

ANNUAL FINANCIAL REPORT
WITH REPORT ON AUDIT BY INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS
JUNE 30, 2015

**VALLECITOS WATER DISTRICT
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JUNE 30, 2015**

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ROGERS, ANDERSON, MALODY & SCOTT, LLP
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INDEPENDENT AUDITORS' REPORT

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Board of Directors
Vallecitos Water District
San Marcos, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Vallecitos Water District (the District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; as well as the State Controller's *Minimum Audit Requirements for California Special Districts*; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the State Controller's *Minimum Audit Requirements for California Special Districts*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2015 and the 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, as well as the accounting systems prescribed by the State Controller's Office and State Regulations governing Special Districts.

Emphasis of a Matter

Change in Accounting Principle

As discussed in Note 1 of the financial statements, the District adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Restatement of the comparative financial data for the prior period presented is not practical due to the unavailability of information from the pension plan, therefore the provisions of GASB Statements No. 68 and 71 were not applied to the prior period. The cumulative effects of applying the provisions of GASB Statements No. 68 and 71 have been reported as a restatement of beginning net position for the year ended June 30, 2015 in accordance with the Statements.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of changes in the net pension liability and related ratios, the schedule of plan contributions and the schedule of funding progress for OPEB, 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 the audit of the basic financial statements.

We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The supplementary information, as identified in the accompanying table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Rogers Anderson Malooly & Scott, LLP

San Bernardino, California
November 11, 2015

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ended June 30, 2015

Our discussion and analysis of the Vallecitos Water District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2015. 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, 2015 (2014/15), the following highlights impacted, or have the potential to impact, the finances of the District.

- On July 15, 2014, the State Water Resources Control Board (SWRCB) adopted emergency regulations requiring water purveyors to employ various conservation measures. The District complied by declaring a Level 2, Drought Alert Condition on August 6, 2014. As a result, water sales declined by 1,584 acre feet, or 9.6%, from the previous fiscal year. The water sales revenue decline of \$2.6 million was offset by a decline in water purchases of \$1.8 million along with other favorable variances.
- Overall water operating revenues decreased \$1.1 million primarily due to decreased water sales while water operating expenses decreased by \$1.4 million. Wastewater operating revenues increased by \$1.9 million as a result of more connections and wastewater operating expenses increased by \$0.8 million.
- Capital Facility Fees received and accounted for in the capacity funds (restricted for projects increasing capacity) were \$4.1 million as compared to \$2.4 million the prior year. Resolution No. 1441, passed February 5, 2014, allows delay of payment of capacity fees until final building inspection rather than at time of building permit issuance. A receivable of \$3.4 million for capacity fees related to development projects permitted and in-process was recorded in 2014/15.
- Overall non-current liabilities decreased as the District's net pension liability and principal balances on all debt are reduced by higher returns on CalPERS investments and debt service payments. The District paid \$5.6 million in debt service.
- The District implemented Government Accounting Standards Board (GASB), Statement No. 68, which recognizes the long-term obligation for pension benefits as a liability and measures the annual costs of pension benefits. The District's net pension liability for fiscal year 2014/15 is \$10 million. Following the guidelines for implementation of GASB 68, the District is not displaying comparative financial data except in this MD&A. Therefore, Beginning Net Position in fiscal year 2014/15 does not agree to Ending Net Position in fiscal year 2013/14.
- On March 17, 2015, SWRCB adopted regulations extending the drought emergency and mandating water use reductions. Pursuant to the regulations, the District is required to reduce its water use during June 2015 through March 2016 by 24% as compared to the same months in 2013. The District anticipated full compliance in projected water sales in the 2015/16 budget.
- In June 2015, Fitch Ratings affirmed the District's AA+ rating with a stable outlook and Standard and Poor's upgraded the District's AA rating to AA+ with a stable outlook.
- On July 8, 2015, VWD refinanced and converted the majority of the 2007 Fixed Rate Bonds into 2015 Revenue Bonds. The refinancing will result in a \$3.4 million savings to the District over the life of the bonds.

VALLECITOS WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Statement of Net Position

The Statement of Net Position presents the District's financial position (assets and liabilities) as of June 30, 2015. Assets in excess of liabilities (Net Position) are \$251,271,134. In accordance with generally accepted accounting principles, capital assets acquired through purchase or construction by the District are recorded at historical cost. Capital assets contributed by development are recorded at fair value or developers' construction cost.

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position presents the District's results of operations for the year ended June 30, 2015. Revenues are recognized (recorded) when services are provided and expenses are recognized when incurred. Operating revenues and expenses are related to the District's core activities (providing water and related services, wastewater treatment and disposal services, and processing and delivering recycled water). Non-operating revenues and expenses (e.g. investment income and interest expense) are not directly related to the core activities of the District. Operating income for the year ended June 30, 2015, of \$4,535,154 is combined with net non-operating expenses of \$3,996,773 and capital contributions of \$8,414,260 to arrive at an increase in net position of \$8,952,641. The increase in net position is added to beginning net position as restated of \$242,318,493 to arrive at ending net position of \$251,271,134 as of June 30, 2015.

	2014/15	2013/14
Operating Income	\$ 4,535,154	\$ 2,574,786
Nonoperating revenues / (expenses)	(3,996,773)	779,700
Capital contributions	8,414,260	3,002,900
Change in net position	8,952,641	6,357,386
Total Net Position, Beginning of Year as Restated	242,318,493	249,751,418
Total Net Position, End of Year	<u>\$ 251,271,134</u>	<u>\$ 256,108,804</u>

Statement of Cash Flows

The Statement of Cash Flows presents the amounts of cash provided or used by the District's operating, financing, and investing activities. Every cash flow has been categorized into one of the following activities: operating, non-capital financing, capital and related financing, or investing. The total of these categories for the year ended June 30, 2015, is the increase in cash and cash equivalents of \$7,372,820 which is combined with beginning cash and cash equivalents of \$17,612,247 to arrive at ending cash and cash equivalents of \$24,985,067. Investments in the California Local Agency Investment Fund, San Diego County Investment Pool, and open-ended money market mutual funds, are the only cash equivalents held by the District as of June 30, 2015.

Beginning cash & cash equivalents	\$ 17,612,247
Increase in cash & cash equivalents	7,372,820
Ending cash & cash equivalents	<u>\$ 24,985,067</u>

VALLECITOS WATER DISTRICT

MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)

As of June 30, 2015, the ending cash and cash equivalents are represented on the Statement of Net Position as follows:

	2014/15	2013/14
Unrestricted cash & cash equivalents	\$ 21,918,398	\$ 14,592,877
Cash & cash equivalents restricted - current	3,066,669	3,019,370
Total cash & cash equivalents	<u>\$ 24,985,067</u>	<u>\$ 17,612,247</u>

ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

During the fiscal year 2015, the increase in net position of \$8,952,641 on page 13 resulted from the increase in total assets and deferred outflows combined with the decrease in total liabilities and increase in deferred inflows.

Operating activities, capital facility fees, property taxes, and other sources helped fund \$9.1 million in capital acquisitions and construction, and \$5.6 million in debt service. The following table summarizes how these capital projects and debt service were financed during the year.

Vallecitos Water District Sources and Uses of Cash & Investments <i>in millions</i>			
	2014/15	2013/14	
Sources:			
Operating activities	\$ 12.3	\$ 12.6	
Property tax	3.5	3.1	
Capital facility fees	4.0	2.4	
Investment earnings & other receipts	0.6	0.7	
Uses:			
Capital construction and acquisition	(9.1)	(8.9)	
Debt service	(5.6)	(5.6)	
Increase in cash and investments	<u>\$ 5.7</u>	<u>\$ 4.3</u>	

CURRENT-TO-PRIOR YEAR ANALYSIS

Analysis of Net Position

The increase in net position is primarily attributed to net of operating activities and contributed capital.

Vallecitos Water District's Net Position			Change	
	2014/15	2013/14	Amount	%
Cash and investments	\$ 49,176,454	\$ 43,499,742	\$ 5,676,712	13.0%
Capital assets	277,700,512	280,412,693	(2,712,181)	-1.0%
Other assets	12,469,487	11,163,202	1,306,285	11.7%
Total Assets	<u>339,346,453</u>	<u>335,075,637</u>	<u>4,270,816</u>	1.3%
Deferred Outflows-PERS Contributions	1,676,216	-	1,676,216	100.0%
Current liabilities	13,329,604	13,061,890	267,714	2.0%
Noncurrent liabilities	73,033,119	65,904,943	7,128,176	10.8%
Total Liabilities	<u>86,362,723</u>	<u>78,966,833</u>	<u>7,395,890</u>	9.4%
Deferred Inflows-PERS Contributions	3,388,812	-	3,388,812	100.0%
Net Position				
Net investment in capital assets	211,866,038	211,842,761	23,277	0.0%
Restricted	5,117,540	1,645,172	3,472,368	211.1%
Unrestricted	34,287,556	42,620,873	(8,333,317)	-19.6%
Total Net Position	<u>\$ 251,271,134</u>	<u>\$ 256,108,804</u>	<u>\$ (4,837,670)</u>	-1.9%

MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)

CURRENT-TO-PRIOR YEAR ANALYSIS (Continued)

Analysis of Net Position (continued)

- Cash and investments increased by \$5.7 million during the fiscal year 14/15. The increase is attributable to \$12.3 million in operating activities, \$8.1 million in property tax, capital facility fees and other receipts offset by capital expenditures and debt service as illustrated in the Sources and Uses table on the previous page.
- Other assets increased significantly due in-part to: cost sharing agreements with other governmental entities such as the cities of San Marcos and Carlsbad; deferred developer payments of capacity fees; and capital projects in process.
- Total liabilities increased with the inclusion of net pension liability in fiscal year 2014/15 and omitted in 2013/14. The District continues to make payment of principal on outstanding debt.
- Restricted Net Position increased as a result of the deferred developer payments of capacity fees.
- Unrestricted Net Position decreased as a result of the GASB 68 implementation.

