.984828499 as of June 30, 2023.

California Asset Management Program (CAMP)

The District is a voluntary participant in the California Asset Management Program (CAMP). CAMP is an investment pool offered by the California Asset Management Trust (the Trust) and has a rating of AAA. The Trust is a joint powers authority and public agency created by the Declaration of Trust and established under the provisions of the California Joint Exercise of Powers Act for the purpose of exercising the common power of its Participants to invest funds. The investments are limited to investments permitted by California Government Code. The total amount invested by all public agencies in CAMP at June 30, 2023 was \$16.0 billion. A board of seven trustees who are officials or employees of public agencies has oversight responsibility for CAMP. The value of the pool shares in CAMP, which may be withdrawn at any time, is determined on an amortized cost basis, which is different from the fair value of the District's position in the pool. At June 30, 2023, the District had \$4,300,620 invested with CAMP and the amortized cost approximated is the District's cost.

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.

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 Annual Comprehensive Financial Report (ACFR). Copies of the ACFR may be obtained from the County of San Diego Auditor-Controller's Office – 1600 Pacific Coast Highway – San Diego, CA 92101. At June 30, 2023, the District had \$5,516,583 invested with SDCPIF and the amortized cost approximated the District's cost.

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.

Vallecitos Water District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 2 – Cash and Investments (Continued)

Interest Rate Risk (Continued)

Maturities of investments at June 30, 2023 are as follows:

Investment Type	Total	Remaining Maturity (in Months)		
		12 Months or Less	13 to 24 Months	25 to 60 Months
U.S. Treasury Obligations	\$ 17,670,539	\$ 4,834,890	\$ 10,651,473	\$ 2,184,176
Federal agency securities	18,415,041	10,524,867	3,492,516	4,397,658
Local Agency Investment Fund (LAIF)	53,693,281	53,693,281	-	-
Corporate medium-term notes	10,412,937	3,081,506	5,883,497	1,447,934
Asset-backed securities	3,680,990	-	2,244,502	1,436,488
Supranational	1,169,148	387,163	781,985	-
Money market mutual funds	400,953	400,953	-	-
California Asset Management Pool (CAMP)	4,300,620	4,300,620	-	-
San Diego County Pooled Investment Fund	5,516,583	5,516,583	-	-
Held by fiscal agent:				
Money market funds	3,333,346	3,333,346	-	-
Total	\$ 118,593,438	\$ 86,073,209	\$ 23,053,973	\$ 9,466,256

Credit Risk

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

Credit ratings of investments as of June 30, 2023 were as follows:

Investment Type	Total	Minimum Legal Rating	Rating as of Year End			
			AAA	AA	A	Not Rated
U.S. Treasury Securities	\$ 17,670,539	N/A	\$ -	\$ -	\$ -	\$ 17,670,539
U.S. Government Sponsored Agency Securities						
FFCB	5,117,130	N/A	5,117,130	-	-	-
FHLB	4,653,268	N/A	4,653,268	-	-	-
FHLMC	6,333,166	N/A	6,333,166	-	-	-
FNMA	2,311,477	N/A	2,311,477	-	-	-
Local Agency Investment Fund (LAIF)	53,693,281	N/A	53,693,281	-	-	-
California Asset Management Pool (CAMP)	4,300,620	N/A	-	-	-	4,300,620
Corporate medium-term notes	10,412,937	A	-	402,924	10,010,013	-
Asset-backed securities	3,680,990	AA	2,710,068	-	-	970,922
Supranational	1,169,148	AA	1,169,148	-	-	-
Money market mutual funds	400,953	AAA	400,953	-	-	-
San Diego County Pooled Investment Fund	5,516,583	N/A	5,516,583	-	-	-
Held by fiscal agent:						
Money market funds	3,333,346	AAA	3,333,346	-	-	-
Total	\$ 118,593,438		\$ 85,238,420	\$ 402,924	\$ 10,010,013	\$ 22,942,081

Vallecitos Water District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 2 – Cash and Investments (Continued)

Credit Risk (Continued)

The District has the following recurring fair value measurements as of June 30, 2023:

	Fair Value Measurement Using		Total at June 30, 2023
	Significant Other Observable Inputs (Level 2)		
Investments by Fair Value Level			
U.S. Treasury Securities	\$ 17,670,539		\$ 17,670,539
U.S. Government Sponsored Entity Securities			
FFCB	5,117,130		5,117,130
FHLB	4,653,268		4,653,268
FHLMC	6,333,166		6,333,166
FNMA	2,311,477		2,311,477
Corporate medium-term notes	10,412,937		10,412,937
Asset-backed securities	3,680,990		3,680,990
Supranational	1,169,148		1,169,148
Total Investments by Fair Value Level	\$ 51,348,655		51,348,655
Investments not subject to fair value hierarchy:			
Money Market Mutual Funds			3,734,299
Local Agency Investment Fund (LAIF)			53,693,281
California Asset Management Program (CAMP)			4,300,620
San Diego County Pooled Investment Fund (SDCPIF)			5,516,583
Total investments not subject to fair value hierarchy			67,244,783
Total investments			\$ 118,593,438

Note 3 – Receivables

Customer Accounts Receivable

The customer accounts receivable balance at June 30, 2023 consisted of the following:

Water and wastewater sales and services	\$ 7,828,977
Allowance for uncollectable accounts	(33,246)
Total	\$ 7,795,731

Property Tax Receivable

Taxes and assessments receivable of \$205,604 have been reduced by an allowance for estimated uncollectible taxes of \$7,605 for a net receivable of \$197,999 at June 30, 2023.

Vallecitos Water District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 4 – Leases Receivable

The District leases land, primarily cell tower sites, and recognizes leases receivable. Leases receivable consist of agreements with others for the “right-to-use” the underlying land asset at various locations owned by the District. The remaining terms of the agreements that were used in calculating the leases receivable range from 6 to 33 years, and include options to extend the leases, since the District is reasonably certain that these options will be exercised. The calculated interest rates used to calculate the net present value of the leases receivable vary depending on the length of the lease.

For the fiscal year ended June 30, 2023, the District recognized \$61,287 in lease revenue and \$20,127 in interest revenue, and the outstanding receivable amount was \$549,549.

A summary of changes in leases receivable for the fiscal year ended June 30, 2023 was as follows:

Balance July 1, 2022	Additions	Reductions	June 30, 2023	Amounts due within one year	Amounts due in more than one year
\$ 592,134	\$ -	\$ (42,585)	\$ 549,549	\$ 46,805	\$ 502,744

At June 30, 2023, the required payments for these leases, including interest, are:

Year Ending June 30	Lease Receivable	Interest	Total
2024	\$ 46,805	\$ 19,209	\$ 66,014
2025	51,312	17,445	68,757
2026	56,656	15,509	72,165
2027	62,864	13,381	76,245
2028	68,329	11,018	79,347
2029-2033	165,825	27,063	192,888
2034-2038	59,650	13,341	72,991
2039-2043	38,108	2,944	41,052
Total	\$ 549,549	\$ 119,910	\$ 669,459

As of June 30, 2023, the amounts reported as lease-related deferred inflows of resources will be recognized as lease revenue in the upcoming years as follows:

Year Ending June 30	Total
2024	\$ 61,287
2025	61,287
2026	61,287
2027	61,286
2028	60,756
2029-2033	137,328
2034-2038	42,862
2039-2043	21,253
Total	\$ 507,346

Vallecitos Water District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 5 – Capital Assets

Changes in capital assets for the year ended June 30, 2023 were as follows:

	Balance July 1, 2022 as restated	Additions	Deletions	Balance June 30, 2023
Capital assets, not being depreciated:				
Land	\$ 4,981,505	\$ -	\$ -	\$ 4,981,505
Construction in progress	9,352,435	10,750,286	(7,759,505)	12,343,216
Total capital assets, not being depreciated	14,333,940	10,750,286	(7,759,505)	17,324,721
Capital assets, being depreciated/amortized:				
Water transmission and distribution system	210,220,621	4,881,903	-	215,102,524
Wastewater system	158,222,022	3,561,481	-	161,783,503
Buildings	17,713,492	182,545	-	17,896,037
Transportation equipment	5,567,811	1,997,443	(61,307)	7,503,947
Field and shop equipment	11,312,166	438,660	(65,135)	11,685,691
Office equipment	2,635,772	-	(39,339)	2,596,433
Subscription assets	72,320	294,886	-	367,206
Total capital assets, being depreciated/amortized	405,744,204	11,356,918	(165,781)	416,935,341
Accumulated depreciation/amortization:				
Water transmission and distribution system	(93,014,275)	(4,906,978)	-	(97,921,253)
Wastewater system	(57,290,966)	(2,943,188)	-	(60,234,154)
Buildings	(19,496,329)	(1,452,245)	-	(20,948,574)
Transportation equipment	(3,665,368)	(463,025)	61,307	(4,067,086)
Field and shop equipment	(8,414,345)	(472,277)	65,135	(8,821,487)
Office equipment	(2,488,294)	(210,112)	39,339	(2,659,067)
Subscription assets	(16,071)	(97,828)	-	(113,899)
Total accumulated depreciation/amortization	(184,385,648)	(10,545,653)	165,781	(194,765,520)
Total capital assets, being depreciated/amortized, net	221,358,556	811,265	-	222,169,821
Total capital assets, net	\$ 235,692,496	\$ 11,561,551	\$ (7,759,505)	\$ 239,494,542

Depreciation and amortization expense for depreciable and amortizable capital assets was \$10,545,653 for the year ended June 30, 2023.

Vallecitos Water District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 6 – 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, 2023, the Member Agencies have the following approximate ownership interests:

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%
	100.00%

The latest available financial statements of EWA, dated June 30, 2022, are available directly from EWA’s website (<https://www.encinajpa.com/transparency/fiscal-responsibility>), and depict the following:

Assets	\$ 186,594,372
Deferred outflows of resources	6,006,749
Liabilities	(15,660,649)
Deferred inflows of resources	(447,424)
Net position	\$ 176,493,048
Increase in net position	\$ 13,438,999

Note 7 – Long Term Debt

The following is a summary of long-term debt transactions for the fiscal year ended June 30, 2023:

	Balance July 1, 2022 as restated	Additions	Deletions	Balance June 30, 2023	Due Within One Year	Due More Than One Year
Direct Borrowings:						
2008 UBOC Loan	\$ 2,600,000	\$ -	\$ (400,000)	\$ 2,200,000	\$ 400,000	\$ 1,800,000
Subscription liability	48,348	294,886	(104,190)	239,044	132,353	106,691
Publicly Offered:						
2012 Certificates of Participation	772,000	-	(772,000)	-	-	-
2015 Refunding Revenue Bonds	37,030,000	-	(2,345,000)	34,685,000	2,465,000	32,220,000
Plus unamortized bond premiums	4,744,604	-	(364,969)	4,379,635	-	4,379,635
2021A Certificates of Participation	25,550,000	-	-	25,550,000	-	25,550,000
Plus unamortized bond premiums	2,627,707	-	(90,612)	2,537,095	-	2,537,095
Total	\$ 73,372,659	\$ 294,886	\$ (4,076,771)	\$ 69,590,774	\$ 2,997,353	\$ 66,593,421

Vallecitos Water District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 7 – Long Term Debt (Continued)

2008 UBOC Loan

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 SOFR index plus 0.79%. Principal payments of \$400,000 plus interest are payable semi-annually. The loan matures in 2029.

