

**ANNUAL FINANCIAL REPORT**  
**WITH INDEPENDENT AUDITOR'S REPORT**  
**BY CERTIFIED PUBLIC ACCOUNTANTS**  
**JUNE 30, 2017**

**VALLECITOS WATER DISTRICT**

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**JUNE 30, 2017**

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Vallecitos Water District  
San Marcos, California

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### MANAGERS / STAFF

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Nathan Statham, CPA, MBA  
Gardenya Duran, CPA  
Brianna Schultz, CPA  
Lisa Dongxue Guo, CPA, MSA

We have audited the accompanying financial statements of the Vallecitos Water District (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

### MEMBERS

American Institute of  
Certified Public Accountants

*PCPS The AICPA Alliance  
for CPA Firms*

*Governmental Audit  
Quality Center*

California Society of  
Certified Public Accountants

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, 2017 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.

## **Other Matters**

### ***Summarized Comparative Information***

We have previously audited the District's 2016 financial statements, and our report dated November 28, 2016, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of the District's proportionate share of the Plan's net pension liability and the related ratios as of the measurement date, 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, Malody & Scott, LLP.*

San Bernardino, California  
November 21, 2017

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

### **Fiscal Year Ended June 30, 2017**

Our discussion and analysis of the Vallecitos Water District's (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2017. 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, 2017 (2016/17), the following highlights impacted, or have the potential to impact, the finances of the District.

- The year ended June 30, 2017, was the first full fiscal year of desalinated water deliveries from the desalination plant in Carlsbad. The increase in the cost of water plus increased demands accounted for a \$5.2 million, or 23.4%, increase in purchased water cost.
- In February 2017, the District rescinded Drought Level 1 following the end of drought declaration by the San Diego County Water Authority. Rescinding the drought declaration attributed to an increase in water sales of \$4.4 million, or 23.3%.
- In September of 2016, the Vallecitos Water District Board of Directors adopted rates effective January of 2017, to pass through only half of the wholesale increase, with no increase to the retail portion, attributing to the water cost increase exceeding the water sales increase.
- In 2016/17, the District received \$6.6 million in capital facility fees from development, compared to \$3.1 million received the prior year.
- The District expended \$3.9 million in capital asset acquisition and construction compared to \$9.3 million the prior year.
- The District paid down \$3.3 million in long-term debt without incurring any additional debt.
- Expenses exceeded revenue for the second year in a row resulting in an operating loss of \$1.5 million compared to an operating loss of \$0.8 million the prior year, and, with non-operating revenues and expenses, a net loss before capital contributions of \$1.8 million, compared to a loss of \$5.7 million the prior year. After capital contributions of \$6.8 million, the District added \$4.9 million to its net position.
- In May 2017, Fitch Rating affirmed the District's AA+ rating with a stable outlook.
- On June 7, 2017, the Board of Directors approve a Cost of Service and Rate Structure Study with rate increases for water becoming effective in March 2018, and no increase to sewer service charges.

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

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

**VALLECITOS WATER DISTRICT**

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

Statement of Net Position

The Statement of Net Position presents the District’s financial position (assets and liabilities) as of June 30, 2017. Assets in excess of liabilities (Net Position) are \$254,319,757. In accordance with generally accepted accounting principles, capital assets acquired through purchase or construction by the District are recorded at historical cost. Capital assets contributed by development are recorded at acquisition value or developers’ construction cost.

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position presents the District’s results of operations for the year ended June 30, 2017. 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 loss for the year ended June 30, 2017, of \$1,549,069 is combined with net non-operating expenses of \$285,011 and capital contributions of \$6,760,690 to arrive at an increase in net position of \$4,926,610. The increase in net position is added to restated beginning net position of \$249,393,147 to arrive at ending net position of \$254,319,757 as of June 30, 2017. The prior period adjustment was the result of a change in recording capital facility fee revenue and receivable in fiscal year 14/15.

	2016/17	2015/16
Operating Income/(Loss)	\$ (1,549,069)	\$ (806,851)
Net Nonoperating Revenues/(Expenses)	(285,011)	(4,884,002)
Capital contributions	6,760,690	7,083,887
Change in net position	4,926,610	1,393,034
Net Position, Beginning of Year as Previously Stated	249,393,147	251,271,134
Prior Period Adjustment	-	(3,271,021)
Total Net Position, Beginning of Year	249,393,147	248,000,113
Total Net Position, End of Year	<u>\$ 254,319,757</u>	<u>\$ 249,393,147</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, 2017, is the increase in cash and cash equivalents of \$3,917,705 which is combined with beginning cash and cash equivalents of \$26,700,528 to arrive at ending cash and cash equivalents of \$30,618,233. 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, 2017.

Beginning cash & cash equivalents	\$ 26,700,528
Increase in cash & cash equivalents	3,917,705
Ending cash & cash equivalents	<u>\$ 30,618,233</u>



# VALLECITOS WATER DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

As of June 30, 2017, the total cash and cash equivalents are as follows. Restricted cash and cash equivalents are to pay debt service.

	2016/17	2015/16
Cash and cash equivalents (unrestricted)	\$ 27,534,241	\$ 23,665,659
Restricted cash and cash equivalents	3,083,992	3,034,869
Total cash & cash equivalents	<u>\$ 30,618,233</u>	<u>\$ 26,700,528</u>

### ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

During the fiscal year 2017 the increase in net position of \$4,926,610 on page 13 resulted from the increase in total assets and deferred outflows combined with the increase in total liabilities and decrease in deferred inflows. Deferred outflows/inflows are defined in Note 1(D) of the Notes to the Financial Statements.

Operating activities, capital facility fees, property taxes, and other sources helped fund \$5.8 million in capital acquisitions and construction, and \$5.5 million in debt service. The following table summarizes how these capital projects and debt service were financed during the year.

<i>Sources and Uses of Cash &amp; Investments in millions (excluding market value adjustment)</i>		
	2016/17	2015/16
<b>Sources:</b>		
Operating activities	\$ 6.7	\$ 9.6
Property tax	4.1	3.8
Capital facility fees	6.6	3.1
Other receipts	0.6	1.6
<b>Uses:</b>		
Capital construction and acquisition	(5.8)	(10.6)
Debt service	(5.5)	(5.6)
Increase in cash and investments	<u>\$ 6.7</u>	<u>\$ 1.9</u>

### CURRENT-TO-PRIOR YEAR ANALYSIS

#### Analysis of Net Position

The increase in net position of \$4.9 million is attributable to contributed capital in excess of the operating loss and adjustment in EWA.

Vallecitos Water District's Net Position				
	2016/17	2015/16	Change	
			Amount	%
Cash and investments	\$ 57,718,120	\$ 51,223,654	\$ 6,494,466	12.7%
Capital assets	268,694,939	272,973,229	(4,278,290)	-1.6%
Other assets	11,180,338	10,916,306	264,032	2.4%
Total Assets	<u>337,593,397</u>	<u>335,113,189</u>	<u>2,480,208</u>	<u>0.7%</u>
Deferred Outflows of Resources	7,557,899	4,727,494	2,830,405	59.9%
Current liabilities	14,732,646	14,047,333	685,313	4.9%
Noncurrent liabilities	75,095,353	74,873,342	222,011	0.3%
Total Liabilities	<u>89,827,999</u>	<u>88,920,675</u>	<u>907,324</u>	<u>1.0%</u>
Deferred Inflows-PERS Contributions	1,003,540	1,526,861	(523,321)	-34.3%
<b>Net Position</b>				
Net investment in capital assets	205,840,028	206,775,864	(935,836)	-0.5%
Restricted	2,579,677	2,120,022	459,655	21.7%
Unrestricted	<u>45,901,052</u>	<u>38,710,870</u>	<u>7,190,182</u>	<u>18.6%</u>
Total Net Position	<u>\$ 254,319,757</u>	<u>\$ 249,393,147</u>	<u>\$ 4,926,610</u>	<u>2.0%</u>

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

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

Analysis of Net Position (continued)

- Cash and investments increased by \$6.5 million during fiscal year 16/17 inclusive of the market value adjustment on investments.
- The capital assets decrease was the result of depreciation of assets in excess of asset additions.
- Receivables for both water and wastewater sales and capital facility fees increased by \$1.3 million which drove the other assets category higher in fiscal year 2016/17.
- Deferred Outflows of Resources increased by \$2.8 million mainly due to differences in Vallecitos Water Districts actual vs projected investment earnings as calculated by the California Public Employment Retirement System (CalPERS).
- Current liabilities increased as a result of payables related to increased water costs and connection fees payable to SDCWA.
- An increase in net pension liability resulted in an increase in non-current liabilities.
- The Deferred Inflows-PERS represents changes in actuarial assumptions as of measurement date June 30, 2016.