Selected Financial Ratios:

The table below illustrates how effectively the District can meet its current obligations and the margin of safety to creditors. The current ratio (current assets divided by current liabilities indicates that the District can pay 4.36 times its current debt from current assets. However, some current assets are not easily, or will never be, converted to cash (e.g. inventories and prepaid insurance). The quick ratio, quick assets (cash, liquid investments, accounts receivable) divided by current liabilities, measures how effectively the District can meet current obligations with assets that are readily convertible to cash. The District can pay 4.25 times its current obligations with assets readily convertible to cash. The District’s current and quick ratios show a high degree of solvency and a strong current position. The days of operations in cash is a

	<u>2014/15</u>	<u>2013/14</u>
Current ratio	4.36	4.02
Quick ratio	4.25	3.90
Days of operations in cash	395	339
Capital assets-to-Long-term liabilities	3.80 / 1	4.25 / 1
Debt-to-equity	1 / 2.91	1 / 3.24

common measure scrutinized by the rating agencies and investment community. It measures the number of days the District can operate without any cash inflow. The capital-assets-to-long-term-liabilities ratio indicates that for every dollar of debt the District has \$3.80 in capital assets (infrastructure, land, buildings, vehicles, etc.,

net of depreciation). The significantly higher numerator in this ratio and the higher denominator in the debt-to-equity ratio indicate the District’s ability to cash fund some degree of capital projects. The debt-to-equity ratio indicates that for every dollar of debt the District has \$2.91 of net position (equity). The decreases in the last two ratios result from implementation of GASB 68 which added long-term liabilities not previously stated and decreased equity related to the prior period adjustment.

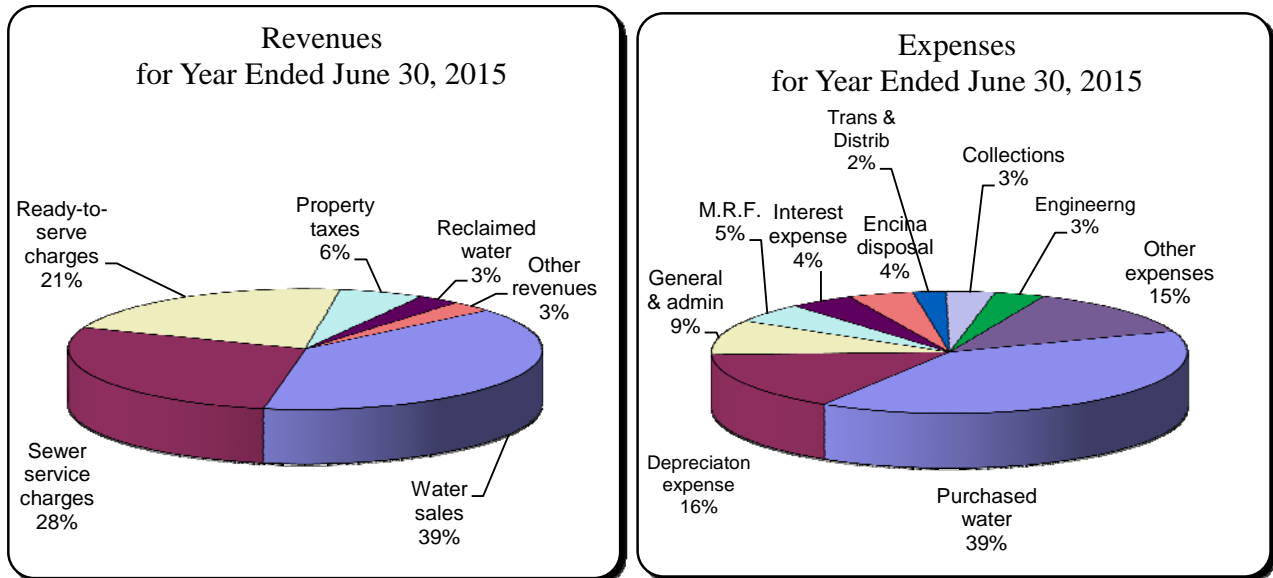
Analysis of Revenues and Expenses

The composition of revenues and expenses for the 2014/15 fiscal year is illustrated in the following graphs. Water sales, ready-to-serve charges, and wastewater service charges continue to be the main sources of revenue funding District operations. Water sales are commodity charges assessed to cover the variable costs of purchasing and delivering water to customers. Ready-to-serve charges are intended to cover fixed costs in the wholesale water rate, and costs related to being able to provide water to customers. Deductions from revenue to arrive at the operating income of \$4,535,154 include non-cash depreciation and amortization expense of \$8,847,957. Depreciation is the systematic allocation of a capital asset’s cost to expense over a specified period of time. The District has established reserve floors and ceilings for the replacement of aging infrastructure.

VALLECITOS WATER DISTRICT

MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)

CURRENT-TO-PRIOR YEAR ANALYSIS (Continued)



Analysis of Revenues and Expenses (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	
	2014/15	2013/14	Amount	%
Water sales	\$ 23,399,045	\$ 26,031,460	\$ (2,632,415)	-10.1%
Wastewater service charges	16,817,149	15,128,763	1,688,386	11.2%
Ready-to-serve charges	12,958,338	11,484,584	1,473,754	12.8%
Property taxes	3,460,439	3,077,966	382,473	12.4%
Reclaimed water sales	1,725,650	1,533,203	192,447	12.6%
Other revenues	1,741,710	1,812,762	(71,052)	-3.9%
Total Revenues	60,102,331	59,068,738	1,033,593	1.7%
Purchased water	22,332,619	24,145,579	(1,812,960)	-7.5%
Depreciation expense	8,847,957	9,160,497	(312,540)	-3.4%
General and administrative	5,197,584	5,173,986	23,598	0.5%
Meadowlark Reclamation Facility (M.R.F.)	2,930,822	2,993,578	(62,756)	-2.1%
Interest expense	2,508,693	2,672,296	(163,603)	-6.1%
Encina disposal	2,493,629	2,450,330	43,299	1.8%
Engineering	1,939,139	1,698,699	240,440	14.2%
Collections	1,878,791	1,632,347	246,444	15.1%
Transmission & Distribution	1,279,927	1,154,882	125,045	10.8%
Other expenses	10,154,789	4,632,058	5,522,731	119.2%
Total Expenses	59,563,950	55,714,252	3,849,698	6.9%
Net Income/(Loss) before contributions	538,381	3,354,486	(2,816,105)	-84.0%
Capital contributions	8,414,260	3,002,900	5,411,360	180.2%
Change in Net Position	8,952,641	6,357,386	2,595,255	40.8%
Total Net Position at Beginning of Year Restated	242,318,493	249,751,418	(7,432,925)	-3.0%
Total Net Position, End of Year	\$ 251,271,134	\$ 256,108,804	\$ (4,837,670)	-1.9%

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CURRENT-TO-PRIOR YEAR ANALYSIS (Continued)

- The decrease in water sales is the result of a combination of events. Fiscal year 2013/14 was a record breaking year in regard to unusually high temperatures thus driving water usage. Increased requests for conservation throughout 2014/15 in relation to the drought began to resonate thus decreasing water usage.
- Monthly wastewater service charges increase is due to a monthly rate increase of \$1.55 per single family residence and more connections to the system. The monthly ready-to-serve charge also increased by \$2.13 for a 5/8" meter which are the majority of the District's meters. Both rate increases took effect July 1, 2014.
- Property tax receipts continue to increase primarily from discontinued Redevelopment Agencies in fiscal year 14/15. The District anticipates receipts from discontinued Redevelopment Agencies to decrease in subsequent years.
- Other revenues are a mixture of new annexations, investment income received, investment market valuations, recovery of damaged property and other miscellaneous fees and receipts.
- The purchased water decrease is the result of conservation efforts by VWD customers.
- Depreciation and amortization expense decreased due to the removal of the amortization of the PERS Side-fund payoff. The removal of the amortization is in accordance with implementing GASB 68.
- The Engineering increase is due to the department being fully staffed to handle the rebounding economy and new development projects requiring specialized services. A portion of these costs are offset by charges directly to those receiving the services.
- Interest expense decreased as a result of more capitalized interest during periods of larger capital improvements and lower principal debt outstanding.
- Collections department increase is attributable to changes in processes and how chemical costs throughout the system are accounted for to more accurately reflect the operating cost of the system.
- Transmission and distribution department experienced increased excavation and paving services as a result of a high number of water main breaks.
- Net other expenses increased significantly due to recognizing the change in Encina Wastewater Authority (EWA) joint venture assets. The District recognizes the change in EWA's assets, liabilities and net position based on the District's ownership percentage of EWA. The low 2013/14 adjustment resulted from a one-time "true-up" from the Phase V Project.
- Capital contributions increased as developers are purchasing new and additional capacity as construction within the District increases.
- Total Net Position at the beginning of fiscal year 2014/15 is restated in accordance with GASB 68 implementation.

RESTRICTIONS, COMMITMENTS, AND LIMITATIONS

The District's net revenue requirement is 1.15 times the total debt service of the District. The District's 2014/15 net revenue was 3.86 times debt service calculated in accordance with the 2015 Revenue Refunding Bonds Official Statement. Debt per capita within the District is \$679 exclusive of other debt such as San Diego County Water Authority and Metropolitan Water District.

2015 Revenue Refunding Bonds

On July 9, 2015, The District refunded the majority of the 2007 Certificates of Participation totaling \$45.3 million with Revenue Bonds containing interest rates ranging between 4% and 5%. The District is obligated to transfer semi-annually debt service payments each June 25th (maximum of \$3.9 million in year 2030) and each December 26th (maximum of \$980 thousand in year 2021) to the trustee for payment to bondholders for both the remaining 2007 COPs and 2015 Revenue Bonds. Total debt service paid in fiscal year 14/15 related to the 2007 COPs was \$4.4 million. The outstanding principal balance at June 30, 2015, is \$53.8 million.

VALLECITOS WATER DISTRICT

MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)

RESTRICTIONS, COMMITMENTS, AND LIMITATIONS (Continued)

2012 Certificates of Participation

In December 2012, the District received \$7.1 million in proceeds as the Board of Directors executed the 2nd Installment Purchase Agreement of the Master Agreement of the 2005 Certificates of Participation. The proceeds were used toward the following sewer projects: San Marcos Interceptor, Linda Vista, Encina Land Parallel Outfall and Rock Springs. The District pays debt service semi-annually on the certificates issued at a fixed rate of 1.98%. Interest payments are due each April and October 1st and principal is due each October 1st. Total debt service paid in fiscal year 14/15 related to the COPs was \$781,275. The outstanding principal balance at June 30, 2015, is \$5.8 million.

2008 Union Bank Tax-Exempt Private Placement Loan

On November 12, 2008, the District received \$7.9 million in proceeds from a variable rate tax-exempt private placement loan from Union Bank of California to fund a portion of EWA’s treatment plant expansion. The District’s share in solids capacity at EWA increased from 7.5 million gallons per day (MGD) to 10.5 MGD. The variable rate on the loan is indexed to LIBOR with the District’s option to periodically change the LIBOR period and associated rate (adjusted by the bank’s formula for a tax-exempt borrowing) currently at 1.050112%. Principal payments of \$200,000 are due every March 31st and September 30th. Interest payments are due at the end of the LIBOR period chosen by the District. Total debt service paid in fiscal year 14/15 related to the loan was \$457,833. The outstanding principal balance at June 30, 2015, of \$5.4 million is subordinate to existing certificates of participation.