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 UBOC Loan Payable outstanding at June 30, 2023 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 400,000	\$ 40,982	\$ 440,982
2025	400,000	35,192	435,192
2026	400,000	28,544	428,544
2027	400,000	20,956	420,956
2028	400,000	12,338	412,338
2029	200,000	-	200,000
Total	<u>\$ 2,200,000</u>	<u>\$ 138,012</u>	<u>\$ 2,338,012</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 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 bonds were paid in full during fiscal year 2023.

Vallecitos Water District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 7 – 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, 2023 are as follows:

Year Ending June 30,	Principal	Interest	Total
2024	\$ 2,465,000	\$ 1,672,625	\$ 4,137,625
2025	2,590,000	1,546,250	4,136,250
2026	2,720,000	1,413,500	4,133,500
2027	2,865,000	1,273,875	4,138,875
2028	3,010,000	1,127,000	4,137,000
2029-2033	14,065,000	3,327,625	17,392,625
2034-2036	6,970,000	534,250	7,504,250
Total	<u>\$ 34,685,000</u>	<u>\$ 10,895,125</u>	<u>\$ 45,580,125</u>

2021A Certificates of Participation

The District regularly monitors the market for municipal securities and determined that it would be economically beneficial to issue Revenue Certificates of Participation in the current market. On August 4th, 2021, the Board of Directors approved the issuance of the District’s Revenue Certificates of Participation Series 2021A, in the amount of \$25,550,000. On August 12th, 2021, the 2021 Certificates were issued and delivered to provide funds to (i) acquire certain capital improvements to the Water System and Wastewater System of the District, (ii) reimburse the District for costs previously expended on certain Water System and Wastewater System improvements, and(iii) pay costs of delivery of the 2021 Certificates. Through this issuance, the District was able to take advantage of the low financing all-in total interest cost of 2.24% for improvements to the Water System and Wastewater System.

The District has covenanted to fix, prescribe and collect rates, fees and charges for the Service of the Enterprise during each Fiscal Year which are reasonably fair and non-discriminatory and which are estimated to yield Adjusted Annual Net Revenues equal to 115% of Adjusted Annual Debt Service for such Fiscal Year or twelve (12) calendar month period, and Net Revenues equal to 100% of all Payments and all other amounts which are payable from Net Revenues payable in such Fiscal Year or twelve (12) calendar month period (the “Coverage Requirements”), for such Fiscal Year in an amount not less than the Coverage Requirement for such Fiscal Year.

The District may make adjustments from time to time in such fees and charges and may make such classification thereof as it deems necessary but has covenanted under the Master Contract not to reduce rates, fees and charges then in effect, unless the Adjusted Annual Net Revenues from such reduced rates, fees and charges are estimated to be sufficient to meet the Coverage Requirements.

Vallecitos Water District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 7 – Long Term Debt (Continued)

2021A Certificates of Participation (Continued)

The annual requirements to amortize the 2021A Certificates of Participation outstanding at June 30, 2023 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ -	\$ 785,800	\$ 785,800
2025	-	785,800	785,800
2026	-	785,800	785,800
2027	-	785,800	785,800
2028	-	785,800	785,800
2029-2033	3,400,000	1,437,000	4,837,000
2034-2038	7,330,000	2,405,600	9,735,600
2039-2043	4,755,000	1,449,325	6,204,325
2044-2048	5,330,000	873,766	6,203,766
2049-2052	4,735,000	228,296	4,963,296
Total	<u>\$ 25,550,000</u>	<u>\$ 10,322,987</u>	<u>\$ 35,872,987</u>

Subscription-Based Information Technology Arrangements (SBITA) Liability

The Authority entered into various subscription-based IT arrangements and has recorded a liability to offset the right-to-use assets. These are calculated using the District's incremental borrowing rate of 3.5%.

Future minimum payments on SBITA liabilities are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 132,353	\$ 5,619	\$ 137,972
2025	106,691	1,318	108,009
Total	<u>\$ 239,044</u>	<u>\$ 6,937</u>	<u>\$ 245,981</u>

Note 8 – Compensated Absences

Vested or accumulated vacation and sick leave is recorded as an expense and liability as benefits accrue to employees. Summary of changes in compensated absences for the year ended June 30, 2023, were as follows:

<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>	<u>Due in More Than One Year</u>
\$ 1,646,142	\$ 1,079,033	\$ (1,053,540)	\$ 1,671,635	\$ 943,124	\$ 728,511

Vallecitos Water District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 9 – Net Investment in Capital Assets

Net investment in capital assets at June 30, 2023 consisted of the following:

Net investment in capital assets:	
Capital assets, nondepreciable	\$ 17,324,721
Capital assets, depreciable/amortizable, net	222,169,821
Notes payable	(2,200,000)
Certificates of participation	(25,550,000)
Refunding bonds	(34,685,000)
Bond premium	(6,916,730)
Subscription liability	(239,044)
Deferred charges from debt retirement	1,913,170
Add back: unspent bond proceeds	5,665,916
Add back: cash with fiscal agent	3,332,125
Total net investment in capital assets	\$ 180,814,979

Note 10 – Defined Benefit Pension Plan

A. General Information about the Pension Plan

Plan Description

All qualified permanent and probationary employees are eligible to participate in the Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan (“Plan”) administered by the California Public Employees’ Retirement System (“CalPERS”). The Plan consists of individual rate plans (benefit tiers) within a safety risk pool (police and fire) and a miscellaneous risk pool (all other). Plan assets may be used to pay benefits for any employer rate plan of the safety and miscellaneous pools.

Accordingly, rate plans within the safety or miscellaneous pools are not separate plans under generally accepted accounting principles. Individual employers may sponsor more than one rate plan in the miscellaneous or safety risk pools. The District sponsors two miscellaneous rate plans. Benefit provisions under the Plan are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS’ website, at www.calpers.ca.gov.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 5 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees’ Retirement Law.

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

Vallecitos Water District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 10 – Defined Benefit Pension Plan (Continued)

A. General Information about the Pension Plan (Continued)

The Plan’s provisions and benefits in effect at June 30, 2022 (the measurement date) are summarized as follows:

	Miscellaneous Plan	
	Classic	PEPRA (Public Employees' Pension Reform Act)
Hire Date	Prior to January 1, 2013	January 1, 2013 and after
Benefit Formula	3% at 60	2% 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 rate	7.81%	6.75%
Required employer contribution rate	15.25%	7.47%

Contributions

Section 20814(c) of the California Public Employees’ Retirement Law (“PERL”) requires that the employer contribution rates for all public employers are 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. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. 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.

Vallecitos Water District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 10 – Defined Benefit Pension Plan (Continued)

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, 2022, using an annual actuarial valuation as of June 30, 2021 rolled forward to June 30, 2022 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

	Classic & PEPRA Plans
Valuation Date	June 30, 2021
Measurement Date	June 30, 2022
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	6.90%
Inflation	2.30%
Salary Increases	(1)
Mortality Rate Table	(2)
Post Retirement Benefit Increase	(3)

- (1) Varies by entry age and service
- (2) The mortality table used was developed based on CalPERS specific data. The probabilities of mortality are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015. Pre-retirement and post-retirement mortality rates include 15 years of projected mortality improvement using 90% of Scale MP-2016 published by the Society of Actuaries. For more details on this table, please refer to the CalPERS Experience Study and Review of Actuarial Assumption report from December 2017 that can be found on CalPERS website.
- (3) Contract COLA up to 2.3% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.3% thereafter.

Discount Rate

The discount rate used to measure the total pension liability for PERFC was 6.90% for the measurement period ended June 30, 2022. 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 projected benefit payments to determine the total pension liability.

Vallecitos Water District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 10 – Defined Benefit Pension Plan (Continued)

B. Net Pension Liability (Continued)

Discount Rate (Continued)

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 recent 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 expected real rates of return by asset class are as follows:

Asset Class	Strategic Allocation	Real Return
Global equity - cap-weighted	30.00%	4.45%
Global equity - non-cap-weighted	12.00%	3.84%
Private equity	13.00%	7.28%
Treasury	5.00%	0.27%
Mortgage-backed securities	5.00%	0.50%
Investment-grade corporates	10.00%	1.56%
High yield	5.00%	2.27%
Emerging market debt	5.00%	2.48%
Private debt	5.00%	3.57%
Real assets	15.00%	3.21%
Leverage	-5.00%	-0.59%
Total	<u>100.00%</u>	

Pension Plan Fiduciary Net Position

On July 12, 2021, CalPERS reported a preliminary 21.3% net return on investments for fiscal year 2020-21. Based on the thresholds specified in CalPERS Funding Risk Mitigation policy, the excess return of 14.3% prescribes a reduction in investment volatility that corresponds to a reduction in the discount rate used for funding purposes of 0.20% from 7.00% to 6.80%. Since CalPERS was in the final stages of the four-year Asset Liability Management (ALM) cycle, the board elected to defer any changes to the asset allocation until the ALM process concluded, and the board could make its final decision on the asset allocation in November 2021.

Vallecitos Water District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 10 – Defined Benefit Pension Plan (Continued)

B. Net Pension Liability (Continued)

Pension Plan Fiduciary Net Position (Continued)

On November 17, 2021, the board adopted a new strategic asset allocation. The new asset allocation along with the new capital market assumptions, economic assumptions and administrative expense assumption support a discount rate of 6.90% (net of investment expense but without a reduction for administrative expense) for financial reporting purposes. This includes a reduction in the price inflation assumption from 2.50% to 2.30% as recommended in the November 2021 CalPERS Experience Study and Review of Actuarial Assumptions. This study also recommended modifications to retirement rates, termination rates, mortality rates and rates of salary increases that were adopted by the board. These new assumptions are reflected in the GASB 68 accounting valuation reports for the June 30, 2022, measurement date.

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)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (c) = (a) - (b)
Balance at 6/30/2021 (MD)	\$ 91,473,777	\$ 96,012,456	\$ (4,538,678)
Balance at 6/30/2022 (MD)	98,826,117	87,868,255	10,957,862
Net changes during 2022	\$ 7,352,340	\$ (8,144,201)	\$ 15,496,540

The District’s proportion of the net pension asset 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/(asset) for the Plan as of measurement dates June 30, 2022 and 2021 was as follows:

	Classic & PEPRA Plans
Proportion - June 30, 2021	-0.23903%
Proportion - June 30, 2022	0.46073%
Change - increase (decrease)	0.69976%

Vallecitos Water District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 10 – Defined Benefit Pension Plan (Continued)

C. Proportionate Share of Net Pension Liability (Continued)

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 6.90%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (5.90%) or 1 percentage-point higher (7.90%) than the current rate:

1% Decrease	5.90%
Net Pension Liability	\$ 24,429,643
Current Discount Rate	6.90%
Net Pension Liability (Asset)	\$ 10,957,862
1% Increase	7.90%
Net Pension Liability (Asset)	\$ (126,072)

Recognition of Gains and Losses

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

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

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

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

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

For the measurement period ending June 30, 2022 (the measurement date), the District incurred pension expense of \$10,242,874 for the Plan.

Vallecitos Water District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 10 – Defined Benefit Pension Plan (Continued)

D. Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions (Continued)

As of June 30, 2023, 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 subsequent to measurement date	\$ 2,169,828	\$ -
Differences between actual and expected experience	1,880,547	-
Change in assumptions	1,122,862	-
Changes in proportions	4,890,202	(4,225,426)
Differences between the employer's contributions and the employer's proportionate share of contributions	-	(2,831,268)
Net differences between projected and actual earnings on plan investments	-	(4,599,740)
Total	\$ 10,063,439	\$ (11,656,434)

Contributions subsequent to the measurement date of \$2,169,828 reported with deferred outflows of resources will be recognized as a reduction of the net pension liability during fiscal year ended June 30, 2024, respectively. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in future pension expense as follows:

Year Ending June 30,	Amount
2024	\$ (2,823,346)
2025	(1,064,644)
2026	(1,102,500)
2027	1,227,667
Total	\$ (3,762,823)

Note 11 – 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.