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 4.67 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 4.57 times its current obligations with assets readily convertible to cash. The District’s current and quick ratios show a high degree of solvency and a strong current position. The days of operations in cash is a common measure scrutinized by the

	<u>2016/17</u>	<u>2015/16</u>
Current ratio	4.67	4.41
Quick ratio	4.57	4.31
Days of operations in cash	402	405
Capital assets-to-Long-term liabilities	3.58 / 1	3.65 / 1
Debt-to-equity	1 / 2.83	1 / 2.80

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 \$3.58 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 \$2.83 of net position (equity).

Analysis of Revenues and Expenses

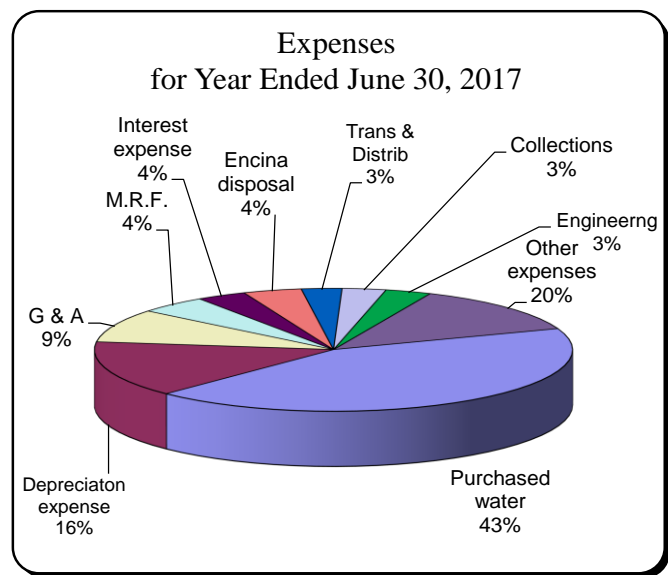
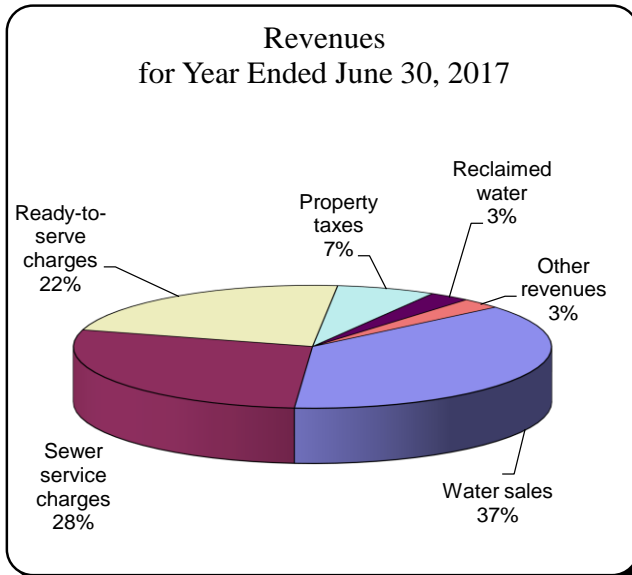
The composition of revenues and expenses for the 2016/17 fiscal year is illustrated in the following graphs. Water sales, ready-to-serve charges, and wastewater service charges continue to be the main sources of revenue funding District operations. Water sales are commodity charges assessed to cover the variable costs of purchasing and delivering water to customers. Ready-to-serve charges are intended to cover fixed costs in the wholesale water rate, and costs related to being able to provide water to customers.

Deductions from revenue to arrive at the operating loss of \$1,549,069 include non-cash depreciation and amortization expense of \$9,425,308. Depreciation is the systematic allocation of a capital asset’s cost to expense over a specified period of time. The District has established reserve floors and ceilings for the replacement of aging infrastructure.

**VALLECITOS WATER DISTRICT**

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

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



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

Vallecitos Water District's Revenues and Expenses				
	For Fiscal Year:		Change	
	2016/17	2015/16	Amount	%
Water sales	\$ 23,180,452	\$ 18,797,274	\$ 4,383,178	23.3%
Wastewater service charges	17,503,448	17,286,888	216,560	1.3%
Ready-to-serve charges	13,850,592	13,602,800	247,792	1.8%
Property taxes	4,162,701	3,830,522	332,179	8.7%
Reclaimed water sales	1,711,156	1,069,074	642,082	60.1%
Other revenues	1,705,760	2,667,926	(962,166)	-36.1%
<b>Total Revenues</b>	<b>62,114,109</b>	<b>57,254,484</b>	<b>4,859,625</b>	<b>8.5%</b>
Purchased water	27,392,003	22,190,912	5,201,091	23.4%
Depreciation expense	9,425,308	9,189,604	235,704	2.6%
General and administrative	5,637,471	5,851,489	(214,018)	-3.7%
Meadowlark Reclamation Facility (M.R.F.)	2,993,914	2,750,187	243,727	8.9%
Interest expense	2,153,641	2,512,597	(358,956)	-14.3%
Encina disposal	2,529,715	2,485,765	43,950	1.8%
Engineering	1,988,197	1,889,037	99,160	5.2%
Collections	1,896,688	1,756,927	139,761	8.0%
Transmission & Distribution	1,747,767	1,195,405	552,362	46.2%
Other expenses	8,183,485	13,123,414	(4,939,929)	-37.6%
<b>Total Expenses</b>	<b>63,948,189</b>	<b>62,945,337</b>	<b>1,002,852</b>	<b>1.6%</b>
Net Income/(Loss) before contributions	(1,834,080)	(5,690,853)	3,856,773	-67.8%
Capital contributions	6,760,690	7,083,887	(323,197)	-4.6%
Change in Net Position	4,926,610	1,393,034	3,533,576	253.7%
Total Net Position, Beginning of Year as Previously Stated	249,393,147	251,271,134	(1,877,987)	-
Prior Period Adjustment	-	(3,271,021)	3,271,021	-
Total Net Position at Beginning of Year Restated	249,393,147	248,000,113	1,393,034	0.6%
Total Net Position, End of Year	<u>\$ 254,319,757</u>	<u>\$ 249,393,147</u>	<u>\$ 4,926,610</u>	<u>2.0%</u>

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

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

- The increase in water sales reflects the bounce back from Drought Level 1 being rescinded.
- Property tax receipts continue to increase primarily from discontinued Redevelopment Agencies in fiscal year 16/17. The District anticipates receipts from discontinued Redevelopment Agencies to decrease in subsequent years.
- Reclaimed water sales recover the tertiary treatment costs. During fiscal year 2016/17, flows going into the Meadowlark Reclamation Facility increased significantly due to increased flows from customers using more water in response to the elimination of drought restrictions. The increased costs are further illustrated in the Meadowlark Reclamation Facility line item.
- Other revenues are a mixture of new annexations; investment income received and market valuation increases; pumping charges; recovery of damaged property and delinquency fee receipts. Other revenues decreased by \$1.0 million as a result of less annexation fees being collected in fiscal year 2016/17.
- Interest expense is lower in fiscal year 16/17 as fiscal year 15/16 included costs related to debt refunding.
- Transmission & distribution increased as a result of repair costs due to multiple main breaks.
- Other expenses decreased due to a significant operating change in Encina Wastewater Authority joint venture assets and the reallocation of overall assets being recognized in fiscal year 15/16. The District recognizes the change in EWA's assets, liabilities and net position based on the District's ownership percentage of EWA.