Capital Facility Fees

The District collects capital facility fees from new development and increased demands from existing customers, maintains the collected fees in separate funds (one for water and one for wastewater), and uses the funds exclusively to provide capacity to serve new development and fund future construction of facilities identified in the District’s Master Plan and capital budget. As of June 30, 2015, the water capacity fund had a deficit of \$7,665,551 and the sewer capacity had a deficit of \$4,140,318. (The District maintains separate funds for specific purposes. Funds are combined for financial statement presentation.)

Capital Projects

The following budgeted projects have been contracted for at least the design phase before 2015/16:

Project Description	2015/16 Budget	Spent Through	
		June 30, 2015	Remaining
Encina Land Parallel Outfall	\$ 28,150,000	\$ 146,462	\$ 28,003,538
San Marcos interceptor sewer line	19,700,000	12,985,635	6,714,365
Meadowlark Tank #3	4,434,000	488,961	3,945,039
Mountain Belle pump station and pipeline	3,860,000	99,350	3,760,650
MRF Solids Force Main Replacement	2,975,000	303,530	2,671,470
Rock Springs Sewer Replacement	2,155,000	366,557	1,788,443
San Elijo Hills Pump Station	2,050,000	1,627,898	422,102

The budget amounts in the previous table indicate the amount anticipated for completion of the projects. For some of these projects the District has only committed to the design phase through contractual obligations, and the construction has not yet been through the bidding process. Construction of the land outfall, Meadowlark tank, and Mountain Bell project will not commence unless there is significantly more growth than anticipated. Details are provided in the District’s 2015/16 Budget on these and several other committed projects less than \$1 million in scope.

VALLECITOS WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CAPITAL ASSETS AND LONG-TERM DEBT

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

Water mains, service lines, meters, valves & fire hydrants	\$ 1,201,143
Treatment equipment	499,864
Tank refurbishment	438,392
Vehicles	417,228
Sewer mains, manholes, and cleanouts	330,766

The \$54.6 million in 2015 Revenue Bonds, the \$5.4 million loan and the \$5.8 million COPS balance are the only long-term debts owed by the District as of June 30, 2015.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The District considered the following economic factors in establishing 2015/16 budget amounts:

- Increases to wholesale water rates as the Carlsbad desalination plant comes closer to becoming operational
- Continued drought conditions throughout the state
- Slow but steady recovery in construction
- Increasing regulatory compliance

As a result of these factors, the 2015/16 budget includes:

- A smooth rate ramp to absorb the increase of the Carlsbad desalination plant
- Water sales reflective of drought conservation efforts by customers
- Staffing level increases from the 2014/15 budget as previously vacant positions are filled and reorganizations occur.

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.

**VALLECITOS WATER DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2015**

ASSETS

Current Assets:

Cash and cash equivalents	\$ 21,918,398
Restricted cash and cash equivalents	3,066,669
Investments	24,191,387
Accounts receivable:	
Water and wastewater sales and services	5,434,819
Taxes and assessments	109,074
From other governmental entities	1,147,915
Restricted capital facility fees receivable	127,480
Other	416,254
Accrued interest receivable	83,500
Current portion of note receivable	126,813
Inventories	1,053,859
Prepaid expenses	377,773
	58,053,941
Total Current Assets	58,053,941

Noncurrent Assets:

Restricted capital facility fees receivable	3,317,068
Note receivable from City of San Marcos, net of current portion	274,932
Investment in Encina Wastewater Authority capital assets	31,271,621
Capital assets not being depreciated	29,402,943
Net capital assets being depreciated	217,025,948
	281,292,512
Total Noncurrent Assets	281,292,512

Total Assets

339,346,453

DEFERRED OUTFLOWS OF RESOURCES

Pension related	1,676,216
	1,676,216

LIABILITIES

Current Liabilities:

Accounts payable	6,785,848
Accrued compensation	1,804,710
Construction & service deposits	557,369
Accrued interest payable from restricted assets	1,393,677
Current portion of long term debt	2,788,000
	13,329,604
Total Current Liabilities	13,329,604

Noncurrent Liabilities:

Other post employment benefits obligation, net	19,596
Loan payable, net of current portion	5,000,000
Certificates of participation, net of amortized discount & current portion	58,046,475
Net pension liability	9,967,048
	73,033,119
Total Noncurrent Liabilities	73,033,119

Total Liabilities

86,362,723

DEFERRED INFLOWS OF RESOURCES

Pension related	3,388,812
	3,388,812

NET POSITION

Net investment in capital assets	211,866,038
Restricted for future capital projects	3,444,548
Restricted for debt service	1,672,992
Unrestricted	34,287,556
	251,271,134
Total Net Position	\$ 251,271,134

See accompanying independent auditor's report and notes to the financial statements.

**VALLECITOS WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2015**

OPERATING REVENUES	
Water sales	\$ 23,399,045
Wastewater service charges	16,817,149
Ready-to-serve charges	12,958,338
Reclaimed water sales	1,725,650
Pumping charges	170,806
Other services and abatements	955,635
	<hr/>
Total operating revenues	56,026,623
OPERATING EXPENSES	
Purchased water	22,332,619
General and administrative	5,197,584
Meadowlark wastewater treatment plant	2,930,822
Encina disposal	2,493,629
Collection and conveyance	1,878,791
Engineering	1,939,139
Transmission and distribution	1,279,927
Customer accounts	914,372
Information technology	1,045,315
Meter reading and repairs	661,883
Buildings and grounds	529,042
Equipment and vehicles	566,737
Other water operating expenses	363,922
Other wastewater operating expenses	545,551
Water quality and treatment	489,034
Tanks and reservoirs	279,886
Pumping	436,432
	<hr/>
Total operating expenses	43,884,685
	<hr/>
Operating income before overhead absorption	12,141,938
Overhead absorption	1,241,173
	<hr/>
Operating income before depreciation and amortization	13,383,111
Depreciation and amortization	(8,847,957)
	<hr/>
Operating income	4,535,154
NON-OPERATING REVENUES (EXPENSES)	
Property taxes	3,460,439
Interest Income	337,472
Unrealized appreciation of investments	7,659
Annexation fees	117,852
Change in Encina Joint Venture assets	(5,559,372)
Interest expense	(2,508,693)
Other non-operating revenues/(expenses), net	147,870
	<hr/>
Total non-operating revenues (expenses), net	(3,996,773)
	<hr/>
Net income before capital contributions	538,381
	<hr/>
Capital contributions	8,414,260
	<hr/>
Change in net position	8,952,641
	<hr/>
Total Net Position, Beginning of Year	256,108,804
Prior Period Restatement	(13,790,311)
	<hr/>
Total Net Position, Beginning of Year as Restated	242,318,493
	<hr/>
Total Net Position, End of Year	\$ 251,271,134

See accompanying independent auditor's report and notes to the financial statements.

**VALLECITOS WATER DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015**

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from water and wastewater customers	\$ 56,246,453
Payments for water	(23,668,023)
Payments for services and supplies	(7,879,779)
Payments for employee wages, benefits and related costs	<u>(12,406,838)</u>
Net Cash Provided by Operating Activities	<u>12,291,813</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Receipts from taxes and assessments	<u>3,450,783</u>
Net Cash Provided by Noncapital Financing Activities	<u>3,450,783</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Receipts relating to annexation fees & cell tower rentals	170,862
Acquisition and construction of utility plant	(6,456,756)
Principal paid on long-term debt	(2,695,000)
Interest payments on long-term debt	(2,917,335)
Investment in Encina Wastewater Authority	(2,666,552)
Capacity fees received	<u>4,050,700</u>
Net Cash Provided by Capital and Related Financing Activities	<u>(10,514,081)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(13,667,988)
Proceeds from calls and maturities of investments	15,371,753
Investment earnings received	320,338
Collections on note receivable from City of San Marcos	<u>120,202</u>
Net Cash Provided by Investing Activities	<u>2,144,305</u>
Net Increase in Cash and Cash Equivalents	7,372,820
Cash and Cash Equivalents, Beginning of Year	<u>17,612,247</u>
Cash and Cash Equivalents, End of Year	<u>\$ 24,985,067</u>
Reconciliation of cash and cash equivalents to statement of net position:	
Cash and cash equivalents	\$ 21,918,398
Restricted cash and cash equivalents	<u>3,066,669</u>
Total cash and cash equivalents	<u>\$ 24,985,067</u>

See accompanying independent auditor's report and notes to the financial statements.

**VALLECITOS WATER DISTRICT
STATEMENTS OF CASH FLOWS (Continued)
FOR THE YEAR ENDED JUNE 30, 2015**

**Reconciliation of Operating Income to Net Cash Provided
by Operating Activities:**

Operating income	\$ 4,535,154
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**Adjustments to reconcile operating income to net cash
provided by operating activities:**

Depreciation expense	8,847,957
Actuarial pension expense	1,273,542
Pension contributions subsequent to measurement date	(1,662,183)

Changes in operating assets and liabilities:

Accounts receivable from water and wastewater sales and services	670,015
Accounts receivable from other governmental entities	(412,645)
Accounts receivable - other	(37,541)
Inventories	61,495
Prepaid expenses	(14,910)
Accounts payable	(1,057,938)
Accrued compensation	99,280
Other post employment benefits obligation, net	(10,413)

Total Adjustments	7,756,659
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Net Cash Provided by Operating Activities	\$ 12,291,813
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Noncash Investing Capital and Financing Activities:

Contributions of assets by developers	\$ 549,078
Amortization related to PERS Sidefund	430,506
Unrealized appreciation of investments	7,659

See accompanying independent auditor's report and notes to the financial statements.

**VALLECITOS WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 1 – Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The Vallecitos Water District was organized in March of 1955 under the provisions of the California Water Code. By Board action in 1989, the District's name changed from the San Marcos County Water District to the 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 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 and as such has no employees or other operations. Although the Corporation is legally separate, it is included as a blended component unit of the District, as it is in substance part of the District's operations. No separate financial statements are prepared for the Corporation.

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

The District reports its activities as an enterprise fund and accounts for operations that are financed and operated in a manner similar to a private business enterprise. The intent of the District is to provide water, wastewater and recycled water services to its customers on a continuing basis and finance or recover costs of providing services primarily through user charges (water and wastewater sales and services).

**VALLECITOS WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Operating revenues and expenses, such as water sales and water purchases and wastewater service charges, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Management, administration and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses.

The basic financial statements of the Vallecitos Water District have been prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for governmental accounting financial reporting purposes.

Net Position of the District are classified into three components: (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position. These classifications are defined as follows:

Net Investment in Capital Assets

This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of notes or borrowing that are attributable to the acquisition of the asset, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets.