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.

Vallecitos Water District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 11 – Other Post-Employment Benefits (OPEB) (Continued)

Plan Description (Continued)

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

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

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

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

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

Employees Covered

As of the June 30, 2022 measurement date, the following current and former employees were covered by the benefit terms under the Plan:

Active employees	57
Inactive employees or beneficiaries currently receiving benefits	29
Inactive employees entitled to, but not yet receiving benefits	-
	86
	86

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, 2023, the District’s cash contributions were \$462,630 of direct payments and the estimated implied subsidy was \$149,903 resulting in total payments of \$612,533.

Vallecitos Water District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 11 – Other Post-Employment Benefits (OPEB) (Continued)

Net OPEB (Asset) Liability

The District’s net OPEB (asset) liability was measured as of June 30, 2022 and the total OPEB liability used to calculate the net OPEB (asset) liability was determined by an actuarial valuation dated June 30, 2021 that was rolled forward to determine the June 30, 2023 total OPEB liability, based on the following actuarial methods and assumptions:

Valuation Date	June 30, 2021
Measurement Date	June 30, 2022
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	5.75%
Inflation	2.50%
Salary Increases	2.75% per annum, in aggregate
Mortality Rate Table	2017 CalPERS Mortality for Miscellaneous and Schools Employees
Pre-Retirement Turnover	2017 CalPERS Turnover for Miscellaneous Employees
Healthcare Trend Rate	Based on 7.5% per year for the first four years and 4.5% per year thereafter

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

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

Asset Class	Target Allocation	Assumed Gross Return
Global Equity	40.00%	7.55%
Global Fixed Income	43.00%	4.25%
TIPS	5.00%	3.00%
REITs	8.00%	7.25%
Commodities	4.00%	7.55%
Total	100.00%	

Discount Rate

The discount rate used to measure the total OPEB liability was 5.75% for the measurement period ended June 30, 2022. 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.

Vallecitos Water District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 11 – Other Post-Employment Benefits (OPEB) (Continued)

Changes in the Net OPEB (Asset) Liability

The changes in the net OPEB (asset) liability for the Plan for the year ended June 30, 2023 was as follows:

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability/(Asset) (c) = (a) - (b)
Balance at June 30, 2022 (MD 6/30/2021)	\$ 5,622,905	\$ 6,969,651	\$ (1,346,746)
Changes recognized for the measurement period:			
Service cost	210,900	-	210,900
Interest	316,688	(876,326)	1,193,014
Contributions - employer	-	68,080	(68,080)
Net investment income	-	-	-
Changes in assumptions	-	-	-
Benefit payments	(441,466)	(441,466)	-
Administrative expense	-	(1,761)	1,761
Net changes	<u>86,122</u>	<u>(1,251,473)</u>	<u>1,337,595</u>
Balance at June 30, 2023 (MD 6/30/2022)	<u>\$ 5,709,027</u>	<u>\$ 5,718,178</u>	<u>\$ (9,151)</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:

1% Decrease	4.75%
Net OPEB Liability	\$ 331,835
Current Discount Rate	5.75%
Net OPEB Liability (Asset)	\$ (9,151)
1% Increase	6.75%
Net OPEB Liability (Asset)	\$ (325,416)

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:

1% Decrease	6.50%
Net OPEB Liability	\$ (505,743)
Current Discount Rate	7.50%
Net OPEB Liability (Asset)	\$ (9,151)
1% Increase	8.50%
Net OPEB Liability (Asset)	\$ 559,768

Vallecitos Water District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 11 – Other Post-Employment Benefits (OPEB) (Continued)

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. Net difference between projected and actual earnings on OPEB plan investments are amortized over five years, all other deferred items are amortized over the expected average remaining service lifetime of plan members.

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

For the fiscal year ended June 30, 2023, the District recognized OPEB expense of \$238,670. At June 30, 2023, the District reported deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	\$ 160,736	\$ -
Differences between actual and expected experience	71,704	(341,966)
Change in assumptions	274,185	-
Net differences between projected and actual earnings on plan investments	511,895	-
Total	\$ 1,018,520	\$ (341,966)

The \$160,736 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2022 measurement date will be recognized as a reduction of the net OPEB (asset) liability during the fiscal year ending June 30, 2024. Other amounts reported as deferred outflows of resources related to OPEB will be recognized as expense as follows:

Year Ending June 30,	Amount
2024	\$ 89,878
2025	98,295
2026	91,448
2027	247,313
2028	(11,116)
Thereafter	-
Total	\$ 515,818

Vallecitos Water District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 12 – 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, 2023, 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 \$55,000,000.

Auto Liability: Includes owned automobiles, non-owned automobiles, and hired automobiles with coverage limits of \$55,000,000.

Public Officials’ Liability: Includes errors and omissions with coverage limits of \$55,000,000.

Cyber Liability: Includes cyber security with coverage limits of \$5 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 \$4,000,000 for Employer’s Liability Coverage, subject to the terms, conditions and exclusions as provided in the Certificate of Coverage.

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

Vallecitos Water District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 13 – 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 at June 30, 2023:

Project Name	Total Approved Contract(s)	Construction Costs to Date	Remaining Obligation
16-Inch Emergency Bypass Pipeline Rehab	\$ 1,696,000	\$ 398,672	\$ 1,297,328
Palos Vista PS Motor Starters Upgrade	148,800	44,122	104,678
Total	\$ 1,844,800	\$ 442,794	\$ 1,402,006

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.

Note 14 – Prior Period Adjustments

As described in Note 1P to the financial statements, the District changed accounting policies related to Subscription-Based Information Technology Arrangements (SBITAs) by adopting Statement of Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements*, in the fiscal year 2023. The District restated 2022 balances as follows:

Net position at July 1, 2022 as previously reported	\$ 313,981,823
Restatement to implement GASB Statement No. 96	7,901
Total restatement	7,901
Net position at July 1, 2022 as restated	\$ 313,989,724

	Originally Reported	Adjustments	As Restated
Subscription assets	\$ -	\$ 72,320	\$ 72,320
Accumulated amortization on subscription assets	-	(16,071)	(16,071)
Subscription liabilities	-	(48,348)	(48,348)
Total adjustments		7,901	
Net position	\$ 313,981,823	\$ 7,901	\$ 313,989,724

	Originally Reported	Adjustments	As Restated
Interest revenues	\$ 930,430	\$ 1,028	\$ 931,458
Information technology expense	1,516,078	(22,944)	1,493,134
Depreciation and amortization expense	10,168,840	16,071	10,184,911
Total adjustments		(7,901)	
Net position	\$ 313,981,823	\$ 7,901	\$ 313,989,724

REQUIRED SUPPLEMENTARY INFORMATION

Vallecitos Water District
Required Supplementary Information (Unaudited)
Schedule of Proportionate Share of the Net Pension Liability
For the Year Ended June 30, 2023

	Last Ten Fiscal Years*								
	2023	2022	2021	2020	2019	2018	2017	2016	2015
Miscellaneous & PEPRA Plan									
Proportion of the net pension liability (asset)	0.46073%	0.45818%	0.45798%	0.45705%	0.45776%	0.45080%	0.43637%	0.41797%	0.40328%
Proportionate share of the net pension liability (asset)	\$10,957,862	\$(4,538,678)	\$11,622,731	\$18,225,684	\$17,371,075	\$17,770,848	\$15,158,897	\$11,466,898	\$9,967,048
Covered payroll	\$ 9,912,544	\$ 9,422,719	\$ 9,100,866	\$ 9,079,529	\$ 8,696,329	\$ 9,261,146	\$ 8,582,083	\$ 8,295,604	\$7,801,034
Proportionate share of the net pension liability (asset) as a percentage of its covered payroll	110.55%	-48.17%	127.71%	200.73%	199.75%	191.89%	176.63%	138.23%	127.77%
Proportionate share of the fiduciary net position as a percentage of the total pension liability (asset)	88.91%	90.49%	77.71%	77.73%	77.69%	75.39%	76.65%	81.35%	83.03%

Notes to Schedule:

Benefit Changes:

There were no changes in benefits.

Changes in Assumptions:

From fiscal year June 30, 2015 to June 30, 2016:

GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50% used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

From fiscal year June 30, 2016 to June 30, 2017:

There were no changes in assumptions.

From fiscal year June 30, 2017 to June 30, 2018:

The discount rate was reduced from 7.65% to 7.15%.

From fiscal year June 30, 2018 to June 30, 2022:

There were no changes in assumptions.

From fiscal year June 30, 2022 to June 30, 2023:

The discount rate was reduced from 7.15% to 6.90%.

* - Historical information is only presented for periods from GASB 68 implementation. Future years will be displayed up to ten years as information becomes available.

Vallecitos Water District
Required Supplementary Information (Unaudited)
Schedule of Contributions – Defined Benefit Pension Plan
For the Year Ended June 30, 2023

	Last Ten Fiscal Years*								
	2023	2022	2021	2020	2019	2018	2017	2016	2015
Contractually required contribution (actuarially determined)	\$ 2,169,828	\$ 1,988,898	\$ 2,157,962	\$ 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 contributions	(2,169,828)	(1,988,898)	(6,184,962)	(10,394,064)	(2,878,512)	(1,765,087)	(1,690,724)	(1,465,868)	(1,304,486)
Contribution deficiency (excess)	\$ -	\$ -	\$ (4,027,000)	\$ (8,054,000)	\$ (1,668,001)	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 9,912,544	\$ 9,422,719	\$ 9,100,866	\$ 9,079,529	\$ 8,696,329	\$ 9,261,146	\$ 8,582,083	\$ 8,295,604	\$ 7,801,034
Contributions as a percentage of covered payroll	21.89%	21.11%	67.96%	114.48%	33.10%	19.06%	19.70%	17.67%	16.72%
Notes to Schedule:									
Valuation Date	6/30/2021	6/30/2020	6/30/2019	6/30/2018	6/30/2017	6/30/2016	6/30/2015	6/30/2014	6/30/2013
Methods and Assumptions Used to Determine Contribution Rates:									
Single and agent employers	Entry age**								
Amortization method	Level percentage of payroll, closed**								
Asset valuation method	Fair value***								
Inflation	2.3%**								
Salary increases	Depending on age and service**								
Investment rate of return	7.50%, net of pension plan investment expense, including inflation**								
Retirement age	50 (3%@60), 52 years (2%@62)								

* Historical information is only presented for periods from GASB 68 implementation. Future years will be displayed up to ten years as information becomes available.

** The valuation for June 30, 2013, 2014, and 2015 (applicable to fiscal years ended June 30, 2015, 2016, and 2017 respectively) included the same actuarial assumptions.

*** The valuation for June 30, 2013 (applicable to fiscal year ended June 30, 2015) valued assets using a 15 Year Smoothed Market method. The market value of asset valuation method was utilized for the June 30, 2014, 2015, 2016, 2017, 2018, and 2019 valuations (applicable to fiscal years ended June 30, 2016, 2017, 2018, 2019, 2020, 2021, and 2022, respectively).