**RESTRICTIONS, COMMITMENTS, AND LIMITATIONS**

The District's net revenue requirement is 1.15 times the total debt service of the District. The District's 2016/17 net revenue was 3.42 times debt service as calculated per the official statement for the bonds. Debt per capita within the District is \$618 exclusive of other debt such as San Diego County Water Authority and Metropolitan Water District.

2015 Revenue Refunding Bonds

On July 9, 2015, the District refunded the majority of the 2005 Certificates of Participation totaling \$45.3 million with Revenue Bonds containing interest rates ranging between 4% and 5%. The District is obligated to transfer semi-annually debt service payments each June 25<sup>th</sup> (maximum of \$3.9 million in year 2030) and each December 26<sup>th</sup> (maximum of \$980 thousand in year 2021) to the trustee for payment to bondholders for both the remaining 2005 COPs and 2015 Revenue Bonds. Total debt service paid in fiscal year 16/17 related to the 2005 COPs was \$4.2 million. The outstanding principal balance at June 30, 2017 was \$45,315,000 and \$1,910,000 for the 2015 Revenue Bonds and the 2005 Certificates of Participation respectively.

2012 Certificates of Participation

In December 2012, the District received \$7.1 million in proceeds as the Board of Directors executed the 2<sup>nd</sup> Installment Purchase Agreement of the Master Agreement of the 2005 Certificates of Participation. The proceeds were used toward the following sewer projects: San Marcos Interceptor, Linda Vista, Encina Land Parallel Outfall and Rock Springs. The District pays debt service semi-annually on the certificates issued at a fixed rate of 1.98%. Interest payments are due each April and October 1<sup>st</sup> and principal is due each October 1<sup>st</sup>. Total debt service paid in fiscal year 16/17 related to the COPs was \$782,604. The outstanding principal balance at June 30, 2017, is \$4.4 million.

**VALLECITOS WATER DISTRICT**

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

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

2008 Union Bank Tax-Exempt Private Placement Loan

On November 12, 2008, the District received \$7.9 million in proceeds from a variable rate tax-exempt private placement loan from Union Bank of California to fund a portion of EWA’s treatment plant expansion. The District’s share in solids capacity at EWA increased from 7.5 million gallons per day (MGD) to 10.5 MGD. The variable rate on the loan is indexed to LIBOR with the District’s option to periodically change the LIBOR period and associated rate (adjusted by the bank’s formula for a tax-exempt borrowing) currently at 1.41989%. Principal payments of \$200,000 are due every March 31<sup>st</sup> and September 30<sup>th</sup>. Interest payments are due at the end of the LIBOR period chosen by the District. Total debt service paid in fiscal year 16/17 related to the loan was \$485,067. The outstanding principal balance at June 30, 2017, of \$4.6 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, 2017, the water capacity fund had a deficit of \$9,889,055 and the sewer capacity had a deficit of \$6,501,911. (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 2016/17:

Project Description	2017/18 Budget	Spent Through June 30, 2017	Remaining
San Marcos interceptor sewer	19,700,000	13,661,323	6,038,677
Meadowlark Tank #3	4,552,000	488,961	4,063,039
Mountain Belle Pump Station & Pipeline Design	3,860,000	99,350	3,760,650
Rock Springs Sewer Replacement	3,165,000	561,141	2,603,859
Chlorine Contact Tank Expansion	4,815,000	63,292	4,751,708
Montiel Gravity Outfall	1,750,000	139,951	1,610,049

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 2017/18 Budget on these and several other committed projects less than \$1 million in scope.

**CAPITAL ASSETS AND LONG-TERM DEBT**

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

Water mains, service lines, meters, and valves	\$ 2,351,753
Reclamation equipment	1,358,661
Sewer mains, manholes, and cleanouts	628,375
Sewer vehicles and equipment	573,096
Buildings and improvements	278,375

The \$45.3 million in 2015 Revenue Bonds, the \$1.9 million in 2005 COPS, the \$4.6 million loan and the \$4.4 million in 2012 COPS balance are the only long-term debts issued by the District as of June 30, 2017.

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

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

The District considered the following economic factors in establishing 2017/18 budget amounts:

- Increases in water usage by customers due to drought restrictions being rescinded
- Cost of service study and rate structure study completed and adopted by the board June 7, 2017
- Slow but steady recovery in construction
- Increasing regulatory compliance

As a result of these factors, the 2017/18 budget includes:

- Water sales reflective of a bounce back from Drought Level 1 being rescinded
- Rate increases as determined by the revenue requirement established in the cost of service study
- Staffing level decreases from the 2016/17 budget as positions are eliminated through attrition

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

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

**VALLECITOS WATER DISTRICT**

**STATEMENTS OF NET POSITION  
JUNE 30, 2017 (with prior year data for comparison only)**

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 27,534,241	\$ 23,665,659
Restricted cash and cash equivalents	3,083,992	3,034,869
Investments	27,099,887	24,523,126
Accounts receivable:		
Water and wastewater sales and services	7,418,341	6,067,691
Taxes and assessments	110,527	102,479
Other governmental entities	487,877	386,474
Restricted capital facility fees receivable	637,856	2,063,749
Other	633,656	464,367
Accrued interest receivable	153,019	95,448
Current portion of note receivable	141,146	133,788
Inventories	1,110,094	1,062,930
Prepaid expenses	418,062	341,962
Total Current Assets	<u>68,828,698</u>	<u>61,942,542</u>
Noncurrent Assets:		
Restricted capital facility fees receivable	69,760	56,273
Note receivable from City of San Marcos, net of current portion	-	141,146
Investment in Encina Wastewater Authority capital assets	25,569,807	25,687,566
Capital assets not being depreciated	24,766,810	25,275,070
Net capital assets being depreciated	218,358,322	222,010,592
Total Noncurrent Assets	<u>268,764,699</u>	<u>273,170,647</u>
Total Assets	<u>337,593,397</u>	<u>335,113,189</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Pension related	4,681,454	1,690,587
Deferred charges from debt retirement	2,876,445	3,036,907
	<u>7,557,899</u>	<u>4,727,494</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable	7,744,928	7,440,746
Accrued compensation	1,999,019	1,850,353
Construction and service deposits	737,308	562,856
Accrued interest payable from restricted assets	1,212,931	1,248,478
Current portion of long term debt	3,012,000	2,898,000
Current portion of capital lease	26,460	46,900
Total Current Liabilities	<u>14,732,646</u>	<u>14,047,333</u>
Noncurrent Liabilities:		
Other post employment benefits obligation	120,005	153,980
Loan payable, net of current portion	4,200,000	4,600,000
Certificates of participation, net of amortized discount and current portion	55,616,451	58,626,003
Capital lease, net of current portion	-	26,461
Net pension liability	15,158,897	11,466,898
Total Noncurrent Liabilities	<u>75,095,353</u>	<u>74,873,342</u>
Total Liabilities	<u>89,827,999</u>	<u>88,920,675</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Pension related	1,003,540	1,526,861
<b>NET POSITION</b>		
Net investment in capital assets	205,840,028	206,775,864
Restricted for future capital projects	707,616	2,120,022
Restricted for debt service	1,871,061	1,786,391
Unrestricted	45,901,052	38,710,870
Total Net Position	<u>\$ 254,319,757</u>	<u>\$ 249,393,147</u>

See accompanying notes to the basic financial statements.