Restricted Net Position

This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position

This component of net position consists of net position that does not meet the definition of “net investment in capital assets” or “restricted net position”.

C. New Accounting Pronouncements

GASB has issued the following statements which may impact the District’s financial reporting requirements in the future:

- GASB 72 – “*Fair Value Measurement and Application*”, effective for the fiscal years beginning after June 15, 2015.

**VALLECITOS WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)

C. New Accounting Pronouncements (Continued)

- GASB 74 – “*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*”, effective for the fiscal years beginning after June 15, 2016.
- GASB 75 – “*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*”, effective for the fiscal years beginning after June 15, 2017.

D. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statements element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time.

E. Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in net position during the reporting period. Actual results could differ from those estimates.

F. Statement of Cash Flows

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

G. Investments and Investment Policy

The District has adopted an investment policy directing the Treasurer to deposit funds in financial institutions. Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

**VALLECITOS WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)

H. Accounts Receivable and Allowance for Uncollectible Accounts

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

I. Federal and State Capital and Operating Grants

If a grant agreement were approved and eligible expenditures were incurred, the amount is recorded as a capital or operating grant receivable on the Statement of Net Position and as capital grant contribution or operating grant revenue, as appropriate, on the Statement of Revenues, Expenses and Changes in Net Position.

J. Property Taxes and Assessments

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

Lien date	January 1
Levy date	July 1
Due date:	
First installment	November 1
Second installment	February 1
Delinquent date:	
First installment	December 10
Second installment	April 10

K. Water-In-Storage Inventory

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

L. Materials and Supplies Inventory

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

M. Prepaid Expenses

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

**VALLECITOS WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)

N. 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.

O. Capital Assets

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 one year at \$5,000. Donated assets are recorded at estimated fair market value at the date of donation. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Transmission and distribution system	10-75 years
Wastewater system	5-50 years
Buildings	50 years
Transportation equipment	8-15 years
Field and shop equipment	5-20 years
Office equipment	5-10 years

P. 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.

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. Water and Wastewater Sales and Services

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

VALLECITOS WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)

S. Interest Expense

The District incurs interest charges on long-term debt. For fiscal year ended June 30, 2015 the District expensed \$2,508,693 of interest incurred and capitalized \$329,060 as part of the cost of construction projects.

T. 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.

U. Economic Dependency

The District purchases all of its water from the San Diego County Water Authority. A sustained interruption of this source could impact the District negatively.

V. Budgetary Policies

The District adopts an annual budget for planning, control, and evaluation purposes. Budgetary control and evaluation are affected by comparisons of actual revenues and expenses with planned revenues and expenses for the period. Encumbrance accounting is not used to account for commitments related to unperformed contracts for construction and services.

W. Pension Plan

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

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

Valuation Date (VD)	June 30, 2013
Measurement Date (MD)	June 30, 2014
Measurement Period (MP)	July 1, 2013 to June 30, 2014

VALLECITOS WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)

X. Implementation of new pronouncement

GASB has issued Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pension plans, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

GASB has issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

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

**VALLECITOS WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 2 – Cash and Investments

Cash and Investments are classified in the accompanying financial statements as follows:

Cash and cash equivalents	\$ 21,918,398
Restricted cash and cash equivalents	3,066,669
Investments	<u>24,191,387</u>
Total cash and investments	<u>\$ 49,176,454</u>

Cash and Investments consist of the following:

Cash on hand	\$ 1,700
Deposits with financial institutions	3,366,313
Investments	<u>45,808,441</u>
Total cash and investments	<u>\$ 49,176,454</u>

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

The table below 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
U.S. Treasury Obligations	5 years	75%	None
U.S. Government Sponsored Entities	5 years	60%	20%
Commercial Paper	270 days	20%	10%
Certificates of Deposit	4 years	20%	5%
Repurchase Agreements	1 year	10%	10%
Local Government Investment Pools	N/A	40%	20%
Local Agency Investment Fund (LAIF)	N/A	60%	\$ 50,000,000
State and Local Agency Bonds	5 years	20%	25%
FDIC - Backed Medium-Term Notes	4 years	20%	FDIC limit
Savings Accounts	N/A	10%	10%

**VALLECITOS WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

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. Appendix B of the official statements note 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. The District maintains and invests the 2005 Certificates of Participation debt proceeds in accordance with debt covenants.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

The District's investment policy considers aversion to custodial credit risk by requiring all participants in the investment process to invest no more than 25% of the portfolio with one financial institution, with the exception of LAIF, the U.S. Treasury and funds advanced or in trustee accounts for project construction. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. The District had deposits with bank balances of \$330,700 as of June 30, 2015. Of the bank balances, up to \$250,000 is federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

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.

**VALLECITOS WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 2 – Cash and Investments (Continued)

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; however, the District's investment policy limits investment in SDCPIF to 20% of the District's total portfolio.

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes in market interest rates. The District manages interest rate risk by limiting terms of investment as noted in the Authorized Investment Type on page 23.

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

Maturities of investments at June 30, 2015 are as follows:

Investment Type	Total	Remaining Maturity (in months)		
		12 months or less	13-24 Months	26-60 Months
Federal Farm Credit Banks	\$ 4,988,777	\$ 663,931	\$ 1,104,357	\$ 3,220,489
Federal Home Loan Bank	3,513,790	-	2,014,180	1,499,610
Federal Home Loan Mortgage Association	6,519,360	510,455	1,017,720	4,991,185
Federal National Mortgage Association	4,760,824	-	2,573,607	2,187,217
Certificates of Deposit	4,412,217	1,968,200	982,771	1,461,246
Local Agency Investment Fund (LAIF)	16,513,473	16,513,473	-	-
San Diego County Pooled Investment Fund	5,100,000	5,100,000	-	-
	<u>\$45,808,441</u>	<u>\$24,756,059</u>	<u>\$ 7,692,635</u>	<u>\$ 13,359,747</u>

**VALLECITOS WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 2 – Cash and Investments (Continued)

Credit Risk

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

Credit ratings of investments as of June 30, 2015 were as follows:

Investment Type	Total	Minimum Legal Rating	Rating as of Year End		
			AAA	AA+	Not Rated
Federal Farm Credit Banks	\$ 4,988,777	N/A	\$ -	\$ 4,988,777	\$ -
Federal Home Loan Bank	3,513,790	AA+	-	3,513,790	-
Federal Home Loan Mortgage Association	6,519,360	AA+	-	6,519,360	-
Federal National Mortgage Association	4,760,824	AA+	-	4,760,824	-
Certificates of Deposit	4,412,217	N/A	-	-	4,412,217
Local Agency Investment Fund (LAIF)	16,513,473	N/A	-	-	16,513,473
San Diego County Pooled Investment Fund	5,100,000	N/A	5,100,000	-	-
	<u>\$45,808,441</u>		<u>\$ 5,100,000</u>	<u>\$ 19,782,751</u>	<u>\$ 20,925,690</u>

Concentration of Credit Risk

The investment policy of the District limits the amount that can be invested in any one issuer to 25% of the portfolio, other than U.S. Treasury securities. Investments in any one issuer, other than U.S. Treasury securities, that represent 5% or more of the total District investments at June 30, 2015 are as follows:

Issuer	Investment Type	Reported Amount
Federal Farm Credit Banks	U.S. Government Sponsored Entities	\$ 4,988,777
Federal Home Loan Bank	U.S. Government Sponsored Entities	3,513,790
Federal Home Loan Mortgage Association	U.S. Government Sponsored Entities	6,519,360
Federal National Mortgage Association	U.S. Government Sponsored Entities	4,760,824

**VALLECITOS WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 3 – Accounts Receivable

The balance at June 30, 2015 consists of the following:

Accounts receivable - water and wastewater sales and services	\$ 5,473,280
Allowance for uncollectible accounts	<u>(38,461)</u>
Accounts receivable - water sales, net	<u>\$ 5,434,819</u>

Property Tax Receivable

Taxes and assessments receivable of \$113,021 have been reduced by an allowance for estimated uncollectible taxes of \$3,947 at June 30, 2015.

**VALLECITOS WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 4 – Capital Assets

Changes in capital assets for 2015 are as follows:

	Balance at June 30, 2014	Additions/ Transfers	Deletions/ Transfers	Balance at June 30, 2015
Capital assets, not being depreciated:				
Land	\$ 4,761,505	\$ -	\$ -	\$ 4,761,505
Construction in progress	19,554,005	8,792,776	(3,705,343)	24,641,438
 Total capital assets, not being depreciated	 24,315,510	 8,792,776	 (3,705,343)	 29,402,943
Capital assets, being depreciated:				
Water transmission and distribution system	188,859,948	2,018,483	(68,327)	190,810,104
Wastewater system	115,788,763	1,329,271	(15,831)	117,102,203
Buildings	15,300,427	33,290	(22,166)	15,311,551
Transportation equipment	4,345,521	417,228	(632,590)	4,130,159
Field and shop equipment	10,670,338	189,560	(150,159)	10,709,739
Office equipment	2,449,293	67,840	(240,055)	2,277,078
 Total capital assets, being depreciated	 337,414,290	 4,055,672	 (1,129,128)	 340,340,834
Less accumulated depreciation for:				
Water transmission and distribution system	(58,169,095)	(4,337,393)	17,437	(62,489,051)
Wastewater system	(35,060,500)	(2,154,255)	7,926	(37,206,829)
Buildings	(9,906,687)	(1,268,186)	22,166	(11,152,707)
Transportation equipment	(2,961,187)	(311,978)	616,722	(2,656,443)
Field and shop equipment	(7,725,321)	(572,598)	125,979	(8,171,940)
Office equipment	(1,656,192)	(203,547)	221,823	(1,637,916)
 Total accumulated depreciation	 (115,478,982)	 (8,847,957)	 1,012,053	 (123,314,886)
 Total capital assets, being depreciated, net	 221,935,308	 (4,792,285)	 (117,075)	 217,025,948
 Governmental activities capital assets, net	 <u>\$ 246,250,818</u>	 <u>\$ 4,000,491</u>	 <u>\$ (3,822,418)</u>	 <u>\$ 246,428,891</u>

In 2015, major capital assets additions during the year included vehicles, sewer and water mains, manholes, sewer buildings and improvements, and valves and fire hydrants.

Depreciation expense for the ended June 30, 2015 was \$8,847,957 and is included in Depreciation and Amortization expense on the Statement of Revenues, Expense and Changes in Net Position.