Vallecitos Water District
Required Supplementary Information (Unaudited)
Schedule of Changes in the Net OPEB Liability (Asset) and Related Ratios
For the Year Ended June 30, 2023

	Last Ten Fiscal Years*					
	2023	2022	2021	2020	2019	2018
Total OPEB liability						
Service cost	\$ 210,900	\$ 219,055	\$ 213,192	\$ 186,376	\$ 180,948	\$ 170,304
Interest on the total OPEB liability	316,688	340,315	336,702	329,053	336,647	341,526
Difference between actual and expected experience	-	(348,116)	118,471	(213,148)	-	-
Changes in assumptions	-	82,060	-	458,911	-	-
Changes in benefit terms	-	-	-	-	-	-
Benefit payments	(441,466)	(488,240)	(592,792)	(457,180)	(569,507)	(631,560)
Net change in the total OPEB liability	86,122	(194,926)	75,573	304,012	(51,912)	(119,730)
Total OPEB liability - beginning	5,622,905	5,817,831	5,742,258	5,438,246	5,490,158	5,609,888
Total OPEB liability - ending	\$ 5,709,027	\$ 5,622,905	\$ 5,817,831	\$ 5,742,258	\$ 5,438,246	\$ 5,490,158
Plan fiduciary net position						
Contributions - employer	\$ 68,080	\$ 118,204	\$ 592,792	\$ 457,180	\$ 2,229,507	\$ 631,560
Net investment income (loss)	(876,326)	1,201,310	315,336	382,495	227,493	240,481
Benefit payments	(441,466)	(488,240)	(592,792)	(457,180)	(569,507)	(631,560)
Administrative expense	(1,761)	(2,226)	(2,875)	(1,171)	(6,897)	(1,753)
Net change in plan fiduciary net position	(1,251,473)	829,048	312,461	381,324	1,880,596	238,728
Plan fiduciary net position - beginning	6,969,651	6,140,603	5,828,142	5,446,818	3,566,222	3,327,494
Plan fiduciary net position - ending	\$ 5,718,178	\$ 6,969,651	\$ 6,140,603	\$ 5,828,142	\$ 5,446,818	\$ 3,566,222
Net OPEB liability (asset) - ending	\$ (9,151)	\$ (1,346,746)	\$ (322,772)	\$ (85,884)	\$ (8,572)	\$ 1,923,936
Plan fiduciary net position as a percentage of the total OPEB liability	100.16%	123.95%	105.55%	101.50%	100.16%	64.96%
Covered-employee payroll **	\$ 5,369,699	\$ 5,795,026	\$ 6,264,615	\$ 6,379,207	\$ 6,593,511	\$ 6,883,715
Net OPEB liability (asset) as a percentage of covered-employee payroll	-0.17%	-23.24%	-5.15%	-1.35%	-0.13%	27.95%

Notes to Schedule:

Changes in assumptions:

The discount rate of 5.75% was used in the most recent valuation. The interest rate used in the prior valuation was 5.75% net of expenses. Historic 15 real rates of return for each asset class along with the assumed long-term inflation assumption used to set the discount rate.

Payroll assumption for the purpose of calculating service cost was 2.75% for the measurement period ended June 30, 2022. The assumption in the

* Historical information is only presented for periods from GASB 75 implementation. Future years will be displayed up to ten years as information becomes available.

** The District's contributions are not determined as a measure of pay and therefore covered-employee payroll has been disclosed.

Vallecitos Water District
Required Supplementary Information (Unaudited)
Schedule of Contributions - OPEB
For the Year Ended June 30, 2023

Last Ten Fiscal Years*

	2023	2022	2021	2020	2019	2018
Actuarially determined contribution	\$ 612,533	\$ 602,478	\$ 517,523	\$ 489,598	\$ 504,000	\$ 631,560
Contributions in relation to the actuarially determined contribution	(612,533)	(602,478)	(517,523)	(489,598)	(504,000)	(2,100,518)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,468,958)
Covered-employee payroll	\$ 5,114,748	\$ 5,369,699	\$ 5,795,026	\$ 6,264,615	\$ 6,379,207	\$ 6,593,511
Contributions as a percentage of covered-employee payroll	11.98%	11.22%	8.93%	7.82%	7.90%	31.86%

Notes to Schedule:

Actuarial methods and assumptions used to set the actuarially determined contributions for fiscal year 2023 were from the June 30, 2022 actuarial valuation.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed over a rolling 15-year period
Asset valuation method	Fair value
Inflation	2.50%
Salary increases	2.75% per annum, in aggregate
Investment rate of return	5.75%, assuming actuarially determined contributions funded into CERBT Investment Strategy 2
Retirement age	Tier 1 employees - 2.0% @ 60 and Tier 2 employees - 3.0% @ 60, based on 2017 CalPERS Experience Study
Mortality	Based on 2017 CalPERS Retiree Mortality for All Employees

* Historical information is only presented for periods from GASB 75 implementation. Future years will be displayed up to ten years as information becomes available.

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STATISTICAL SECTION



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Statistical Section

Governmental Accounting Standards Board (GASB) Statement No. 44, *Economic Condition Reporting: The Statistical Section*, requires statistical information as part of the Annual Comprehensive Financial Report (ACFR). 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

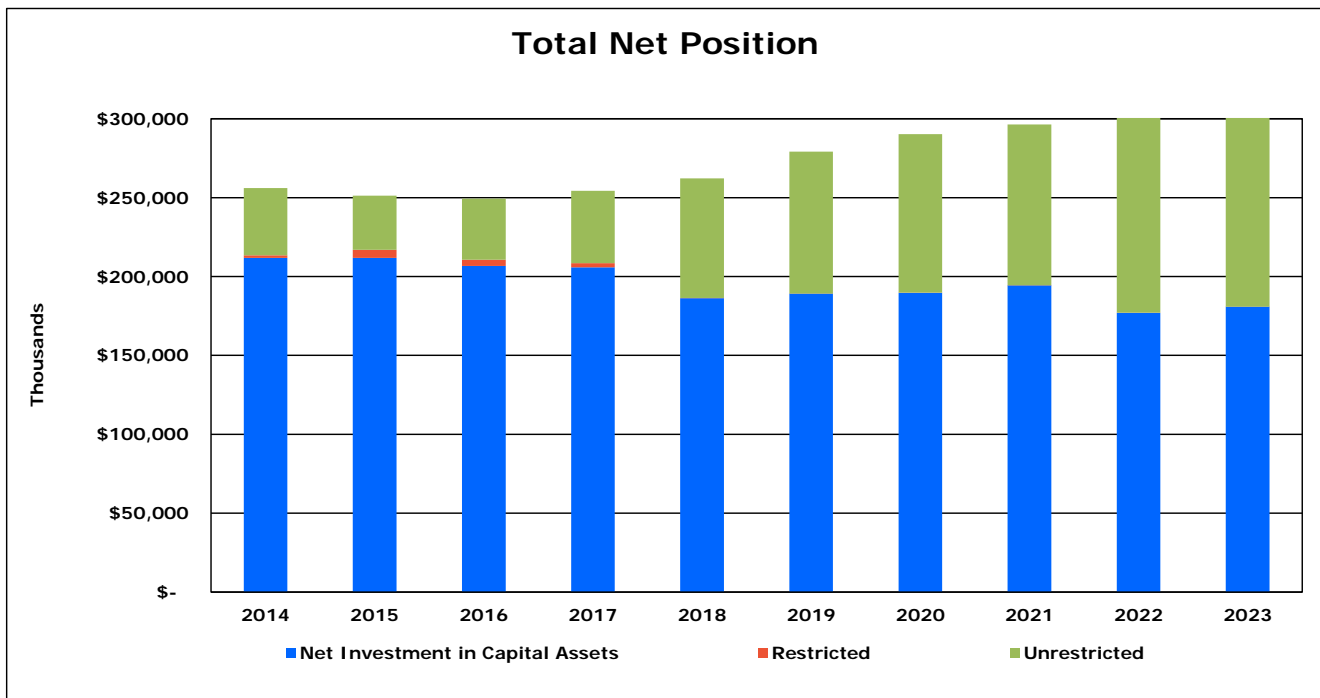
12 - 14

15 - 16

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

	Fiscal Year ended June 30				
	2023	2022	2021	2020	2019
Net Investment in Capital Assets	\$ 180,814,979	\$ 176,920,414	\$ 194,396,649	\$ 189,626,103	\$ 189,150,329
Restricted	116,536	120,798	105,486	78,979	68,620
Unrestricted	139,325,586	136,948,512	101,927,029	100,483,690	89,960,646
Total Net Position	\$ 320,257,101	\$ 313,989,724	\$ 296,429,164	\$ 290,188,772	\$ 279,179,595

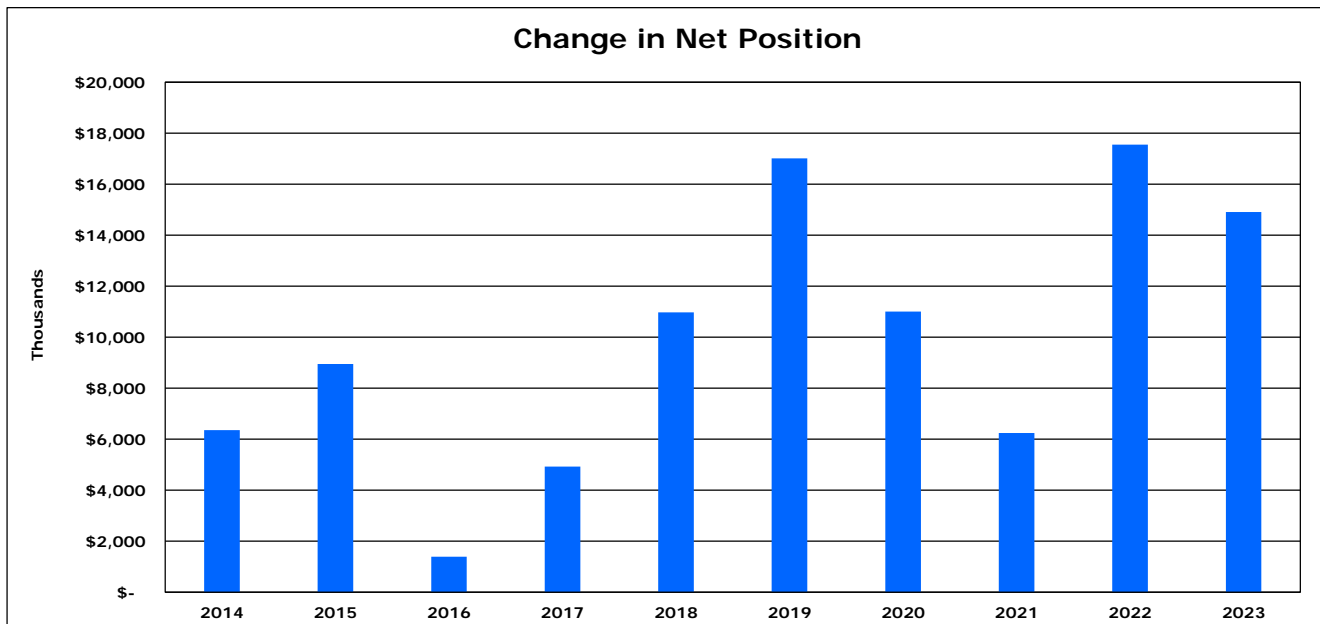
	2018	2017	2016	2015	2014
Net Investment in Capital Assets	\$ 186,328,145	\$ 205,840,028	\$ 206,775,864	\$ 211,866,038	\$ 211,842,759
Restricted	74,957	2,578,677	3,906,413	5,117,540	1,645,172
Unrestricted	75,758,717	45,901,052	38,710,870	34,287,556	42,620,873
Total Net Position	\$ 262,161,819	\$ 254,319,757	\$ 249,393,147	\$ 251,271,134	\$ 256,108,804