**VALLECITOS WATER DISTRICT**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2017 (with prior year data for comparison only)**

	<u>2017</u>	<u>2016</u>
<b>OPERATING REVENUES</b>		
Water sales	\$ 23,180,452	\$ 18,797,274
Wastewater service charges	17,503,448	17,286,888
Ready-to-serve charges	13,850,592	13,602,800
Reclaimed water sales	1,711,156	1,069,074
Pumping charges	171,186	138,870
Other services and abatements	1,005,240	945,648
Total operating revenues	<u>57,422,074</u>	<u>51,840,554</u>
<b>OPERATING EXPENSES</b>		
Purchased water	27,392,003	22,190,912
General and administrative	5,637,471	5,851,489
Meadowlark wastewater treatment plant	2,993,914	2,750,187
Encina disposal	2,529,715	2,485,765
Collection and conveyance	1,896,688	1,756,927
Engineering	1,988,197	1,889,037
Transmission and distribution	1,747,767	1,195,405
Customer accounts	958,266	904,015
Information technology	1,320,845	1,347,023
Meter reading and repairs	625,576	713,164
Buildings and grounds	629,850	546,043
Equipment and vehicles	471,380	485,403
Other water operating expenses	446,430	503,378
Other wastewater operating expenses	614,248	539,112
Water quality and treatment	604,844	522,191
Tanks and reservoirs	312,604	371,156
Pumping	612,069	531,774
Total operating expenses	<u>50,781,867</u>	<u>44,582,981</u>
Operating income before overhead absorption	6,640,207	7,257,573
Overhead absorption	1,236,032	1,125,180
Operating income before depreciation and amortization	7,876,239	8,382,753
Depreciation and amortization	(9,425,308)	(9,189,604)
Operating income	<u>(1,549,069)</u>	<u>(806,851)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Property taxes	4,162,701	3,830,522
Interest Income	411,745	338,373
Unrealized (depreciation) appreciation of investments	(220,021)	139,216
Annexation fees	39,969	1,105,819
Change in Encina Joint Venture assets	(2,603,384)	(6,789,867)
Interest expense	(2,153,641)	(2,512,597)
Other non-operating revenues/(expenses), net	77,620	(995,468)
Total non-operating revenues (expenses), net	<u>(285,011)</u>	<u>(4,884,002)</u>
Net income before capital contributions	(1,834,080)	(5,690,853)
Capital contributions	6,760,690	7,083,887
Change in net position	<u>4,926,610</u>	<u>1,393,034</u>
Total Net Position, Beginning of Year	249,393,147	251,271,134
Prior Period Restatement	-	(3,271,021)
Total Net Position, Beginning of Year as Restated	<u>249,393,147</u>	<u>248,000,113</u>
Total Net Position, End of Year	<u>\$ 254,319,757</u>	<u>\$ 249,393,147</u>

See accompanying notes to the basic financial statements.



**VALLECITOS WATER DISTRICT**

**STATEMENTS OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2017 (with prior year data for comparison only)**

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from water and wastewater customers	\$ 55,800,730	\$ 51,921,006
Payments for water	(26,843,497)	(21,177,471)
Payments for services and supplies	(8,565,438)	(8,166,276)
Payments for employee wages, benefits and related costs	(13,723,440)	(13,011,519)
Net Cash Provided by Operating Activities	<u>6,668,355</u>	<u>9,565,740</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Receipts from taxes and assessments	<u>4,154,654</u>	<u>3,837,118</u>
Net Cash Provided by Noncapital Financing Activities	<u>4,154,654</u>	<u>3,837,118</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Receipts relating to annexation fees and cell tower rentals	84,824	1,146,717
Acquisition and construction of utility plant	(3,867,506)	(9,269,828)
Principal paid on long-term debt	(2,898,000)	(3,183,947)
Interest payments on long-term debt	(2,548,596)	(2,367,734)
Principal paid on capital lease	(43,067)	(20,132)
Investment in Encina Wastewater Authority	(1,921,539)	(1,318,751)
Capacity fees received	<u>6,597,401</u>	<u>3,065,561</u>
Net Cash Used for Capital and Related Financing Activities	<u>(4,596,483)</u>	<u>(11,948,114)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(17,487,901)	(20,076,820)
Proceeds from calls and maturities of investments	14,691,119	19,884,298
Investment earnings received	354,173	326,426
Collections on note receivable from City of San Marcos	<u>133,788</u>	<u>126,813</u>
Net Cash (Used for) Provided by Investing Activities	<u>(2,308,821)</u>	<u>260,717</u>
Net Increase in Cash and Cash Equivalents	3,917,705	1,715,461
Cash and Cash Equivalents, Beginning of Year	<u>26,700,528</u>	<u>24,985,067</u>
Cash and Cash Equivalents, End of Year	<u>\$ 30,618,233</u>	<u>\$ 26,700,528</u>
<b>Reconciliation of cash and cash equivalents to statement of net position:</b>		
Cash and cash equivalents	\$ 27,534,241	\$ 23,665,659
Restricted cash and cash equivalents	<u>3,083,992</u>	<u>3,034,869</u>
<b>Total cash and cash equivalents</b>	<u>\$ 30,618,233</u>	<u>\$ 26,700,528</u>

See accompanying notes to the basic financial statements.

**VALLECITOS WATER DISTRICT**

**STATEMENTS OF CASH FLOWS (Continued)  
FOR THE YEAR ENDED JUNE 30, 2017 (with prior year data for comparison only)**

Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:	<u>2017</u>	<u>2016</u>
Operating income (loss)	\$ (1,549,069)	\$ (806,851)
<b>Adjustments to reconcile operating income (loss) to net cash provided by operating activities:</b>		
Depreciation expense	9,425,308	9,189,604
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable from water and wastewater sales and services	(1,350,650)	(632,872)
Accounts receivable from other governmental entities	(101,403)	761,441
Accounts receivable - other	(169,289)	(48,113)
Inventories	(47,164)	(9,071)
Prepaid expenses	(76,100)	35,811
Accounts payable	244,220	1,272,236
Accrued compensation	148,666	45,643
Deferred outflows of resources - pension related	(2,990,867)	(14,371)
Deferred inflows of resources - pension related	(523,321)	(1,861,951)
Net pension liability	3,691,999	1,499,850
Other post employment benefits obligation	(33,975)	134,384
Total Adjustments	<u>8,217,424</u>	<u>10,372,591</u>
Net Cash Provided by Operating Activities	<u>\$ 6,668,355</u>	<u>\$ 9,565,740</u>
<b>Noncash Investing Capital and Financing Activities:</b>		
Contributions of assets by developers	\$ 893,450	\$ 1,508,402
Unrealized (depreciation) appreciation of investments	(243,049)	139,216

See accompanying notes to the basic financial statements.

## **VALLECITOS WATER DISTRICT**

### **NOTES TO THE BASIC FINANCIAL STATEMENTS**

**JUNE 30, 2017 (with select prior year data for comparison only)**

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#### **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 has 21,464 active water meters and 20,633 active sewer accounts at June 30, 2017.

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 BASIC FINANCIAL STATEMENTS**

**JUNE 30, 2017 (with select prior year data for comparison only)**

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**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.”

**VALLECITOS WATER DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2017 (with select prior year data for comparison only)**

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

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

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

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

**D. 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.

**E. 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.

**F. Investments and Investment Policy**

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

**G. 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.

**VALLECITOS WATER DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2017 (with select prior year data for comparison only)**

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

**H. 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.

**I. Property Taxes and Assessments**

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

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

**J. Water-In-Storage Inventory**

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

**K. Materials and Supplies Inventory**

Materials and supplies inventory 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.

**L. 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 BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017 (with select prior year data for comparison only)**

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

**M. 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.

**N. 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 three years at \$10,000. Donated assets are recorded at acquisition value at the date of acquisition. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

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

**O. 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.

**P. 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.

**Q. 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 BASIC FINANCIAL STATEMENTS**

**JUNE 30, 2017 (with select prior year data for comparison only)**

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

**R. Interest Expense**

The District incurs interest charges on long-term debt. For fiscal year ended June 30, 2017 the District expensed \$2,153,641 of interest incurred and capitalized \$26,998 as part of the cost of construction projects.

**S. 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.

**T. Economic Dependency**

The District purchases all of its water from the San Diego County Water Authority, Olivenhain Municipal Water District, and the Claude “Bud” Lewis Carlsbad Desalination Plant via the San Diego County Water Authority. A sustained interruption of this source could impact the District negatively.