**VALLECITOS WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 4 – Capital Assets (Continued)

Construction-In-Process

The District has been involved in various construction projects throughout the year. The balances of the various construction projects that comprise the construction-in-process balances at June 30 are as follows:

<u>Project Name</u>	<u>2015</u>
<i>District Financed</i>	
SM Interceptor - SM Blvd/Discovery	\$ 13,103,661
Linda Vista Sewer Upgrade	2,513,608
San Elijo Hills Pump Station Project	1,627,898
Wulff Reservoir/Pressure Reducing Station	1,258,394
San Elijo Road Facilities	641,279
Desalinated Water Connection	582,176
Meadowlark Tank #3	488,961
Water & Sewer Master Plan	425,473
Lift Station No 1 Pump Improvements	380,979
Rock Springs Sewer Replacement	366,557
MRF Solids Force Main Replacement	303,530
Encina Land Parallel Outfall	146,462
Mobile Maximo	132,823
Master Plc Replacement & Programming Updates	127,406
Mechanical Electrical Department Offices	112,132
Twin Oaks Resv: On-Site Sodium Hypo Generation	100,161
Mountain Belle Pump Station & Pipeline Design	99,350
Land Outfall Clearing & Access Road	77,709
HVAC Improvements	76,287
Mahr Reservoir Chlorine Injection System	74,673
San Marino Drive Sewer Replacement	73,008
Mrf Nutrient Removal Study	72,236
Scada Radio Antenna Masts Fy12/13	60,230
Permanent Environmental Mitigation Property	59,646
Sluice Gate Dam	53,676
Subtotal - District Financed	<u>22,958,315</u>

**VALLECITOS WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 4 – Capital Assets (Continued)

Project Name	2015
<i>Developer Financed</i>	
High Point Hydropneumatic Pump	102,594
Palos Vista Estates	59,792
Block C North City East Unit 1	40,545
Promenade At Creekside	26,769
Mulberry Residential	26,259
Palomar College Waterline Relocation	25,664
Fairfield Inn - Carlsbad	21,281
San Marcos Creek Improvement Plan	20,123
Seh Ph5 Pa S U5	18,105
Grand Avenue City	14,879
Seh Ph5 Pa S U4	11,481
Pump Station Meadowlark	10,920
Subtotal - Developer Financed	378,412
Various Other Projects	1,304,712
Total	\$ 24,641,438

Note 5 – Encina Wastewater Authority

The Revised Basic Agreement is a joint exercise of powers agreement by and among the cities of Carlsbad, Vista, and Encinitas, the Buena Sanitation District, the Vallecitos Water District, and the Leucadia Wastewater District for the ownership and operation of a joint sewerage system. The Encina Wastewater Authority (EWA) board is composed of representatives of these Member Agencies. Each Member Agency has an investment in EWA's assets and owns a corresponding proportion of the capacity of the joint system. As of June 30, 2015, the Member Agencies have the following approximate ownership interest:

City of Vista	25%
City of Carlsbad	24%
Vallecitos Water District	23%
Leucadia Wastewater District	17%
Buena Sanitation District	7%
City of Encinitas	4%

**VALLECITOS WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 5 – Encina Wastewater Authority (Continued)

The latest available financial statements of EWA, dated June 30, 2014 are available directly from EWA (6200 Avenida Encinas, Carlsbad, California 92009), and show the following:

Total assets	\$ 122,157,791
Total liabilities	<u>3,044,612</u>
 Total net position	 <u>\$ 119,113,179</u>
 Increase (decrease) in net position	 <u>\$ (4,822,053)</u>

Note 6 – Note Receivable from City of San Marcos

In February 1998, the District sold 23.6 acres of excess land to the City of San Marcos for \$1,829,520. The District received \$50,000 and an installment note of \$1,779,520. The note is payable in twenty annual installments of \$148,909 including interest of 5.5%. As of June 30, 2015, the following amounts are due to the District:

Fiscal Year	Principal Amount
2016	\$ 126,813
2017	133,788
2018	<u>141,144</u>
Total	401,745
Current Portion	<u>(126,813)</u>
Non-Current Portion	<u>\$ 274,932</u>

VALLECITOS WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

Note 7 – Deferred Charges from Debt Retirement

The deferred charges from debt retirement balance relate to the defeasance costs of the District's 1998 Twin Oaks Certificates of Participation. The balance is being amortized over a twenty-six year period. The deferred charges are netted against the long-term portion of the Certificates of Participation on the Statements of Net Position (see note 8).

The deferred charges from debt retirement, net balances are as follows:

Deferred charges from debt retirement	\$ 77,000
Accumulated amortization	<u>(29,490)</u>
Deferred charges from debt retirement, net	<u>\$ 47,510</u>

Note 8 – Long Term Debt

2005 Certificates of Participation

On June 30, 2005, the District issued \$66,700,000 in Water and Wastewater Enterprise Certificates of Participation (Series 2005A COPs). The proceeds of the issue are being used to prepay the 1998 Twin Oaks Reservoir Certificates of Participation and to complete the construction of a second buried prestressed concrete reservoir at the Twin Oaks Reservoir site, including related grating and earthwork, and the upgrade of the District's Meadowlark Water Reclamation Facility, including the installation of new primary clarifiers, two new filter beds, the reconstruction of the operations and laboratory building, the installation of odor control systems throughout the site, and the addition of a larger emergency generator.

A total of \$23,000,000 from the Series 2005A COPs was used to pay off the outstanding principal, and call premium on the 1998 Twin Oaks Reservoir Certificates of Participation. As a result, the 1998 Twin Oaks Reservoir Certificates of Participation are considered retired and the liability for those obligations has been removed from the financial statements. The District completed the advance refunding to reduce the District's total debt service payments over the next 25 years by \$1,506,316 and to obtain an economic gain of approximately \$1,111,076.

The Series 2005A COPs are payable solely from the net revenues of the District's water and sewer systems as defined in the 2005 Certificates of Participation. The Certificates are due in annual installments from July 1, 2008 to July 1, 2035 bearing interest at 4.00% to 5.50%. This debt contains a rate covenant which requires the District to maintain annual net revenues of at least 115% of the annual debt service. In Fiscal Year 2015, the District was in compliance with this rate covenant.

**VALLECITOS WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 8 – Long Term Debt (Continued)

2005 Certificates of Participation (Continued)

Changes in the 2005 Certificates of Participation during fiscal year 2015, and the balance at June 30, 2015 net of unamortized premiums, discounts and deferred charges were as follows:

	Balance June 30, 2014	Additions	Deletions	Balance June 30, 2015
2005 Series A COP	\$ 55,410,000	\$ -	\$ (1,635,000)	\$ 53,775,000
Add: Bond premium	1,295,739	-	(58,897)	1,236,842
Less: Unamortized discount	(340,326)	-	15,469	(324,857)
Less: Deferred charges	(50,479)	-	2,969	(47,510)
	<u>\$ 56,314,934</u>	<u>\$ -</u>	<u>\$ (1,675,459)</u>	<u>\$ 54,639,475</u>
Total	\$ 56,314,934	\$ -	\$ (1,675,459)	\$ 54,639,475
Less: Current portion	<u>(1,635,000)</u>			<u>(1,715,000)</u>
Long-term portion	<u>\$ 54,679,934</u>			<u>\$ 52,924,475</u>

Annual debt service payments are as follows:

Fiscal Year	Principal	Interest	Total
2016	\$ 1,715,000	\$ 2,703,338	\$ 4,418,338
2017	1,810,000	2,609,013	4,419,013
2018	1,910,000	2,509,463	4,419,463
2019	1,985,000	2,409,188	4,394,188
2020	2,120,000	2,309,938	4,429,938
2021-2025	12,425,000	9,762,027	22,187,027
2026-2030	16,000,000	6,251,388	22,251,388
2031-2035	13,140,000	2,497,051	15,637,051
2036	2,670,000	133,500	2,803,500
	<u>53,775,000</u>	<u>\$ 31,184,906</u>	<u>\$ 84,959,906</u>
Total	53,775,000	\$ 31,184,906	\$ 84,959,906
Less current portion	<u>(1,715,000)</u>		
Total non-current portion	<u>\$ 52,060,000</u>		

In 2007, the District converted its remaining \$63.8 million in COPs from variable auction rate to a fixed rate debt to reduce interest rate risk. At the time of conversion the auction rate was 3.5%. The total-all-in cost is 4.736%. The \$1.6 million realized in the issue premium was expended toward the Meadowlark Treatment Plant expansion.

**VALLECITOS WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 8 – Long Term Debt (Continued)

2012 Certificates of Participation

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

Changes in the 2012 Certificates of Participation amounts for the 2015 fiscal year were as follows:

	<u>Balance June 30, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2015</u>
2012 COP	\$ 6,455,000	\$ -	\$ (660,000)	\$ 5,795,000
Less: Current portion	<u>(660,000)</u>			<u>(673,000)</u>
Long-term portion	<u>\$ 5,795,000</u>			<u>\$ 5,122,000</u>

Annual debt service payments are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 673,000	\$ 108,079	\$ 781,079
2017	688,000	94,605	782,605
2018	702,000	80,844	782,844
2019	741,000	66,558	807,558
2020	725,000	52,044	777,044
2021-2023	<u>2,266,000</u>	<u>67,953</u>	<u>2,333,953</u>
Total	5,795,000	<u>\$ 470,083</u>	<u>\$ 6,265,083</u>
Less current portion	<u>(673,000)</u>		
Total non-current portion	<u>\$ 5,122,000</u>		

**VALLECITOS WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 8 – Long Term Debt (Continued)

2008 Loan Payable

On November 12, 2008, the District entered into a variable rate tax-exempt private placement loan with Union Bank of California (UBOC) in the amount of \$8,000,000 to partially finance the District's share of the expansion costs at the Encina Wastewater Authority's treatment plant. Terms of the agreement call for interest to accrue at an interest rate per annum equal to 64.72% of the LIBOR index plus 0.79% (1.033% at June 30, 2015). Principal payments of \$200,000 plus interest are payable semi-annually and maturing in 2028.