Source: Vallecitos Water District

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

	Fiscal Year ended June 30				
	2023	2022	2021	2020	2019
Total Operating Revenues	\$ 66,287,562	\$ 69,406,749	\$ 69,933,967	\$ 64,885,542	\$ 64,180,158
Total Operating Expenses (1)	74,450,152	64,449,299	74,174,247	65,850,521	62,562,110
Operating Income (Loss)	(8,162,590)	4,957,450	(4,240,280)	(964,979)	1,618,048
Total Non-Operating Revenues/(Expenses), Net	2,397,767	1,309,298	2,444,344	3,548,303	3,844,297
Capital Contributions	12,032,200	11,293,812	8,036,328	8,425,853	11,555,431
Change in Net Position	6,267,377	17,560,560	6,240,392	11,009,177	17,017,776
Total Net Position, Beginning of Year	313,981,823	296,429,164	290,188,772	279,179,595	262,161,819
Prior year adjustment/equity adjustment	7,901	-	-	-	-
Total Net Position, End of Year	\$ 320,257,101	\$ 313,989,724	\$ 296,429,164	\$ 290,188,772	\$ 279,179,595
	2018	2017	2016	2015	2014
Total Operating Revenues	\$ 64,135,261	\$ 57,422,074	\$ 51,840,554	\$ 56,026,623	\$ 55,282,649
Total Operating Expenses (1)	63,655,946	58,971,143	52,647,405	51,491,469	52,707,863
Operating Income (Loss)	479,315	(1,549,069)	(806,851)	4,535,154	2,574,786
Total Non-Operating Revenues/(Expenses), Net	807,851	(285,011)	(4,884,002)	(3,996,773)	779,700
Capital Contributions	9,688,731	6,760,690	7,083,887	8,414,260	3,002,900
Change in Net Position	10,975,897	4,926,610	1,393,034	8,952,641	6,357,386
Total Net Position, Beginning of Year	254,319,757	249,393,147	251,271,134	256,108,804	249,751,418
Prior year adjustment/equity adjustment	(3,133,835)	-	(3,271,021)	(13,790,311)	-
Total Net Position, End of Year	\$ 262,161,819	\$ 254,319,757	\$ 249,393,147	\$ 251,271,134	\$ 256,108,804



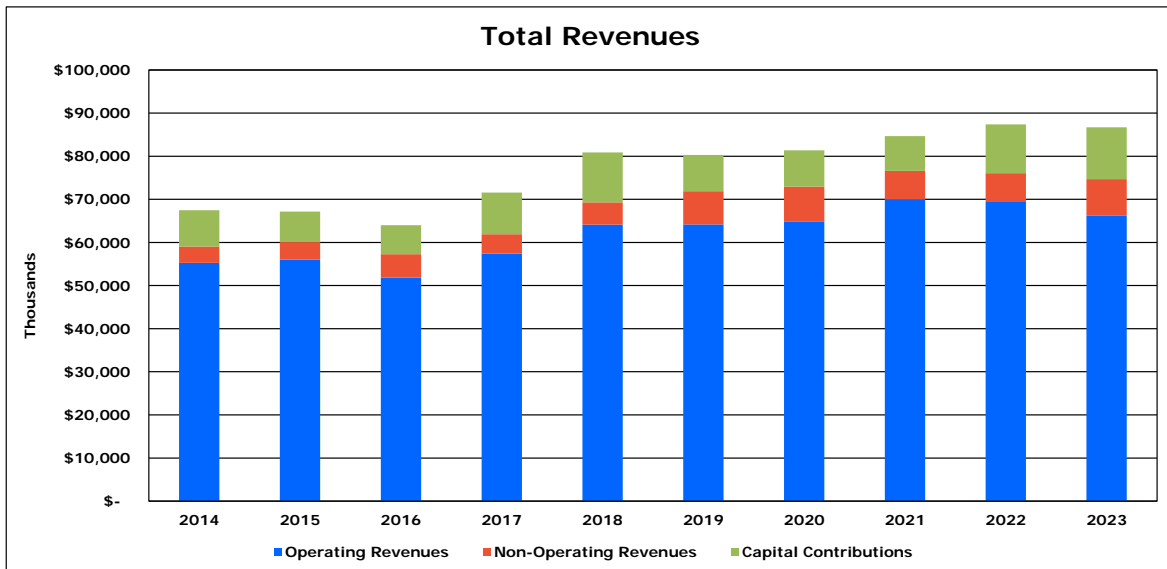
Source: Vallecitos Water District

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				
	2023	2022	2021	2020	2019
Water Sales	\$ 27,854,470	\$ 31,505,160	\$ 32,717,315	\$ 28,407,203	\$ 27,339,732
Wastewater Service Charges	18,696,469	18,441,073	18,151,779	18,012,258	18,077,717
Ready-To-Serve Charges	15,172,712	14,735,282	14,640,396	14,275,830	13,931,114
Reclaimed Water Sales	3,293,684	2,801,135	3,007,732	2,663,436	2,725,110
Pumping Charges	349,951	407,955	445,178	394,029	302,676
Other Services and Abatements	920,276	1,516,144	971,567	1,132,786	1,803,809
Total Operating Revenues	66,287,562	69,406,749	69,933,967	64,885,542	64,180,158
Property Taxes	6,198,160	5,655,563	5,396,663	5,257,751	4,975,086
Investment Income, net of FMV Adjustments	1,971,604	-	171,762	2,724,303	2,658,034
Annexation Fees	187,837	949,562	1,062,459	1,757	-
Other	57,002	76,116	55,153	95,404	67,877
Total Non-Operating Revenues	8,414,603	6,681,241	6,686,037	8,079,215	7,700,997
Capital Contributions	12,032,200	11,293,813	8,036,238	8,425,853	8,425,853
Total Revenues	\$ 86,734,365	\$ 87,381,803	\$ 84,656,242	\$ 81,390,610	\$ 80,307,008

	2018	2017	2016	2015	2014
	Water Sales	\$ 29,380,737	\$ 23,180,452	\$ 18,797,274	\$ 23,399,045
Wastewater Service Charges	18,000,233	17,503,448	17,286,888	16,817,149	15,128,763
Ready-To-Serve Charges	13,721,328	13,850,592	13,602,800	12,958,338	11,484,584
Reclaimed Water Sales	1,761,559	1,711,156	1,069,074	1,725,650	1,533,203
Pumping Charges	311,817	171,186	138,870	170,806	192,427
Other Services and Abatements	959,587	1,005,240	945,648	955,635	912,212
Total Operating Revenues	64,135,261	57,422,074	51,840,554	56,026,623	55,282,649
Property Taxes	4,446,432	4,162,701	3,830,522	3,460,439	3,077,966
Investment Income, net of FMV Adjustments	602,036	191,724	477,589	345,131	378,608
Annexation Fees	25,964	39,969	1,105,819	117,852	288,580
Other	100,252	77,620	-	147,870	40,935
Total Non-Operating Revenues	5,174,684	4,472,014	5,413,930	4,071,292	3,786,089
Capital Contributions	11,555,431	9,688,731	6,760,690	7,083,887	8,414,260
Total Revenues	\$ 80,865,376	\$ 71,582,819	\$ 64,015,174	\$ 67,181,802	\$ 67,482,998



Source: Vallecitos Water District

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

	Fiscal Year ended June 30				
	2023	2022	2021	2020	2019
Purchased Water	\$ 32,318,877	\$ 33,300,987	\$ 31,750,694	\$ 28,874,402	\$ 28,535,460
General and Administrative	8,001,116	4,505,293	7,869,762	6,964,466	5,326,781
Meadowlark Wastewater Treatment Plant	3,456,343	2,551,888	3,207,529	2,981,824	3,091,684
Encina Disposal	3,436,547	2,964,671	2,946,474	2,994,404	2,512,824
Collection and Conveyance	3,122,895	2,024,857	3,400,346	2,440,911	2,237,130
Engineering	3,180,548	2,157,043	4,164,526	2,878,442	2,740,725
Transmission and Distribution	2,395,205	1,519,562	2,144,259	1,870,778	2,464,824
Customer Accounts	1,385,070	807,437	1,651,127	1,262,706	1,161,704
Information Technology	1,930,924	1,493,134	2,127,695	1,826,485	1,587,704
Meter Reading and Repairs	922,551	545,335	1,188,349	826,259	664,213
Building and Grounds	1,189,476	888,658	930,470	609,951	629,659
Equipment and Vehicles	612,508	393,328	590,661	503,306	418,315
Other Water Operating Expenses	527,071	321,431	581,828	454,717	389,732
Other Wastewater Operating Expenses	768,364	525,215	867,908	673,873	548,495
Water Quality and Treatment	821,261	580,515	750,997	714,930	568,416
Tanks and Reservoirs	526,918	307,858	361,292	375,385	400,706
Pumping	1,107,762	883,974	885,055	808,239	866,870
Overhead Absorption	(1,798,937)	(1,506,798)	(1,278,052)	(1,233,511)	(1,309,635)
Depreciation and Amortization	10,545,653	10,184,911	10,033,327	10,022,954	9,726,503
Total Operating Expenses	74,450,152	64,449,299	74,174,247	65,850,521	62,562,110
Change in Encina Joint Venture Assets	3,705,951	461,926	2,413,434	2,527,838	1,728,365
Interest Expense	2,310,885	2,552,562	1,828,259	2,003,074	2,128,335
Other	-	2,357,456	-	-	-
Total Non-Operating Expenses	6,016,836	5,371,944	4,241,693	4,530,912	3,856,700
Total Expenses	\$ 80,466,988	\$ 69,821,243	\$ 78,415,940	\$ 70,381,433	\$ 66,418,810