**U. 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.

**V. 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, at [www.calpers.ca.gov](http://www.calpers.ca.gov).

Generally accepted accounting principles require 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, 2015
Measurement Date (MD)	June 30, 2016
Measurement Period (MP)	July 1, 2015 to June 30, 2016



**VALLECITOS WATER DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017 (with select prior year data for comparison only)**

**Note 2 – Cash and Investments**

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

	2017	2016
Cash and cash equivalents	\$ 27,534,241	\$ 23,665,659
Restricted cash and cash equivalents	3,083,992	3,034,869
Investments	27,099,887	24,523,126
Total cash and investments	\$ 57,718,120	\$ 51,223,654

Cash and Investments consist of the following:

	2017	2016
Cash on hand	\$ 2,000	\$ 2,000
Deposits with financial institutions	3,697,581	3,446,184
Investments	54,018,539	47,775,470
Total cash and investments	\$ 57,718,120	\$ 51,223,654

*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
U.S. Treasury Bills and Notes	5 years	75%
Local Agency Investment Fund (LAIF)	N/A	60%
Federal Agency Obligations	5 years	60%
Local Government Investment Pools	N/A	40%
State and Local Agency Bonds	5 years	20%
Commercial Paper	270 days	20%
Certificates of Deposit	5 years	20%
Repurchase agreements	1 year	10%
Savings Accounts	N/A	10%

## VALLECITOS WATER DISTRICT

### NOTES TO THE BASIC FINANCIAL STATEMENTS JUNE 30, 2017 (with select prior year data for comparison only)

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#### 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 \$809,125 as of June 30, 2017.

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 BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017 (with select prior year data for comparison only)**

**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 section of this note titled Investments Authorized by the California Government Code and the District's Investment Policy.

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

Maturities of investments at June 30, 2017 are as follows:

Investment Type	Total	Remaining Maturity (in months)		
		12 months or less	13-24 Months	26-60 Months
Federal Farm Credit Banks	\$ 4,716,126	\$ 997,335	\$ 861,591	\$ 2,857,200
Federal Home Loan Bank	3,988,931	-	997,825	2,991,106
Federal Home Loan Mortgage Association	6,723,799	-	747,300	5,976,499
Federal National Mortgage Association	6,661,223	1,497,580	495,595	4,668,048
Certificates of Deposit	5,054,727	1,226,028	1,885,283	1,943,416
Local Agency Investment Fund (LAIF)	21,714,733	21,714,733	-	-
San Diego County Pooled Investment Fund	5,159,000	5,159,000	-	-
	<u>\$ 54,018,539</u>	<u>\$ 30,594,676</u>	<u>\$ 4,987,594</u>	<u>\$ 18,436,269</u>

**VALLECITOS WATER DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017 (with select prior year data for comparison only)**

**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, 2017 were as follows:

Investment Type	Total	Minimum Legal Rating	Rating as of Year End		
			AAA	AA+	Not Rated
Federal Farm Credit Banks	\$ 4,716,126	AA+	\$ -	\$ 4,716,126	\$ -
Federal Home Loan Bank	3,988,931	AA+	747,068	3,241,863	-
Federal Home Loan Mortgage Association	6,723,799	AA+	-	6,723,799	-
Federal National Mortgage Association	6,661,223	AA+	-	6,661,223	-
Certificates of Deposit	5,054,727	N/A	-	-	5,054,727
Local Agency Investment Fund (LAIF)	21,714,733	N/A	-	-	21,714,733
San Diego County Pooled Investment Fund	5,159,000	N/A	5,159,000	-	-
	<u>\$ 54,018,539</u>		<u>\$ 5,906,068</u>	<u>\$ 21,343,011</u>	<u>\$ 26,769,460</u>

The investment policy of the District limits the amount that can be invested in any one issuer to 20% of the portfolio, other than U.S. Treasury securities. Investments in any one issuer, other than U.S. Treasury securities and investment pools, that represent 5% or more of the total District investments at June 30, 2017 are as follows:

Issuer	Investment Type	Reported Amount	Percentage of Portfolio
Federal Farm Credit Banks	U.S. Government Sponsored Entities	\$ 4,716,126	8.7%
Federal Home Loan Bank	U.S. Government Sponsored Entities	3,988,931	7.4%
Federal Home Loan Mortgage Association	U.S. Government Sponsored Entities	6,723,799	12.4%
Federal National Mortgage Association	U.S. Government Sponsored Entities	6,661,223	12.3%

Fair Value Measurements

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

**VALLECITOS WATER DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017 (with select prior year data for comparison only)**

**Note 2 – Cash and Investments (continued)**

The District has the following recurring fair value measurements as of June 30, 2017:

Investments by Fair Value Level	Fair Value Measurement Using			
	Total	Level 1	Level 2	Level 3
Federal Farm Credit Banks	\$ 4,716,126	\$ -	\$ 4,716,126	\$ -
Federal Home Loan Bank	3,988,931		3,988,931	
Federal Home Loan Mortgage Association	6,723,799		6,723,799	
Federal National Mortgage Association	6,661,223	-	6,661,223	-
San Diego County Pooled Investment Fund	5,159,000	-	5,159,000	-
<b>Total investments by fair value</b>	<b>27,249,079</b>	<b>\$ -</b>	<b>\$ 27,249,079</b>	<b>\$ -</b>
Investments measured at the Net Asset Value (NAV)				
Local Agency Investment Fund (LAIF)	21,714,733			
Investments not subject to GASB 72				
Certificates of Deposit	5,054,727			
<b>Total</b>	<b>\$ 54,018,539</b>			

The U.S. Government Sponsored Entities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

**Note 3 – Accounts Receivable**

The balance at June 30, 2017 consists of the following:

	2017	2016
Accounts receivable - water and wastewater sales and services	\$ 7,456,668	\$ 6,106,139
Allowance for uncollectible accounts	(38,327)	(38,448)
<b>Accounts receivable - water sales, net</b>	<b>\$ 7,418,341</b>	<b>\$ 6,067,691</b>

Property Tax Receivable

Taxes and assessments receivable of \$114,337 have been reduced by an allowance for estimated uncollectible taxes of \$3,810 for a net receivable of \$110,527 at June 30, 2017.

**VALLECITOS WATER DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017 (with select prior year data for comparison only)**

**Note 4 – Capital Assets**

Changes in capital assets for 2017 are as follows:

	Balance at June 30, 2016	Additions/ Transfers	Deletions/ Transfers	Balance at June 30, 2017
Capital assets, not being depreciated:				
Land	\$ 4,981,505	\$ -	\$ -	\$ 4,981,505
Construction in progress	20,293,565	7,506,548	(8,014,808)	19,785,305
 Total capital assets, not being depreciated	 25,275,070	 7,506,548	 (8,014,808)	 24,766,810
Capital assets, being depreciated:				
Water transmission and distribution system	196,941,476	2,353,396	(2,413,955)	196,880,917
Wastewater system	123,478,344	2,202,607	(100,524)	125,580,427
Buildings	15,427,261	226,295	-	15,653,556
Transportation equipment	4,515,658	314,113	(194,725)	4,635,046
Field and shop equipment	11,201,974	698,000	(69,132)	11,830,842
Office equipment	2,343,625	72,740	(65,160)	2,351,205
 Total capital assets, being depreciated	 353,908,338	 5,867,151	 (2,843,496)	 356,931,993
Less accumulated depreciation for:				
Water transmission and distribution system	(66,970,454)	(4,645,834)	2,413,955	(69,202,333)
Wastewater system	(39,440,051)	(3,306,719)	6,411	(42,740,359)
Buildings	(12,422,754)	(353,724)	-	(12,776,478)
Transportation equipment	(2,935,885)	(367,787)	194,725	(3,108,947)
Field and shop equipment	(8,349,269)	(608,374)	69,132	(8,888,511)
Office equipment	(1,779,333)	(142,870)	65,160	(1,857,043)
 Total accumulated depreciation	 (131,897,746)	 (9,425,308)	 2,749,383	 (138,573,671)
 Total capital assets, being depreciated, net	 222,010,592	 (3,558,157)	 (94,113)	 218,358,322
 Total capital assets, net	 \$ 247,285,662	 \$ 3,948,391	 \$ (8,108,921)	 \$ 243,125,132

**VALLECITOS WATER DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2017 (with select prior year data for comparison only)**

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**Note 4 – Capital Assets (continued)**