Changes in the 2008 loan payable for the year ended June 30, 2015 were as follows:

	Balance June 30, 2014	Additions	Deletions	Balance June 30, 2015
2008 UBOC loan	\$ 5,800,000	\$ -	\$ (400,000)	\$ 5,400,000
Less: Current portion	(400,000)			(400,000)
Long-term portion	<u>\$ 5,400,000</u>			<u>\$ 5,000,000</u>

Annual debt service payments are as follows:

Fiscal Year	Principal	Interest	Total
2016	\$ 400,000	\$ 61,712	\$ 461,712
2017	400,000	60,528	460,528
2018	400,000	58,971	458,971
2019	400,000	57,000	457,000
2020	400,000	54,570	454,570
2021-2025	2,000,000	216,694	2,216,694
2026-2029	1,400,000	59,186	1,459,186
Total	5,400,000	<u>\$ 568,661</u>	<u>\$ 5,968,661</u>
Less current portion	(400,000)		
Total non-current portion	<u>\$ 5,000,000</u>		

**VALLECITOS WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 9 – Net Position

a. Net Investment In Capital Assets

Net Investment in Capital Assets at June 30 consists of the following:

Investment in Encina Wastewater Authority capital assets	\$ 31,271,621
Capital assets not being depreciated	29,402,943
Net capital assets being depreciated	217,025,948
Certificates of participation - current portion	(2,388,000)
Loan payable - UBOC - current portion	(400,000)
Certificates of participation - noncurrent portion	(58,046,474)
Loan payable - UBOC - noncurrent portion	<u>(5,000,000)</u>
Total net investment in capital assets	<u>\$ 211,866,038</u>

b. Restricted Net Position

Restricted net position at June 30 consists of the following:

Restricted for debt service	\$ 1,672,992
Restricted for future capital projects	<u>3,444,548</u>
Total restricted net position	<u>\$ 5,117,540</u>

c. Unrestricted Net Position

Unrestricted net position at June 30 consists of the following:

Nonspendable net position	
Inventories	\$ 1,053,859
Prepaid expenses	<u>377,773</u>
Total nonspendable net position	<u>1,431,632</u>
Spendable net position	
Unrestricted net position	<u>32,855,924</u>
Total unrestricted net position	<u>34,287,556</u>
Total net position	<u>\$ 251,271,134</u>

**VALLECITOS WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 10 – Defined Benefit Pension Plan

A. General Information about the Pension Plans

Plan Descriptions

The Plans are cost-sharing, multiple-employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). A full description of the pension plans regarding number of employees covered, benefit provisions, assumptions (for funding, but not account purposes), and membership information are listed in the June 30, 2013 Annual Actuarial Valuation Report. Details of the benefits provided can be obtained in Appendix B of the actuarial valuation report. The actuarial valuation report and CalPERS' audited financial statements are publicly available reports that can be obtained at CalPERS' website under Forms and Publications, 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 Plans operate under the provisions of the California Public Employees' Retirement Law (PERL), the California Public Employees' Pension Reform Act of 2013 (PEPRA), and the regulations, procedures and policies adopted by the CalPERS Board of Administration. The Plans' authority to establish and amend the benefit terms are set by the PERL and PEPRA, and may be amended by the California state legislature and in some cases require approval by the CalPERS Board.

The Plans' provisions and benefits in effect at June 30, 2015 are summarized as follows:

	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	3% @ 60	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 55	52 - 62
Monthly benefits, as a % of eligible compensation	2.0% to 3.0%	1.0% to 2.0%
Required employee contribution rates	8%	6.25%
Required employer contribution rates	22.508%	6.25%

**VALLECITOS WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 10 – Defined Benefit Pension Plan (Continued)

A. General Information about the Pension Plans (Continued)

Contributions

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. For public agency cost-sharing plans covered by Miscellaneous risk pools, the Plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ended June 30, 2014 (the measurement date), the average active employee contribution rate for both the miscellaneous and PEPRA plans is 8.0 percent of annual pay, and the employer's contribution rate is 22.508 percent of annual payroll. Employer contribution rates may change if plan contracts are amended. Employer Contributions for the measurement period ended June 30, 2014 for both plans are \$1,265,103. Employer Paid Member Contributions for the measurement period ended June 30, 2014 for both plans are \$285,184. The actual employer payments of \$1,265,103 made to CalPERS by the District during the measurement period ended June 30, 2014 differed from the District's proportionate share of the employer's contributions of \$1,318,604 by \$53,501, which is being amortized over the expected average remaining service lifetime in the Public Agency Cost-Sharing Multiple Employer Plan.

B. Net Pension Liability

The District's net pension liability for each Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of each of the Plans is measured as of June 30, 2014, using an annual actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is as follows.

**VALLECITOS WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 10 – Defined Benefit Pension Plan (Continued)

B. Net Pension Liability (Continued)

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

For the measurement period ended June 30, 2014 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2013 total pension liability. The June 30, 2013 and June 30, 2014 total pension liabilities were based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	Market Value of Assets
Actuarial Assumptions:	
Discount Rate	7.50%
Inflation	2.75%
Salary Increases ⁽¹⁾	3.3% - 14.2%
Investment Rate of Return ⁽²⁾	7.50%
Mortality Rate Table ⁽³⁾	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

(1) Annual increases vary by category, entry age, and duration of service

(2) Net of pension plan investment and administrative expenses; includes inflation

(3) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The experience study report can be obtained at CalPERS' website under Forms and Publications.

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.50 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

VALLECITOS WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

Note 10 – Defined Benefit Pension Plan (Continued)

B. Net Pension Liability (Continued)

Discount Rate (Continued)

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. This difference was deemed immaterial to the Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan. Refer to the *sensitivity of the net pension liability to changes in the discount rate* section of this note, which provides information on the sensitivity of the net pension liability to changes in the discount rate.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as they have changed their methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The following table reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

**VALLECITOS WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 10 – Defined Benefit Pension Plan (Continued)

B. Net Pension Liability (Continued)

Discount Rate (Continued)

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1 - 10¹</u>	<u>Real Return Years 11+²</u>
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	12.0%	6.83%	6.95%
Real Estate	11.0%	4.50%	5.13%
Infrastructure and Forestland	3.0%	4.50%	5.09%
Liquidity	2.0%	(0.55%)	(1.05%)
Total	<u><u>100%</u></u>		

¹ An expected inflation of 2.5% used for this period

² An expected inflation of 3.0% used for this period

Pension Plan Fiduciary Net Position

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

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

**VALLECITOS WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 10 – Defined Benefit Pension Plan (Continued)

C. Proportionate Share of Net Pension Liability

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

<i>Miscellaneous Plan</i>	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (c) = (a) - (b)
Balance at: 6/30/2013 (VD)	\$ 55,427,518	\$ 41,809,645	\$ 13,617,873
Balance at: 6/30/2014 (MD)	\$ 58,725,990	\$ 48,759,453	\$ 9,966,537
Net Changes during 2013-14	\$ 3,298,472	\$ 6,949,808	\$ (3,651,336)

<i>PEPRA Miscellaneous Plan</i>	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (c) = (a) - (b)
Balance at: 6/30/2013 (VD)	\$ 2,844	\$ 2,145	\$ 699
Balance at: 6/30/2014 (MD)	\$ 3,013	\$ 2,502	\$ 511
Net Changes during 2013-14	\$ 169	\$ 357	\$ (188)

Valuation Date (VD), Measurement Date (MD).

The District’s net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2014, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. The District’s proportion of the net pension liability was 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 under Forms and Publications, at www.calpers.ca.gov. The District’s proportionate share of the net pension liability for each Plan as of June 30, 2013 and 2014 was as follows:

	<u>Miscellaneous</u>
Proportionate Share - June 30, 2013	0.41560%
Proportionate Share - June 30, 2014	0.40326%
Change - Increase (Decrease)	-0.01234%
	 PEPRA
	<u>Miscellaneous</u>
Proportionate Share - June 30, 2013	0.00002%
Proportionate Share - June 30, 2014	0.00002%
Change - Increase (Decrease)	0.00000%

**VALLECITOS WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

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 for each Plan as of the measurement date, calculated using the discount rate of 7.50 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.50 percent) or 1 percentage-point higher (8.50 percent) than the current rate:

	Discount Rate - 1% (6.50%)	Current Discount Rate (7.5%)	Discount Rate + 1% (8.50%)
<i>Miscellaneous Plan</i>			
Plan's Net Pension Liability	\$ 17,757,287	\$ 9,966,537	\$ 3,500,954

	Discount Rate - 1% (6.50%)	Current Discount Rate (7.5%)	Discount Rate + 1% (8.50%)
<i>PEPRA Miscellaneous Plan</i>			
Plan's Net Pension Liability	\$ 911	\$ 511	\$ 179

Subsequent Events

There were no subsequent events that would materially affect the results presented in this disclosure.

Recognition of Gains and Losses

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

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

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

Difference between projected and actual earnings 5 year straight-line amortization

All other amounts Straight-line amortization over the average expected remaining service lives of all members that are provided with benefits (active, inactive and retired) as of the beginning of the measurement period

**VALLECITOS WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 10 – Defined Benefit Pension Plan (Continued)

C. Proportionate Share of Net Pension Liability (Continued)

Recognition of Gains and Losses (Continued)

The expected average remaining service lifetime (EARSL) is calculated by dividing the total future service years by the total number of plan participants (active, inactive, and retired) in the Public Agency Cost-Sharing Multiple-Employer Plan (PERF C).

The EARSL for the Plan for the 2013-14 measurement period is 3.8 years, which was obtained by dividing the total service years of 460,700 (the sum of remaining service lifetimes of the active employees) by 122,789 (the total number of participants: active, inactive, and retired). Note that inactive employees and retirees have remaining service lifetimes equal to 0. Also note that total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

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

As of the start of the measurement period (July 1, 2013), the net pension liability for the plan is \$13,618,572 (the net pension liability of the aggregate plan as of June 30, 2013 is \$3,276,668,431).

For the measurement period ending June 30, 2014 (the measurement date), the District incurred a pension expense of \$1,273,542 for the Plan (the pension expense for the aggregate plan for the measurement period is \$239,824,465). A complete breakdown of the pension expense is as follows:

Pension Expense Component - Miscellaneous Plan	Risk Pool Amounts	Employer's Share	Percentage of Employer's Share
Service Cost	\$ 338,829,351	\$ 1,460,347	0.43100%
Interest on the Total Pension Liability	921,162,366	4,126,030	0.44792%
Recognized Differences between Expected and Actual Experience	-	-	N/A
Recognized Changes of Assumptions	-	-	N/A
Employee Contributions	(159,834,203)	(633,891)	0.39659%
Employer Paid Member Contributions		285,184	N/A
Projected Earnings on Pension Plan Investments	(678,133,636)	(3,116,390)	0.45955%
Recognized Differences between Projected and Actual Earnings on Plan Investments	(182,199,413)	(837,305)	0.45955%
Other Changes in Fiduciary Net Position	-	-	N/A
Recognized Portion of Adjustment due to Differences in Proportions	-	4,639	N/A
Recognized Differences Between Contributions and Proportionate Share of Contributions		(14,079)	
Subtotal: Expense Components	\$ 239,824,465	\$ 1,274,535	0.53144%
Changes of Benefit Terms		-	
Pension Expense		\$ 1,274,535	

**VALLECITOS WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 10 – Defined Benefit Pension Plan (Continued)

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

Pension Expense Component - PEPR	Risk Pool	Employer's	Percentage of
Miscellaneous Plan	Amounts	Share	Employer's
			Share
Service Cost	\$ 338,829,351	\$ 5,553	0.00164%
Interest on the Total Pension Liability	921,162,366	212	0.00002%
Recognized Differences between Expected and Actual Experience	-	-	N/A
Recognized Changes of Assumptions	-	-	N/A
Employee Contributions	(159,834,203)	(6,928)	0.00433%
Projected Earnings on Pension Plan Investments	(678,133,636)	(160)	0.00002%
Recognized Differences between Projected and Actual Earnings on Plan Investments	(182,199,413)	(43)	0.00002%
Other Changes in Fiduciary Net Position	-	-	N/A
Recognized Portion of Adjustment due to Differences in Proportions	-	373	N/A
Subtotal: Expense Components	<u>\$ 239,824,465</u>	<u>\$ (993)</u>	-0.00041%
Changes of Benefit Terms		-	
Pension Expense		<u>\$ (993)</u>	

Note: Plan administrative expenses are not displayed in the above pension expense table. Since the expected investment return of 7.50 percent is net of administrative expenses, administrative expenses are excluded from the above table, but implicitly included as part of investment earnings.