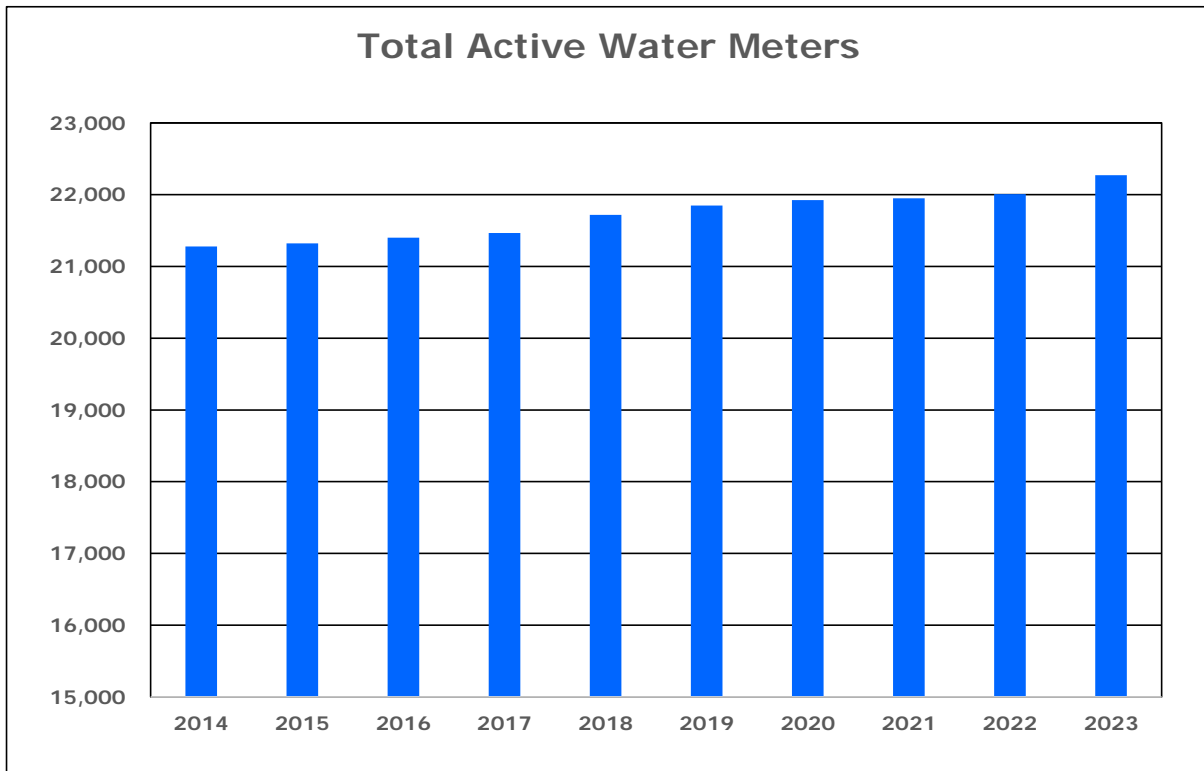
	2018	2017	2016	2015	2014
	Purchased Water	\$ 30,678,093	\$ 27,392,003	\$ 22,190,912	\$ 22,332,619
General and Administrative	5,940,142	5,637,471	5,851,489	5,197,584	5,173,986
Meadowlark Wastewater Treatment Plant	2,827,395	2,993,914	2,750,187	2,930,822	2,993,578
Encina Disposal	2,555,168	2,529,715	2,485,765	2,493,629	2,450,330
Collection and Conveyance	1,917,754	1,896,688	1,756,927	1,878,791	1,632,347
Engineering	2,497,803	1,988,197	1,889,037	1,939,139	1,698,699
Transmission and Distribution	1,565,815	1,747,767	1,195,405	1,279,927	1,154,882
Customer Accounts	1,092,194	958,266	904,015	914,372	825,805
Information Technology	1,490,217	1,320,845	1,347,023	1,045,315	865,655
Meter Reading and Repairs	712,760	625,576	713,164	661,883	614,784
Building and Grounds	659,143	629,850	546,043	529,042	600,159
Equipment and Vehicles	498,547	471,380	485,403	566,737	443,827
Other Water Operating Expenses	519,857	446,430	503,378	363,922	396,935
Other Wastewater Operating Expenses	558,212	614,248	539,112	545,551	495,999
Water Quality and Treatment	651,495	604,844	522,191	489,034	434,191
Tanks and Reservoirs	364,239	312,604	371,156	279,886	308,031
Pumping	839,884	612,069	531,774	436,432	352,823
Overhead Absorption	(1,337,347)	(1,236,032)	(1,125,180)	(1,241,173)	(1,040,244)
Depreciation and Amortization	9,624,575	9,425,308	9,189,604	8,847,957	9,160,497
Total Operating Expenses	63,655,946	58,971,143	52,647,405	51,491,469	52,707,863
Change in Encina Joint Venture Assets	2,151,640	2,603,384	6,789,867	5,559,372	334,093
Interest Expense	2,215,193	2,153,641	2,512,597	2,508,693	2,672,296
Other	-	-	995,468	-	-
Total Non-Operating Expenses	4,366,833	4,757,025	10,297,932	8,068,065	3,006,389
Total Expenses	\$ 68,022,779	\$ 63,728,168	\$ 62,945,337	\$ 59,559,534	\$ 55,714,252

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				
	2023	2022	2021	2020	2019
3/4" & 5/8"	19,734	19,520	19,486	19,473	19,441
1"	1,112	1,098	1,083	1,085	1,067
1-1/2"	794	770	771	753	735
2"	561	549	545	548	539
3" and larger	69	69	66	66	66
Total	22,270	22,006	21,951	21,925	21,848

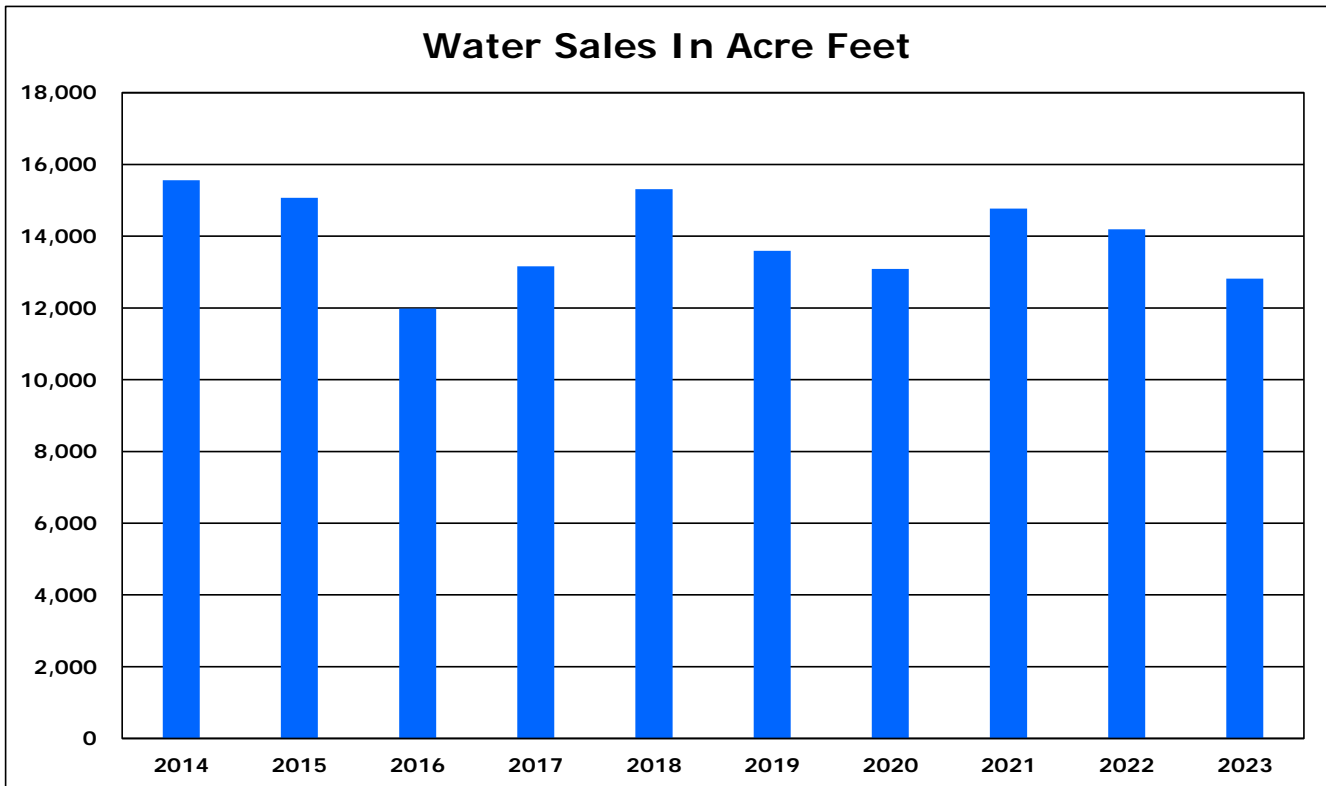
Meter Size	2018	2017	2016	2015	2014
3/4" & 5/8"	19,353	19,163	19,144	19,086	19,087
1"	1,057	1,030	1,003	992	973
1-1/2"	716	690	685	681	674
2"	528	516	504	498	496
3" and larger	65	65	65	65	48
Total	21,719	21,464	21,401	21,322	21,278



Source: Vallecitos Water District

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

Year	Acre Feet	
	Water Purchases	Water Sales
2023	13,259	12,818
2022	14,948	14,189
2021	15,542	14,771
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



Source: Vallecitos Water District

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

	Fiscal Year ended June 30									
	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Non-Agricultural Customers										
Tier 1	\$ 4.04	\$ 3.77	\$ 3.77	\$ 3.77	\$ 3.66	\$ 3.38	\$ 3.08	\$ 2.62	\$ 2.62	\$ 3.41
Tier 2	5.21	4.75	4.75	4.75	4.60	4.43	4.12	3.66	3.66	4.26
Tier 3	8.92	9.18	9.18	9.18	8.87	8.47	5.33	4.87	4.87	5.12
Tier 4	-	-	-	-	-	-	7.41	6.95	6.95	-
Agricultural Customers										
Participating	4.46	3.91	3.91	3.91	3.76	3.49	3.25	2.93	2.93	2.76
Non-Participating	5.21	4.75	4.75	4.75	4.60	4.43	4.12	3.66	3.66	3.41

Source: Vallecitos Water District

Note: All customers, other than Agricultural (AG) customers, are charged tiered water rates based on their meter size and usage. AG customers are charged a Tier 2 rates and fall into two categories: participating and non-participating. Participating AG 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									
	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Water Ready-to-Serve Charge										
5/8"	\$ 37.99	\$ 36.55	\$ 36.55	\$ 36.55	\$ 35.32	\$ 33.25	\$ 31.42	\$ 31.42	\$ 29.29	\$ 27.16
3/4"	37.99	36.55	36.55	36.55	36.52	36.52	36.52	36.52	35.60	34.68
1"	55.44	53.31	53.31	53.31	55.29	5,529.00	55.29	55.29	55.29	55.29
1 1/2"	142.64	137.11	137.11	137.11	130.67	120.63	110.59	110.59	110.59	110.59
2"	229.85	220.91	220.91	220.91	214.68	194.35	178.11	178.11	178.11	178.11
3"	351.92	338.23	338.23	338.23	356.22	356.22	356.22	356.22	356.22	356.22
4"	526.32	505.83	505.83	505.83	552.94	552.94	552.94	552.94	552.94	552.94
6"	1,049.53	1,008.63	1,008.63	1,008.63	1,105.88	1,105.88	1,105.88	1,105.88	1,105.88	1,105.88
10"	2,444.74	2,349.43	2,349.43	2,349.43	2,549.36	2,549.36	2,549.36	2,549.36	2,549.36	2,549.36
Multiple Units (above 1st unit)	10.23	10.06	10.06	10.06	11.18	11.18	18.26	18.26	16.35	14.43
Temporary Construction Meter	338.23	338.23	338.23	338.23	257.33	230.91	204.48	204.48	172.52	140.57
Fire Line										
Per diameter inch per service	\$ 8.23	\$ 7.55	\$ 7.55	\$ 7.55	\$ 5.87	\$ 5.87	\$ 5.87	\$ 5.87	\$ 5.00	\$ 4.13
Sewer Monthly Service Charge										
Residential - Single Family	\$ 38.99	\$ 38.99	\$ 38.99	\$ 38.99	\$ 38.99	\$ 38.99	\$ 38.99	\$ 38.99	\$ 37.45	\$ 35.91
Residential - Multi-Family	35.09	35.09	35.09	35.09	35.09	35.09	35.09	35.09	33.71	32.32
Mobile Homes	31.19	31.19	31.19	31.19	31.19	31.19	31.19	31.19	29.96	28.73
Non-residential (per 100 cu ft)	4.96	4.96	4.96	4.96	4.96	4.96	4.96	4.96	4.77	4.57
Church/Theater per seat	0.31	0.31	0.31	0.31	0.31	0.31	0.31	0.31	0.30	0.32
Comm/Industrial per employee	3.51	3.51	3.51	3.51	3.51	3.51	3.51	3.51	3.37	3.23
Hotel/Motel per living unit	19.50	19.50	19.50	19.50	19.50	19.50	19.50	19.50	18.73	18.39
Laundromat per machine	32.44	32.44	32.44	32.44	32.44	32.44	32.44	32.44	31.16	29.87
Restaurant per seat	2.34	2.34	2.34	2.34	2.34	2.34	2.34	2.34	2.25	2.31
Schools per student	0.78	0.78	0.78	0.78	0.78	0.78	0.78	0.78	0.75	0.71
Minimum charge	24.56	24.56	24.56	24.56	24.56	24.56	24.56	24.56	23.59	22.63