In 2017, 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, 2017 was \$9,425,308 and is included in Depreciation and Amortization expense on the Statement of Revenues, Expense and Changes in Net Position. The difference between deletions from CIP and capital asset additions is made up of the following:

Contributed capital	\$ 884,151
Investment in Encinca Wastewater Authority	(2,485,622)
Corrections to projects	(178,158)
Expensed projects/other	(368,028)
	<u>(2,147,657)</u>
	<u>\$ (2,147,657)</u>

Assets acquired through capital leases are as follows:

Equipment	\$ 93,493
Less: accumulated depreciation	(4,675)
	<u>88,818</u>
Total	<u>\$ 88,818</u>

**VALLECITOS WATER DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017 (with select prior year data for comparison only)**

**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>2017</u>	<u>2016</u>
<i>District Financed</i>		
SM interceptor - SM Blvd/Discovery	\$ 13,661,323	\$ 13,282,009
Water & Sewer Master Plan	887,539	745,708
Rock Springs Sewer Replacement	561,141	423,396
Meadowlark Tank #3	488,961	488,961
Audiovisual Upgrade	431,248	408,098
Land Outfall Clearing & Access Road	363,689	336,422
Chlorine Contact Tank Expansion	153,292	-
Encina Land Parallel Outfall	149,799	148,756
Expansion Of The Men'S Locker Room In Building B	146,472	-
Montiel Gravity Outfall	139,951	-
Mountain Belle Pump Station & Pipeline Design	99,350	-
Palos Vista Pump Station Motor Replacement	74,732	61,081
Mrf Refurbish Backwash Pumps And Motors	70,751	-
North Vista Pressure Reducing St Upgrade	65,840	-
Mrf - Failsafe Line De-Chlorination System	65,326	-
South Vista Pressure Reducing St Upgrade	61,741	-
Annual City Of San Marcos Joint Projects	61,549	-
Permanent Evironmental Mitigation Property	59,646	59,646
Lift Station 1 Wet Well Room Repairs	54,972	-
Lift Station No 1 Pump Improvements		1,035,335
San Elijo Road Facilities	-	641,279
Knoll Road Sewer Replacement	-	229,397
Mountain Belle Pump Station & Pipeline Design	-	99,350
HVAC Improvements	-	76,287
Lift Station 1 Perimeter Fencing	-	75,782
MRF Potable Water Pump Station	-	63,641
Subtotal - District Financed	<u>17,597,322</u>	<u>18,175,148</u>



**VALLECITOS WATER DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017 (with select prior year data for comparison only)**

**Note 4 – Capital Assets (continued)**

*Developer Financed*

Twin Oaks Corner Improvements	165,595	71,709
Recycled Water Business Plan	155,868	101,368
High Point Hydropneumatic Pump	125,462	113,477
Block C North City East Unit 1	115,378	71,205
Newland Sierra Water Service Agreement	90,603	-
Rancho Coronado Phase 1 Imprvs & Sewer Annexation	62,174	-
Palos Vista Estates	59,792	59,792
East Gate - Affirmed Housing Group	58,633	-
Rancho Coronado Backbone Improvements	51,212	-
Davia Village Improvements	51,023	-
Mrf Restoration	49,544	-
North City East Global Water & Sewer Study	36,296	-
Rancho Coronado Phase 2 Improvements	35,159	-
Shane Park Plaza	32,514	-
Rancho Coronado South Grading Plan	30,673	-
Rancho Coronado South Water Main Relocation	30,532	-
Newland Sierra Off Site Water & Sewer Study	28,017	-
Usdm - North City East Sewer Replacement	25,415	-
Seh Ph 3 Pa T U - 205626	24,539	-
Seh Ph 5 Pa S lp U3	22,118	22,107
Promenade At Creekside	-	55,876
San Marcos Unified School District K-8	-	50,873
Grand Avenue City	-	14,879
Pump Station Meadowlark	-	12,860
	<hr/>	<hr/>
Subtotal - Developer Financed	1,250,547	574,146
	<hr/>	<hr/>
Various Other Projects	937,436	1,544,271
	<hr/>	<hr/>
Total	<u>\$ 19,785,305</u>	<u>\$ 20,293,565</u>

**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, 2017, 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 BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017 (with select prior year data for comparison only)**

**Note 5 – Encina Wastewater Authority (continued)**

The latest available financial statements of EWA, dated June 30, 2016 and 2015 are available directly from EWA (6200 Avenida Encinas, Carlsbad, California 92009), and show the following:

	<u>2016</u>	<u>2015</u>
Total assets	\$ 130,403,195	\$ 136,169,841
Deferred outflows of resources	3,553,614	1,399,418
Total liabilities	13,918,564	12,873,486
Deferred inflows of resources	<u>1,271,059</u>	<u>1,982,996</u>
 Total net position	 <u>\$ 118,767,186</u>	 <u>\$ 122,712,777</u>
 Increase (decrease) in net position	 <u>\$ (3,945,591)</u>	 <u>\$ 3,599,598</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, 2017, the following amounts are due to the District:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2018	<u>\$ 141,146</u>	<u>\$ 7,763</u>

**Note 7 – Long Term Debt**

The following is a summary of long-term debt transactions for the fiscal year ended June 30, 2017:

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017	Due within one year
2005 Series A COP	\$ 3,720,000	\$ -	\$ (1,810,000)	\$ 1,910,000	\$ 1,910,000
Bond premium	44,189	-	(44,189)	-	-
Unamortized discount	(11,606)	11,606	-	-	-
2012 COP	5,122,000	-	(688,000)	4,434,000	702,000
2008 UBOC loan	5,000,000	-	(400,000)	4,600,000	400,000
2015 Refunding Revenue Bonds	45,315,000	-	-	45,315,000	-
Bond premium	6,934,420	-	(364,969)	6,569,451	-
Capital lease	73,361	-	(46,901)	26,460	26,460
OPEB liability	153,980	533,238	(567,213)	120,005	-
Net pension liability	11,466,898	5,157,867	(1,465,868)	15,158,897	-
 Total long-term debt	 <u>\$ 77,818,242</u>	 <u>\$ 5,702,711</u>	 <u>\$ (5,387,140)</u>	 <u>\$ 78,133,813</u>	 <u>\$ 3,038,460</u>

**VALLECITOS WATER DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2017 (with select prior year data for comparison only)**

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**Note 7 – Long Term Debt (continued)**

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 2017, the District was in compliance with this rate covenant.

The annual requirements to amortize the 2005 Certificates of Participation outstanding at June 30, 2017 were as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	<u>\$ 1,910,000</u>	<u>\$ 50,138</u>	<u>\$ 1,960,138</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 BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017 (with select prior year data for comparison only)**

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**Note 7 – 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.

The annual requirements to amortize the 2012 Certificates of Participation outstanding at June 30, 2017 were as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 702,000	\$ 80,844	\$ 782,844
2019	741,000	66,558	807,558
2020	725,000	52,044	777,044
2021	739,000	37,550	776,550
2022	755,000	22,760	777,760
2023	772,000	7,643	779,643
Total	<u>\$ 4,434,000</u>	<u>\$ 267,399</u>	<u>\$ 4,701,399</u>

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% (1.37953% at June 30, 2017). Principal payments of \$200,000 plus interest are payable semi-annually and maturing in 2028.