As of June 30, 2015, the District has deferred outflows and deferred inflows of resources related to pensions as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net Difference between Projected and Actual Earnings on Pension Plan Investments	\$ -	\$ (3,349,390)
Adjustment due to Differences in Proportions	14,033	-
Net Difference between Contributions and Proportionate Share of Contributions	-	(39,422)
Pension Contributions Subsequent to Measurement Date	1,662,183	-
Total	<u>\$ 1,676,216</u>	<u>\$ (3,388,812)</u>

These amounts above are net of outflows and inflow recognized in the 2013-14 measurement period expense. The \$1,662,183 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in future pension expense as follows:

**VALLECITOS WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 10 – Defined Benefit Pension Plan (Continued)

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

Measurement Period Ended June 30:	Deferred Outflows/(Inflows) of Resources
2015	(846,415)
2016	(846,415)
2017	(844,603)
2018	(837,346)
2019	-
Thereafter	-

E. Payable to the Pension Plan

At June 30, 2015, the District reported a payable of \$-0- for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2015.

Note 11 – Other Post-Employment Benefits Plan

The District provides post-employment health benefits in accordance with a resolution approved by the Board of Directors, to all employees who retire from the District under the retirement criteria established by CalPERS, up to age 65. At June 30, 2015 there were twenty-nine retired employees who met these eligibility requirements and are therefore receiving the benefits. The post-retirement health care benefits are financed on a pay-as-you-go-basis.

The total expense incurred for these benefits for retired employees for the year ended June 30, 2015 was \$402,143.

Plan Description

The District administers the Other Post-Employment Benefit Plan (OPEB), a multi-employer defined benefit plan.

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.

**VALLECITOS WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

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

Plan Description (Continued)

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 ACWA Program. The activity and liability from the OPEB plan are included in these financial statements.

Funding Policy

The District's Resolution No. 788, established the authority for the plan and provides that the District will pay 100% of the cost of the OPEB plan. Resolution No. 1389 authorized the District to establish and maintain an irrevocable trust to fund OPEB and seek reimbursement from the trust to cover current retiree benefit premiums which are paid by the District on a pay-as-you-go basis. The District began funding the trust in March of 2012.

Annual OPEB Cost

The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the District's net OPEB obligation for the year ended June 30th as follows:

Annual required contribution	\$	382,547
Contributions made:		
Retired employees post employment medical benefit payments		(392,960)
Increase (decrease) in net post employment benefits payable obligation		(10,413)
Post employment benefits payable, net - beginning of year		30,009
Post employment benefits payable, net - end of year	\$	19,596

**VALLECITOS WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

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

Funded Status of the Plan

The most recent valuation (dated January 1, 2015) includes an Actuarial Accrued Liability of \$6,620,476 and an Unfunded Actuarial Accrued Liability of \$3,389,038. The covered payroll (annual payroll of active employees covered by the plan) for the year ended June 30, 2015 is \$7,190,573. The ratio of the unfunded actuarial liability to annual payroll covered is 47.13%. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for the benefits.

Three Year Trend Information

The District's annual OPEB cost, the percentage of annual OPEB cost contributions to the plan, and the net OPEB obligation for the following fiscal years ended were as follows:

Fiscal Year Ended	Annual OPEB Costs	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2013	\$ 435,652	100.52%	\$ 18,090
June 30, 2014	387,648	96.93%	30,009
June 30, 2015	382,547	102.72%	19,596

Actuarial Methods and Assumptions

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

The District's valuation uses the Projected Unit Credit actuarial cost method to project the Annual Required Contribution and a 7% discount rate. A level dollar amortization of the Unfunded Actuarial Accrued Liability is used over a closed 30-year period.

VALLECITOS WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

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 disasters. The District is a member of the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California water agencies. The purpose of the ACWA/JPIA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. At June 30, 2015, the District participated in the liability and property programs of the ACWA/JPIA as follows:

- General and auto liability, public officials and employees' errors and omissions: Total risk financing self-insurance limits of \$2,000,000, combined single limit at \$1,000,000 per occurrence. The District purchased additional excess coverage layers: \$58 million for general, auto and public officials liability, which increases the limits on the insurance coverage noted above.

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

- Employee dishonesty coverage up to \$100,000 per loss includes public employee dishonesty, forgery or alteration and theft, disappearance and destruction coverage.
- Property loss is paid at the replacement cost for property on file, if replaced within two years after the loss, otherwise paid on an actual cash value basis, to a combined total of \$100 million per occurrence, subject to a \$10,000 deductible per occurrence. Total risk financed self-insurance limits is \$50,000 with additional insurance purchased with coverage limits of \$100 million.
- Boiler and machinery coverage for the replacement cost up to \$100 million per occurrence, subject to various deductibles depending on the type of equipment.
- Workers' compensation insurance up to California statutory limits for all work related injuries/illnesses covered by California law, with total risk financed self-insurance limits of \$2 million.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the years ending June 30, 2015 and 2014. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of June 30, 2015.

**VALLECITOS WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 13 – Segment Information

The District's 2005A COPs are payable solely from the net revenues of the District's water and sewer systems. Summary financial information for the water and sewer systems is presented for June 30, 2015.

Condensed Statement of Net Position

	Water	Sewer	Total
Assets:			
Current assets	\$ 24,752,671	\$ 33,301,270	\$ 58,053,941
Non-current assets	1,165,644	2,426,356	3,592,000
Capital assets, net	144,690,705	133,009,807	277,700,512
Total assets	170,609,020	168,737,433	339,346,453
Deferred Outflows of Resources			
Pension related	997,940	678,276	1,676,216
Liabilities:			
Current liabilities	7,902,222	5,427,382	13,329,604
Non-current liabilities	32,260,904	40,772,215	73,033,119
Total liabilities	40,163,126	46,199,597	86,362,723
Deferred Inflows of Resources			
Pension related	2,017,539	1,371,273	3,388,812
Net assets:			
Net investment in capital assets	117,495,635	94,370,403	211,866,038
Restricted for future capital facilities	1,096,000	2,348,548	3,444,548
Restricted for debt service	874,649	798,343	1,672,992
Unrestricted	9,960,010	24,327,546	34,287,556
Total net assets	\$ 129,426,294	\$ 121,844,840	\$ 251,271,134

VALLECITOS WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

Note 13 – Segment Information (Continued)

Condensed Statement of Revenues, Expenses and Changes in Net Position

	Water	Sewer	Total
Revenues:			
Operating revenues	\$ 37,403,907	\$ 18,622,716	\$ 56,026,623
Non-operating revenues	2,070,516	2,000,776	4,071,292
Total revenues	39,474,423	20,623,492	60,097,915
Expenses:			
Operating expenses	31,577,865	11,065,647	42,643,512
Depreciation and amortization	5,163,667	3,684,290	8,847,957
Non-operating expenses	1,354,241	6,713,824	8,068,065
Total expenses	38,095,773	21,463,761	59,559,534
Net income/(loss) before capital contributions	1,378,650	(840,269)	538,381
Capital contributions	3,132,866	5,281,394	8,414,260
Change in net position	4,511,516	4,441,125	8,952,641
Total Net Position, Beginning of Year	133,063,089	123,045,715	256,108,804
Prior Period Restatement	(8,148,311)	(5,642,000)	(13,790,311)
Total Net Position at Beginning of Year as Restated	124,914,778	117,403,715	242,318,493
Total Net Position, End of Year	\$ 129,426,294	\$ 121,844,840	\$ 251,271,134

Condensed Statement of Cash Flows

	Water	Sewer	Total
Net cash provided (used) by:			
Operating activities	\$ 5,522,033	\$ 6,769,780	\$ 12,291,813
Non-capital financing activities	1,835,655	1,615,128	3,450,783
Capital and related financing activities	(3,814,366)	(6,699,715)	(10,514,081)
Investing activities	1,187,725	956,580	2,144,305
Net cash provided	4,731,047	2,641,773	7,372,820
Cash and cash equivalents, beginning of year	4,455,798	13,156,449	17,612,247
Cash and cash equivalents, end of year	\$ 9,186,845	\$ 15,798,222	\$ 24,985,067

**VALLECITOS WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 14 – 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. The District has committed to approximately \$441,467 in open construction contracts as of June 30, 2015. These include the following:

<u>Project Description</u>	<u>Total Approved Contracts (\$)</u>	<u>Spent Through June 30, 2015</u>	<u>Remaining</u>
Linda Vista Sewer Upgrade	\$ 2,203,099	\$ 2,513,608	\$ -
San Elijo Hills Pump Station	1,888,577	1,627,898	260,679
Desalinate Water Connection	511,673	582,177	-
Lift Station 1 Pump Improvements	561,767	380,979	180,788
San Marino Hermosita Sewer	63,562	73,008	-
	<u>\$ 5,228,678</u>	<u>\$ 5,177,670</u>	<u>\$ 441,467</u>

Grant Awards

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

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 15 – Prior Period Restatement

Change in Accounting Principle

As discussed in Note 1, the District implemented GASB Statement No. 68 effective July 1, 2014. GASB 68, among other provisions, amended prior guidance with respect to the reporting of pensions. GASB 68, establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, the District's net pension liability was not previously recorded on the statement of net position. GASB 68 requires that accounting changes adopted to conform to the provisions of the Statement be applied retroactively by restating financial statements.