Source: Vallecitos Water District

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

Fiscal Year Ended June 30, 2023

Customer Name	Usage (AF)	% of Water Sold
City Of San Marcos	385.4	3.01%
Cal State University San Marcos	171.5	1.34%
Altman Specialty Plants	137.7	1.07%
San Elijo Hills Comm Assn	109.2	0.85%
San Marcos Unified Sch Dist	104.7	0.82%
San Marcos Prominence Inc	102.9	0.80%
Meadowridge Hoa	90.6	0.71%
Meadowridge HOA	87.8	0.68%
Coronado Ranch HOA	87.3	0.68%
Shea Homes	69.1	0.54%
Total Top Ten Customers	1,346.1	10.50%
Other Customers	11,471.5	89.50%
Total Water Billed	12,817.6	100.00%

Fiscal Year Ended June 30, 2014

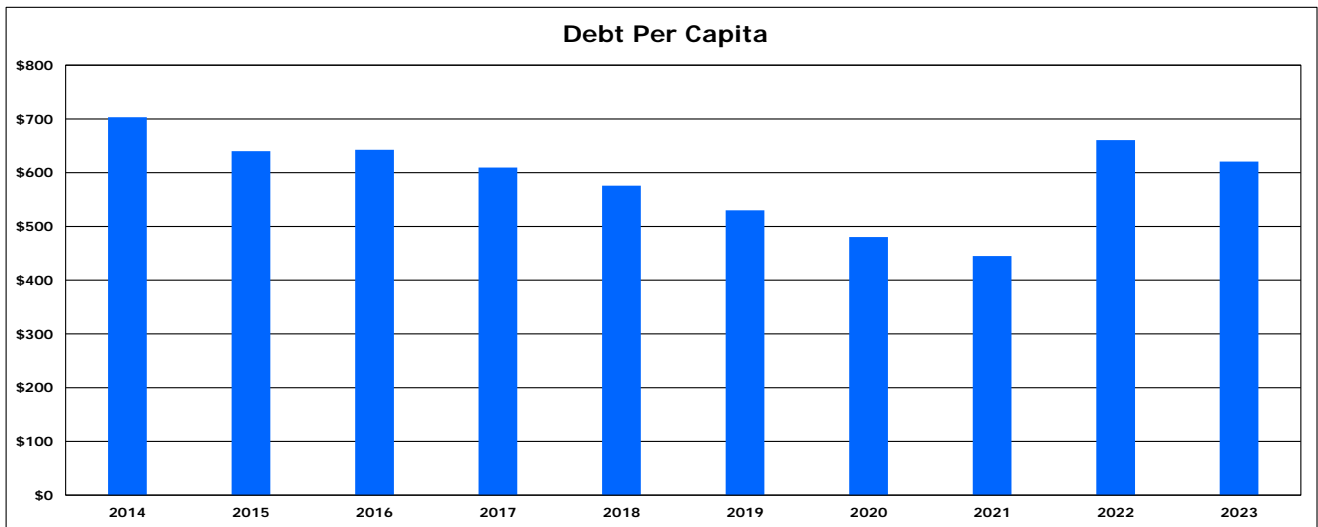
Customer Name	Usage (AF)	% of Water Sold
City Of San Marcos	641.1	4.12%
San Elijo Hills Comm Assn	206.2	1.33%
Meadowridge HOA	191.5	1.23%
Bonsall Farms	169.1	1.09%
San Marcos Unified Sch Dist	143.7	0.92%
Meadowridge Hoa	141.3	0.91%
Continental Mgmt Co	120.7	0.78%
Palomar Estates West	105.4	0.68%
Coronado Ranch HOA	103.1	0.66%
Coronado Ranch Hoa	90.7	0.58%
Total Top Ten Customers	1,912.8	12.32%
Other Customers	13,644.4	87.68%
Total Water Billed	15,557.2	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	2021A COP	2015 Revenue Refunding Bonds (1)	2012 COP	2008 Bank Loan	2005 Series A COP (1)	Total	Per Capita	Percentage of Personal Income
2023	111,721	\$ -	\$ 28,087,095	\$ 39,064,635	\$ -	\$ 2,200,000	\$ -	\$ 69,351,730	\$ 621	0.85%
2022	110,997	-	28,177,707	41,774,603	772,000	2,600,000	-	73,324,310	661	0.95%
2021	109,900	-	-	44,374,573	1,527,000	3,000,000	-	48,901,573	445	0.67%
2020	109,357	-	-	46,864,542	2,266,000	3,400,000	-	52,530,542	480	0.77%
2019	105,741	-	-	49,249,511	2,991,000	3,800,000	-	56,040,511	530	0.88%
2018	103,233	-	-	51,519,480	3,732,000	4,200,000	-	59,451,480	576	1.00%
2017	103,112	26,460	-	51,884,451	4,434,000	4,600,000	1,910,000	62,854,911	610	1.09%
2016	102,992	73,361	-	52,249,420	5,122,000	5,000,000	3,752,583	66,197,364	643	1.18%
2015	102,871	-	-	-	5,795,000	5,400,000	54,639,475	65,834,475	640	1.29%
2014	97,489	-	-	-	6,455,000	5,800,000	56,314,934	68,569,934	703	1.43%

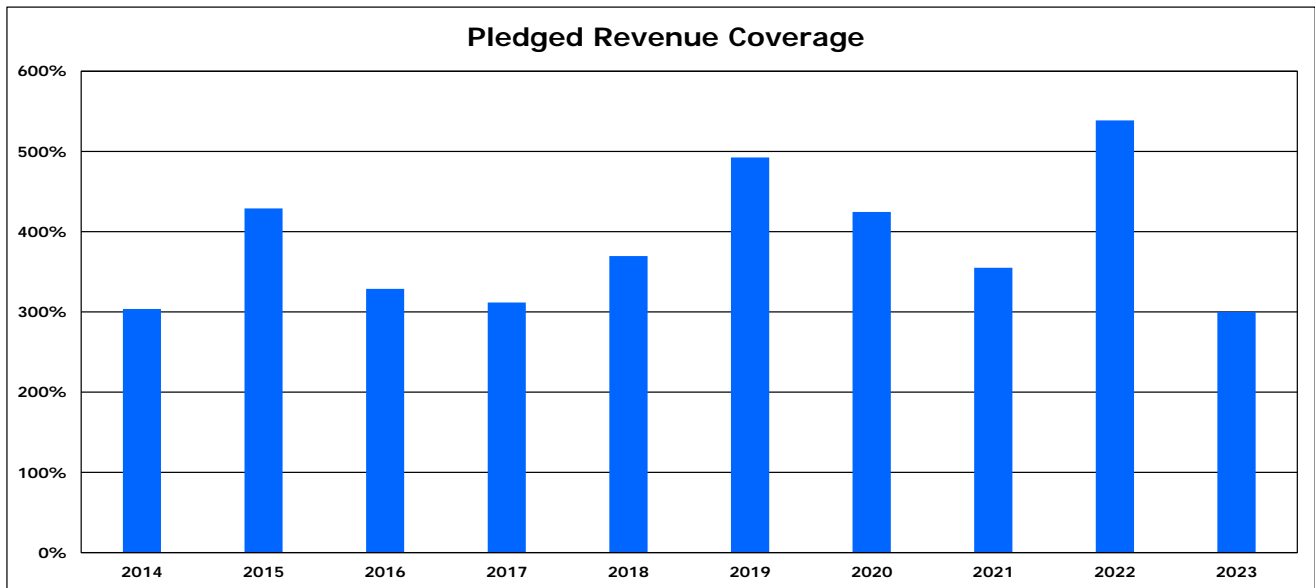


Source:
California Department of Finance
Vallecitos Water District

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	
2023	\$ 82,684,505	\$ 65,703,436	\$ 16,981,069	\$ 3,517,000	\$ 2,143,948	\$ 5,660,948	300%
2022	85,478,254	55,771,186	29,707,068	3,390,000	2,123,780	5,513,780	539%
2021	84,421,806	65,418,972	19,002,834	3,264,000	2,087,448	5,351,448	355%
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%

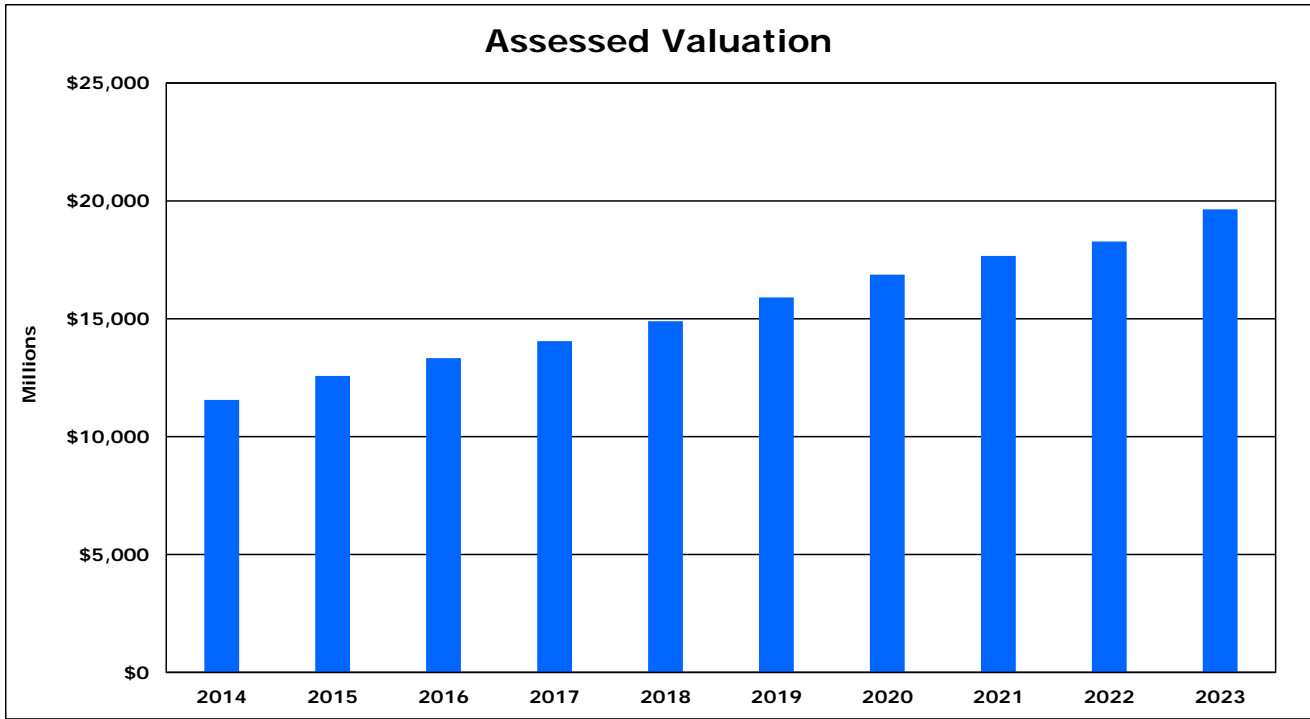


Source:
Vallecitos Water District

- Note:
- (1) Total revenues of the District plus contributed capital.
 - (2) Total operating expenses of the District excluding overhead absorption and depreciation and amortization.
 - (3) Pledged debts include the 2008 Bank Loan, 2021A 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
2023	\$ 19,240,576,852	\$ 394,618,107	\$ 19,635,194,959	7.43%
2022	17,967,980,395	309,343,092	18,277,323,487	3.46%
2021	17,277,797,038	388,503,832	17,666,300,870	4.70%
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%



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
2023	111,721	3.08	3.5%	\$ 90,756	\$ 10,139,351,076
2022	110,997	3.02	7.3%	73,097	8,113,507,630
2021	109,900	3.06	7.0%	70,353	7,731,781,153
2020	109,357	3.21	6.1%	67,011	7,328,095,443
2019	105,741	3.17	3.3%	64,495	6,819,811,879
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

Source:

CALMIS, Employment Development Department (EDD)

U.S. Census Bureau

U.S. Department of Labor Statistics, Bureau of Economic Analysis, Regional Data

U.S. Department of Ag Economic Research

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.