The annual requirements to amortize the 2008 Loan Payable outstanding at June 30, 2017 were as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 400,000	68,832	\$ 468,832
2019	400,000	66,531	466,531
2020	400,000	63,694	463,694
2021	400,000	60,266	460,266
2022	400,000	56,183	456,183
2023-2027	2,000,000	191,777	2,191,777
2028-2029	600,000	13,783	613,783
Total	<u>\$ 4,600,000</u>	<u>\$ 521,066</u>	<u>\$ 5,121,066</u>

**VALLECITOS WATER DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2017 (with select prior year data for comparison only)**

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**Note 7 – Long Term Debt (continued)**

2015 Refunding Revenue Bonds

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

The annual requirements to amortize the 2015 Refunding Revenue Bonds outstanding at June 30, 2017 were as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ -	\$ 2,246,700	\$ 2,246,700
2019	1,905,000	2,208,600	4,113,600
2020	2,020,000	2,120,000	4,140,000
2021	2,125,000	2,016,375	4,141,375
2022	2,235,000	1,907,375	4,142,375
2023-2027	12,985,000	7,699,125	20,684,125
2028-2032	14,980,000	4,053,750	19,033,750
2033-2036	9,065,000	935,125	10,000,125
Total	<u>\$ 45,315,000</u>	<u>\$ 23,187,050</u>	<u>\$ 68,502,050</u>

Capital Lease

The District entered into a 24-month lease agreement with APG Nueros on December 17, 2015 for the purchase of a Turbo Blower. The annual requirements to amortize the capital lease payable outstanding at June 30, 2017 were as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	<u>\$ 26,460</u>	<u>\$ -</u>	<u>\$ 26,460</u>

**VALLECITOS WATER DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017 (with select prior year data for comparison only)**

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**Note 8 – Net Position**

**A. Net Investment In Capital Assets**

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

	<u>2017</u>	<u>2016</u>
Investment in Encina Wastewater Authority capital assets	\$ 25,569,807	\$ 25,687,566
Capital assets not being depreciated	24,766,810	25,275,070
Net capital assets being depreciated	218,358,322	222,010,592
Certificates of participation - current portion	(2,612,000)	(2,498,000)
Certificates of participation - noncurrent portion	(49,047,000)	(58,626,003)
Bond premium	(6,569,451)	-
Loan payable - UBOC - current portion	(400,000)	(400,000)
Loan payable - UBOC - noncurrent portion	(4,200,000)	(4,600,000)
Capital lease payable - current portion	(26,460)	(46,901)
Capital lease payable - noncurrent portion	-	(26,460)
Total net investment in capital assets	<u>\$ 205,840,028</u>	<u>\$ 206,775,864</u>

**B. Restricted Net Position**

Restricted net position at June 30 consists of the following:

	<u>2017</u>	<u>2016</u>
Restricted for debt service	\$ 1,871,061	\$ 1,786,391
Restricted for future capital projects	707,616	2,120,022
Total restricted net position	<u>\$ 2,578,677</u>	<u>\$ 3,906,413</u>

**C. Unrestricted Net Position**

Unrestricted net position at June 30 consists of the following:

	<u>2017</u>	<u>2016</u>
Nonspendable net position		
Inventories	\$ 1,110,094	\$ 1,062,930
Prepaid expenses	418,062	341,962
Total nonspendable net position	<u>1,528,156</u>	<u>1,404,892</u>
Spendable net position		
Unrestricted net position	<u>44,372,896</u>	<u>37,305,978</u>
Total unrestricted net position	<u>\$ 45,901,052</u>	<u>\$ 38,710,870</u>

**D. Total Net Position**

Total net position	<u>\$ 254,319,757</u>	<u>\$ 249,393,147</u>
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**VALLECITOS WATER DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017 (with select prior year data for comparison only)**

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**Note 9 – Defined Benefit Pension Plan**

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

**Plan Description**

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

**Benefits Provided**

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

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

The Plan's provisions and benefits in effect at June 30, 2017 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 - 60	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	12.657%	6.555%

**VALLECITOS WATER DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017 (with select prior year data for comparison only)**

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**Note 9 – 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. Employer contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements are classified as plan member contributions. Employer Contributions to the Plan for the fiscal year ended June 30, 2017 were \$1,690,724. The actual employer payments of \$1,465,868 made to CalPERS by the District during the measurement period ended June 30, 2016 differed from the District's proportionate share of the employer's contributions of \$1,853,460 by \$387,592, 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 the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the Plan is measured as of June 30, 2016, using an annual actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 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 BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017 (with select prior year data for comparison only)**

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**Note 9 – Defined Benefit Pension Plan (continued)**

***B. Net Pension Liability (continued)***

***Actuarial Methods and Assumptions Used to Determine Total Pension Liability***

Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	Market Value of Assets
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases (1)	3.3% - 14.2%
Investment Rate of Return (2)	7.65%
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, 2015 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, at [www.calpers.ca.gov](http://www.calpers.ca.gov).

***Change of Assumptions***

There were no changes of assumptions.

**VALLECITOS WATER DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017 (with select prior year data for comparison only)**

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**Note 9 – Defined Benefit Pension Plan (continued)**

***B. Net Pension Liability (continued)***

***Discount Rate***

The discount rate used to measure the total pension liability was 7.65 percent. To determine whether the municipal bond rate should be used in the calculation of the discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. The tests revealed the assets would not run out. Therefore, the current 7.65 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.65 percent is applied to all plans in the Public Employees Retirement Fund (PERF). The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website, at [www.calpers.ca.gov](http://www.calpers.ca.gov).

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

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

The following table reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the CalPERS Board effective on July 1, 2015.

**VALLECITOS WATER DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017 (with select prior year data for comparison only)**

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**Note 9 – Defined Benefit Pension Plan (continued)**

***B. Net Pension Liability (continued)***

***Discount Rate (continued)***

<b>Asset Class</b>	<b>New Strategic Allocation</b>	<b>Real Return Years 1 - 10<sup>1</sup></b>	<b>Real Return Years 11+<sup>2</sup></b>
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	20.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	1.0%	(0.55%)	(1.05%)
Total	<u>100%</u>		

<sup>1</sup> An expected inflation of 2.5% used for this period

<sup>2</sup> An expected inflation of 3.0% used for this period

***Pension Plan Fiduciary Net Position***

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

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 BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017 (with select prior year data for comparison only)**

**Note 9 – 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.

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (c) = (a) - (b)
Balance at: 6/30/2015 (Valuation Date)	\$ 61,497,246	\$ 50,030,348	\$ 11,466,898
Balance at: 6/30/2016 (Measurement Date)	\$ 64,930,625	\$ 49,771,728	\$ 15,158,897
Net Changes during 2015-16	\$ 3,433,379	\$ (258,620)	\$ 3,691,999

The District’s net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2016, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. The District’s proportion of the net pension liability determined by CalPERS using the output from the Actuarial Valuation System and the fiduciary net position, as provided in the CalPERS Public Agency Cost-Sharing Allocation Methodology Report, which is a publicly available report that can be obtained at CalPERS’ website at, [www.calpers.ca.gov](http://www.calpers.ca.gov). The District’s proportionate share of the net pension liability for the Plan as of June 30, 2015 and 2016 was as follows:

	<u>Miscellaneous</u>
Proportionate Share - June 30, 2015	0.41797%
Proportionate Share - June 30, 2016	0.43637%
Change - Increase (Decrease)	0.01840%

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

The following presents the District’s proportionate share of the net pension liability of the Plan as of the measurement date, calculated using the discount rate of 7.65 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 (6.65 percent) or 1 percentage-point higher (8.65 percent) than the current rate:

	<u>Discount Rate - 1% (6.65%)</u>	<u>Current Discount Rate (7.65%)</u>	<u>Discount Rate + 1% (8.65%)</u>
Plan’s Net Pension Liability	\$ 23,900,583	\$ 15,158,897	\$ 7,934,329

**VALLECITOS WATER DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017 (with select prior year data for comparison only)**

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**Note 9 – Defined Benefit Pension Plan (continued)**

***C. Proportionate Share of Net Pension Liability (continued)***

***Subsequent Events***

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

***Recognition of Gains and Losses***

Under generally accepted accounting principles, 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

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 2015-16 measurement period is 3.7 years, which was obtained by dividing the total service years of 475,689 (the sum of remaining service lifetimes of the active employees) by 127,009 (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.

**VALLECITOS WATER DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017 (with select prior year data for comparison only)**

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**Note 9 – Defined Benefit Pension Plan (continued)**

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

As of the start of the measurement period (July 1, 2015), the District’s net pension liability was \$11,466,898. For the measurement period ending June 30, 2016 (the measurement date), the District incurred pension expense of \$1,867,686 for the Plan.