**VALLECITOS WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 15 – Prior Period Restatements (Continued)

Change in Accounting Principle (Continued)

Accordingly, beginning net position on the Statement of Net Position has been restated for changes related to GASB 68 as follows:

Proprietary Funds Statement of Net Position

Beginning net position, as previously reported	\$ 256,108,804
Restatement due to change in accounting principle	<u>(13,790,311)</u>
Beginning net position, as restated	<u>\$ 242,318,493</u>

Note 16 – Subsequent Events

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

**REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2015**

**VALLECITOS WATER DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE PLAN'S
NET PENSION LIABILITY AND RELATED RATIOS AS OF THE MEASUREMENT DATE
LAST 10 YEARS***

	Measurement Date 6/30/2014	
	PEPRA - Miscellaneous	Miscellaneous
Plan's Proportion of the Net Pension Liability	0.00100%	0.16017%
Plan's Proportionate Share of the Net Pension Liability	\$ 511	\$ 9,966,537
Plan's Covered-Employee Payroll ¹	\$ 41,548	\$ 7,296,993
Plan's Proportionate Share of the Net Pension Liability as a percentage of its Covered-Employee Payroll	1.23%	136.58%
Plan's Proportion of the Fiduciary Net Position ²	0.00002%	0.45829%
Plan's Share of Risk Pool Fiduciary Net Position ²	\$ 2,502	\$ 48,759,453
Plan's Additional Payments to Side Fund During Measurement Period	\$ -	\$ -
Plan's Proportionate Share of the Fiduciary Net Position (<i>sum of the two preceding lines</i>)	\$ 2,502	\$ 48,759,453
Plan's Proportionate Share of the Fiduciary Net Position as a percentage of the Plan's Total Pension Liability	83.03%	83.03%
Plan's Proportionate Share of Aggregate Employer Contributions ³	\$ 68	\$ 1,318,536

¹ Covered-Employee Payroll represented above is based on the total payroll of employees that are provided pensions through the pension plan in accordance with GASB 68.

² The term Fiduciary Net Position (FNP) as used in this line denotes the aggregate risk pool's FNP at June 30, 2014 less the sum of all employers' additional side fund contributions made during the measurement period.

³ The plan's proportionate share of aggregate contributions may not match the actual contributions made by the employer during the Measurement Period. The plan's proportionate share of aggregate contributions is based on the plan's proportion of Fiduciary Net Position shown on line 5 of the table above as well as any additional side fund (or unfunded liability) contributions made by the employer during the measurement period.

* Measurement period 2013-14 (fiscal year 2015) was the 1st year of implementation, therefore, only one year is shown.

**VALLECITOS WATER DISTRICT
SCHEDULE OF PLAN CONTRIBUTIONS
LAST 10 YEARS***

	<u>Measurement Period 2013-14</u>	
	PEPRA -	
	<u>Miscellaneous</u>	<u>Miscellaneous</u>
Actuarially Determined Contribution	\$ 6,886	\$ 1,201,145
Contributions in Relation to the Actuarially Determined Contribution	(6,886)	(1,201,145)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
Covered-Employee Payroll	\$ 41,548	\$ 7,296,993
Contributions as a Percentage of Covered-Employee Payroll	16.57%	16.46%

¹ Covered-Employee Payroll represented above is based on the total payroll of employees that are provided pensions through the pension plan in accordance with GASB 68.

* Measurement period 2013-14 (fiscal year 2014-15) was the 1st year of implementation, therefore, only one year is shown.

Notes to Schedule:

Change in Benefit Terms: None

Change in Assumptions: None

**VALLECITOS WATER DISTRICT
SCHEDULE OF FUNDING PROGRESS FOR
OTHER POST-EMPLOYMENT BENEFITS
JUNE 30, 2015**

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll	UAAL as a Percentage of Covered Payroll ((b - a)/c)
6/30/2011	\$ -	\$ 4,911,102	\$ 4,911,102	0%	\$ 7,759,756	63.29%
6/30/2013	2,635,608	5,078,124	2,442,516	51.90%	7,445,301	32.81%
6/30/2015	3,231,438	6,620,476	3,389,038	48.81%	7,190,573	47.13%

SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2015

**VALLECITOS WATER DISTRICT
SCHEDULE OF OPERATING EXPENSES – WATER DIVISION
FOR THE YEAR ENDED JUNE 30, 2015**

Purchased Water	\$ 22,332,619
Pumping:	
Labor	58,380
Materials and supplies	46,901
Outside repair	20,761
Power	310,390
Total Pumping	<u>436,432</u>
Water Quality and Treatment:	
Labor	354,338
Materials and supplies	57,763
Outside Repair	71,709
Power	5,224
Total Water Treatment	<u>489,034</u>
Tanks and Reservoirs:	
Labor	179,432
Materials and supplies	37,436
Outside repair	58,090
Power	4,928
Total Tanks and Reservoirs	<u>279,886</u>
Transmission and Distribution:	
Labor	860,774
Materials and supplies	207,537
Outside repair	196,537
Power	13,041
Total Transmission and Distribution	<u>1,277,889</u>
Services:	
Labor	55,887
Materials and supplies	34,436
Outside repair	15,456
Total Services	<u>105,779</u>
Meters:	
Labor	581,489
Materials and supplies	42,224
Outside repair	38,170
Total Meters	<u>661,883</u>

**VALLECITOS WATER DISTRICT
SCHEDULE OF OPERATING EXPENSES – WATER DIVISION
FOR THE YEAR ENDED JUNE 30, 2015**

Backflow Prevention:	
Labor	\$ 49,482
Materials and supplies	243
Total Backflow Prevention	<u>49,725</u>
Customer Accounts:	
Labor	419,345
Materials and supplies	51,643
Uncollectible accounts	33,851
Outside Repair	47,647
Total Customer Accounts	<u>552,486</u>
Equipment and Vehicles:	
Labor, fuel and repairs	239,721
Materials and supplies	86,861
Total Equipment and Vehicles	<u>326,582</u>
Building and Grounds:	
Labor	164,926
Materials and supplies	62,754
Outside Repair	93,694
Power	31,516
Total Building and Grounds	<u>352,890</u>
Engineering:	
Labor	1,201,974
Materials and supplies	30,969
Outside Repair	31,278
Total Engineering	<u>1,264,221</u>
Safety:	
Labor	178,073
Materials and supplies	16,734
Safety support	13,611
Total Safety	<u>208,418</u>

**VALLECITOS WATER DISTRICT
SCHEDULE OF OPERATING EXPENSES – WATER DIVISION
FOR THE YEAR ENDED JUNE 30, 2015**

Information Technology		
Labor	\$	324,258
Travel		1,937
Dues and subscriptions		431
Meetings and seminars		2,451
Other materials and supplies		68,843
Phone		20,199
Equipment Rent & Repair		27,559
Outside Repair		164,052
Total Information Technology		<u>609,730</u>
 General and Administration:		
Salaries		1,565,724
Other taxes/benefits		8,694
Social security		125,721
Group insurance		576,051
Public employees' retirement		286,963
Workers' compensation insurance		36,382
District insurance		169,367
Director's expense		36,047
Director's fees		31,320
Public awareness		197,024
Travel		18,415
Postage		3,262
Office supplies		37,888
Dues and subscriptions		87,621
Meetings and seminars		23,459
Legal		138,541
Auditing		19,965
Outside services		108,718
Election and annexations		2,861
Other		(18,984)
Administrative credits transferred		(824,748)
Total General and Administration		<u>2,630,291</u>
 Total Water Division Expenses	 \$	 <u>31,577,865</u>

**VALLECITOS WATER DISTRICT
SCHEDULE OF OPERATING EXPENSES – WASTEWATER DIVISION
FOR THE YEAR ENDED JUNE 30, 2015**

Collection System:	
Labor	\$ 1,437,069
Materials and supplies	74,483
Chemicals	305,508
Outside repair	61,858
Power	1,910
Total Collection System	<u>1,880,828</u>
Lift Stations	
Labor	108,718
Materials and supplies	34,495
Chemicals	22,342
Outside repair	48,733
Power	42,639
Total Lift Stations	<u>256,927</u>
Peroxide Station:	
Labor	634
Materials and supplies	154
Outside repair	158
Power	162
Total Peroxide Station	<u>1,108</u>
Source Control:	
Labor	114,770
Materials and supplies	36,398
Total Source Control	<u>151,168</u>
Encina Disposal	<u>2,493,629</u>
Meadowlark Lift Station:	
Labor	65,278
Materials and supplies	21,812
Chemicals	118,584
Outside repair	32,283
Power	83,034
Total Meadowlark Lift Station	<u>320,991</u>

**VALLECITOS WATER DISTRICT
SCHEDULE OF OPERATING EXPENSES – WASTEWATER DIVISION
FOR THE YEAR ENDED JUNE 30, 2015**

Meadowlark Plant:	
Labor	\$ 924,654
Materials and supplies	317,592
Chemicals	509,185
Outside repair	276,913
Power	449,054
Telephone	3,281
Total Meadowlark Plant	<u>2,480,679</u>
Mahr Reservoir:	
Labor	55,424
Materials and supplies	15,030
Chemicals	-
Outside repairs	58,698
Total Mahr Reservoir	<u>129,152</u>
Customer Accounts:	
Labor	249,130
Materials and supplies	49,550
Uncollectible accounts	17,554
Outside Services	45,652
Total Customer Accounts	<u>361,886</u>
Equipment and Vehicles:	
Labor, fuel and repairs	154,039
Materials and supplies	35,506
Fuel	50,610
Total Equipment and Vehicles	<u>240,155</u>
Buildings and Grounds:	
Labor	46,184
Materials and supplies	38,647
Outside repair	62,002
Power	29,320
Total Buildings and Grounds	<u>176,153</u>
Engineering:	
Labor	534,556
Materials and supplies	21,060
Outside repair	119,302
Total Engineering	<u>674,918</u>

**VALLECITOS WATER DISTRICT
SCHEDULE OF OPERATING EXPENSES – WASTEWATER DIVISION
FOR THE YEAR ENDED JUNE 30, 2015**

Safety:	
Labor	\$ 125,541
Materials and supplies	71
Outside services	10,736
Total Safety	<u>136,348</u>
Information Technology	
Labor	216,084
Materials and supplies	83,976
Outside services	135,525
Total Information Technology	<u>435,585</u>
General and Administration:	
Salaries	835,001
Other taxes/benefits	5,106
Social security	55,655
Group insurance	337,686
Public employees' retirement	115,629
Workers' compensation insurance	11,751
District insurance	162,725
Director's fees	25,429
Travel	241
Office supplies	13,089
Dues and subscriptions	(130)
Meetings and seminars	793
Legal	119,293
Auditing	19,215
Outside services	41,062
Other	-
Administrative credits transferred	(416,425)
Total General and Administration	<u>1,326,120</u>
Total Wastewater Division Expenses	<u>\$ 11,065,647</u>

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