VALLECITOS WATER DISTRICT
TABLE 14 - LARGEST EMPLOYERS IN SAN DIEGO COUNTY
FISCAL YEAR 2023 AND 2014

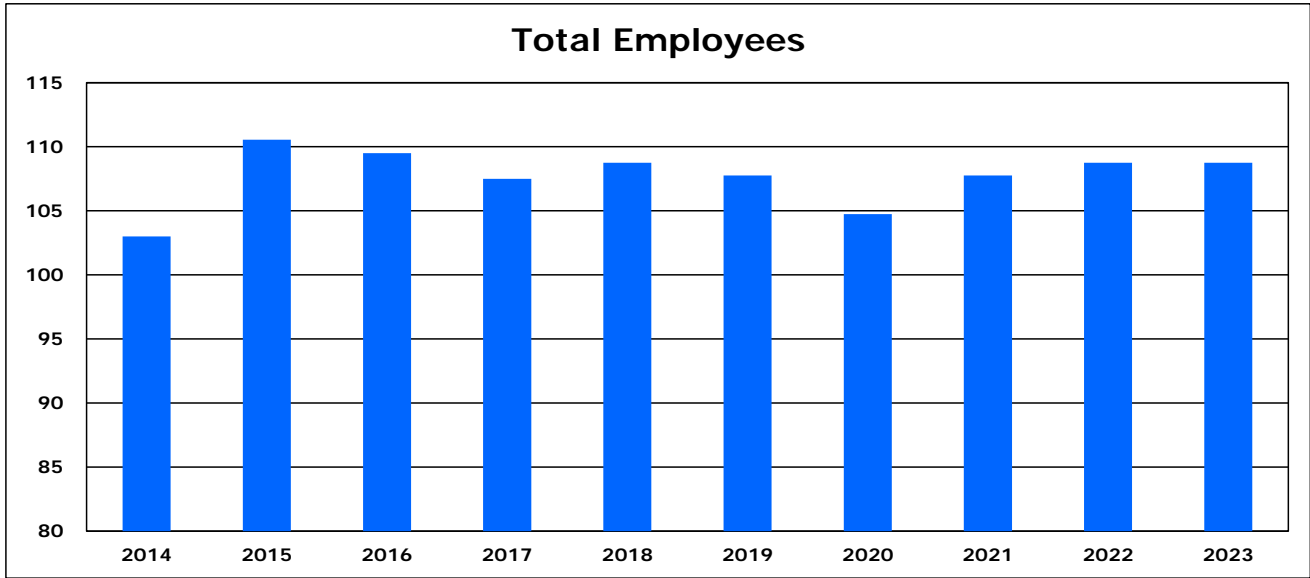
Fiscal Year Ended June 30, 2023		
Employer	# of Employees ⁽¹⁾	% of Total Employment
University of California San Diego	50,491	3.33%
Naval Base San Diego	48,000	3.17%
County of San Diego	25,940	1.71%
Sharp HealthCare	19,000	1.25%
Scripps Health	17,211	1.14%
San Diego Unified School District	13,559	0.89%
City of San Diego	12,829	0.85%
Qualcomm Inc. ⁽²⁾	12,000	0.79%
San Diego State University	10,566	0.70%
Kaiser Permanente San Diego	9,500	0.63%
Total Top Ten Employers	168,605	11.12%
Total Number of Employees in San Diego County		1,515,784

Fiscal Year Ended June 30, 2014		
Employer	# of Employees	% of Total Employment
Naval Base San Diego	30,664	2.19%
University of California San Diego	28,071	2.01%
Sharp HealthCare	15,906	1.14%
County of San Diego	15,727	1.12%
San Diego Unified School District	13,552	0.97%
Qualcomm Inc.	13,524	0.97%
City of San Diego	10,026	0.72%
Kaiser Permanente	8,800	0.63%
SAN DIEGO STATE	8,564	0.61%
UCSD MEDICAL	6,235	0.45%
Total Top Ten Employers	151,069	10.79%
Total Number of Employees in San Diego County		1,399,990

Sources:
Bureau of Labor Statistics
Company Websites
Government Compensation in CA - SD County
Voice of San Diego.org

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

	Fiscal Year ended June 30									
	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Operations	55.00	55.00	52.00	51.00	54.00	52.00	52.00	52.00	50.10	48.00
Engineering	18.00	18.00	17.00	17.00	16.00	17.00	16.00	16.00	16.80	15.00
Finance	20.00	20.00	23.00	21.00	21.00	23.00	22.75	24.25	25.75	22.00
Administration	15.75	15.75	15.75	15.75	16.75	16.75	16.75	17.25	17.90	18.00
Total	108.75	108.75	107.75	104.75	107.75	108.75	107.50	109.50	110.55	103.00

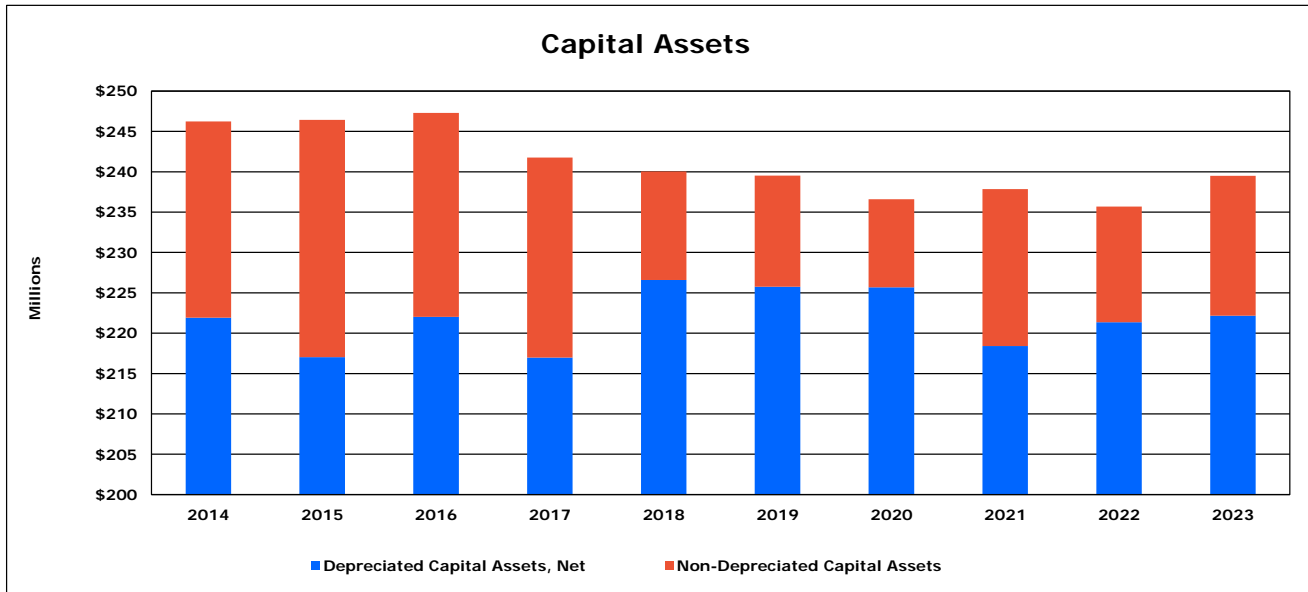


Source: Vallecitos Water District

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

	Fiscal Year ended June 30				
	2023	2022	2021	2020	2019
Land	\$ 4,981,505	\$ 4,981,505	\$ 4,981,505	\$ 4,981,505	\$ 4,981,505
Construction in Progress	12,343,216	9,352,435	14,467,764	5,928,082	8,795,099
Total Capital Assets, Not Depreciated	17,324,721	14,333,940	19,449,269	10,909,587	13,776,604
Water Transmission and Distribution System	215,102,524	210,220,621	208,503,739	207,170,931	204,106,247
Wastewater System	161,783,503	158,222,022	147,551,888	147,311,505	141,807,671
Buildings	17,896,037	17,713,492	17,377,612	17,287,789	17,236,207
Transportation Equipment	7,503,947	5,567,811	5,634,362	5,297,564	5,061,992
Field and Shop Equipment	11,685,691	11,312,166	11,250,463	11,152,818	11,041,945
Office Equipment	2,596,433	2,635,772	2,635,772	2,815,443	2,097,643
Subscription Assets	367,206	72,320	-	-	-
Accumulated Depreciation	(194,765,520)	(184,385,648)	(174,555,603)	(165,343,299)	(155,598,238)
Total Capital Assets, Being Depreciated, Net	222,169,821	221,358,556	218,398,233	225,692,751	225,753,467
Total Capital Assets, Net	\$ 239,494,542	\$ 235,692,496	\$ 237,847,502	\$ 236,602,338	\$ 239,530,071

	2018	2017	2016	2015	2014
	Land	\$ 4,981,505	\$ 4,981,505	\$ 4,981,505	\$ 4,761,505
Construction in Progress	8,451,903	19,785,305	20,293,565	24,641,438	19,554,005
Total Capital Assets, Not Depreciated	13,433,408	24,766,810	25,275,070	29,402,943	24,315,510
Water Transmission and Distribution System	200,023,591	196,880,917	196,941,476	190,810,104	188,859,948
Wastewater System	140,385,064	125,580,427	123,478,344	117,102,203	115,788,763
Buildings	16,137,578	15,653,556	15,427,261	15,311,551	15,300,427
Transportation Equipment	4,777,709	4,635,046	4,515,658	4,130,159	4,345,521
Field and Shop Equipment	9,916,142	11,830,842	11,201,974	10,709,739	10,670,338
Office Equipment	2,193,125	2,351,205	2,343,625	2,277,078	2,449,293
Accumulated Depreciation	(146,831,322)	(139,942,275)	(131,897,746)	(123,314,886)	(115,478,982)
Total Capital Assets, Being Depreciated, Net	226,601,887	216,989,718	222,010,592	217,025,948	221,935,308
Total Capital Assets, Net	\$ 240,035,295	\$ 241,756,528	\$ 247,285,662	\$ 246,428,891	\$ 246,250,818



Source: Vallecitos Water District