As of June 30, 2017, the District has deferred outflows and deferred inflows of resources related to pensions as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Experience	\$ 52,383	\$ (12,003)
Changes of Assumptions	-	(495,596)
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	2,579,411	-
Change in Employer's Proportion	358,936	-
Difference in Actual vs Projected Contributions	-	(495,941)
Pension Contributions Subsequent to Measurement Date	1,690,724	-
<b>Total</b>	<b>\$ 4,681,454</b>	<b>\$ (1,003,540)</b>

These amounts above are net of outflows and inflow recognized in the 2015-2016 measurement period expense. Contributions subsequent to the measurement date of \$1,690,724 reported with deferred outflows of resources will be recognized as a reduction of the net pension liability in the upcoming fiscal year. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in future pension expense as follows:

<u>Measurement Period Ended June 30:</u>	<u>Deferred Outflows/(Inflows) of Resources</u>
2017	\$ 47,281
2018	116,772
2019	1,155,888
2020	667,249
2021	-
Thereafter	-

***E. Payable to the Pension Plan***

The District reported a payable of \$-0- for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2017.

## **VALLECITOS WATER DISTRICT**

### **NOTES TO THE BASIC FINANCIAL STATEMENTS JUNE 30, 2017 (with select prior year data for comparison only)**

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#### **Note 10 – Other Post-Employment Benefits (OPEB) 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, 2017 there were twenty-eight 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, 2017 was \$567,213.

#### ***Plan Description***

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

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

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

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

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

**VALLECITOS WATER DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2017 (with select prior year data for comparison only)**

**Note 10 – Other Post-Employment Benefits (OPEB) Plan (continued)**

**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:

	<u>2017</u>	<u>2016</u>
Annual required contribution	\$ 533,238	\$ 551,558
Contributions made:		
Retired employees post employment medical benefit payments	<u>(567,213)</u>	<u>(417,174)</u>
Increase (decrease) in net post - employment benefits payable obligation	(33,975)	134,384
Post employment benefits payable, net - beginning of year	<u>153,980</u>	<u>19,596</u>
Post employment benefits payable, net - end of year	<u><u>\$ 120,005</u></u>	<u><u>\$ 153,980</u></u>

**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, 2017 is \$6,947,911. The ratio of the unfunded actuarial liability to annual payroll covered is 48.77%. 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 Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2015	\$ 382,547	102.72%	\$ 19,596
June 30, 2016	551,558	75.64%	153,980
June 30, 2017	533,238	106.37%	120,005



## **VALLECITOS WATER DISTRICT**

### **NOTES TO THE BASIC FINANCIAL STATEMENTS JUNE 30, 2017 (with select prior year data for comparison only)**

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#### **Note 10 – Other Post-Employment Benefits (OPEB) Plan (continued)**

##### ***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.

#### **Note 11 – 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, 2017, 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.

**VALLECITOS WATER DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017 (with select prior year data for comparison only)**

**Note 11 – Risk Management (continued)**

- 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, 2017 and 2016. 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, 2017.

**Note 12 – 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, 2017.

**Condensed Statement of Net Position**

	<b>2017</b>		
	<b>Water</b>	<b>Sewer</b>	<b>Total</b>
<b>Assets:</b>			
Current assets	\$ 27,148,397	\$ 41,680,301	\$ 68,828,698
Non-current assets	25,332	44,428	69,760
Capital assets, net	140,525,335	128,169,604	268,694,939
<b>Total assets</b>	<u>167,699,064</u>	<u>169,894,333</u>	<u>337,593,397</u>
Deferred Outflows of Resources	<u>4,285,315</u>	<u>3,272,584</u>	<u>7,557,899</u>
<b>Liabilities:</b>			
Current liabilities	9,090,253	5,642,393	14,732,646
Non-current liabilities	<u>35,718,852</u>	<u>39,376,501</u>	<u>75,095,353</u>
<b>Total liabilities</b>	<u>44,809,105</u>	<u>45,018,894</u>	<u>89,827,999</u>
Deferred Inflows of Resources			
Pension related	<u>582,871</u>	<u>420,669</u>	<u>1,003,540</u>
<b>Net assets:</b>			
Net investment in capital assets	112,947,981	92,892,047	205,840,028
Restricted for future capital facilities	389,306	318,310	707,616
Restricted for debt service	972,841	898,220	1,871,061
Unrestricted	<u>12,274,252</u>	<u>33,626,800</u>	<u>45,901,052</u>
<b>Total net assets</b>	<u>\$ 126,584,380</u>	<u>\$ 127,735,377</u>	<u>\$ 254,319,757</u>

**VALLECITOS WATER DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017 (with select prior year data for comparison only)**

**Note 12 – Segment Information (continued)**

**Condensed Statement of Revenues, Expenses and Changes in Net Position**

	2017			2016
	Water	Sewer	Total	Total
Revenues:				
Operating revenues	\$ 37,943,029	\$ 19,479,045	\$ 57,422,074	\$ 51,840,554
Non-operating revenues	2,363,159	2,114,885	4,478,044	5,413,930
<b>Total revenues</b>	<b>40,306,188</b>	<b>21,593,930</b>	<b>61,900,118</b>	<b>57,254,484</b>
Expenses:				
Operating expenses	38,198,843	11,346,992	49,545,835	43,457,801
Depreciation and amortization	5,443,685	3,981,623	9,425,308	9,189,604
Non-operating expenses	1,101,431	3,661,624	4,763,055	10,297,932
<b>Total expenses</b>	<b>44,743,959</b>	<b>18,990,239</b>	<b>63,734,198</b>	<b>62,945,337</b>
<b>Net income/(loss) before capital contributions</b>	<b>(4,437,771)</b>	<b>2,603,691</b>	<b>(1,834,080)</b>	<b>(5,690,853)</b>
Capital contributions	3,951,571	2,809,119	6,760,690	7,083,887
<b>Change in net position</b>	<b>(486,200)</b>	<b>5,412,810</b>	<b>4,926,610</b>	<b>1,393,034</b>
Total Net Position, Beginning of Year	127,070,580	122,322,567	249,393,147	251,271,134
Prior Period Restatement	-	-	-	(3,271,021)
Total Net Position at Beginning of Year as Restated	127,070,580	122,322,567	249,393,147	248,000,113
Total Net Position, End of Year	<u>\$ 126,584,380</u>	<u>\$ 127,735,377</u>	<u>\$ 254,319,757</u>	<u>\$ 249,393,147</u>

**Condensed Statement of Cash Flows**

	2017			2016
	Water	Sewer	Total	Total
Net cash provided (used) by:				
Operating activities	\$ (888,039)	\$ 7,556,394	\$ 6,668,355	\$ 9,565,740
Non-capital financing activities	2,194,929	1,959,725	4,154,654	3,837,118
Capital and related financing activities	(887,827)	(3,708,656)	(4,596,483)	(11,948,114)
Investing activities	1,136,150	(3,444,971)	(2,308,821)	260,717
<b>Net cash provided</b>	<b>1,555,213</b>	<b>2,362,492</b>	<b>3,917,705</b>	<b>1,715,461</b>
Cash and cash equivalents, beginning of year	7,539,564	19,160,964	26,700,528	24,985,067
Cash and cash equivalents, end of year	<u>\$ 9,094,777</u>	<u>\$ 21,523,456</u>	<u>\$ 30,618,233</u>	<u>\$ 26,700,528</u>

**VALLECITOS WATER DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017 (with select prior year data for comparison only)**

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**Note 13 – Commitments and Contingencies**

Construction Contracts

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

<u>Project Description</u>	<u>Total Approved Contracts (\$)</u>	<u>Spent Through June 30, 2017</u>	<u>Remaining</u>
Lift Station I Wet Well Room Repairs	\$ 141,550	\$ -	\$ 141,550
MRF Tertiary Media Filter	404,556	384,328	20,228
	<u>\$ 546,106</u>	<u>\$ 384,328</u>	<u>\$ 161,778</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 14 – Prior Period Adjustment**

In fiscal year 2016, a prior period adjustment of \$3,271,021 is the result of accruing capital facility fee revenue and receivable in fiscal year 2014-15. Resolution No. 1441, passed February 5, 2014, allows delay of payment of capacity fees until final building inspection. Thus, the District is not owed the fees until such time and therefore no basis exists to record the receivable and related revenue.

**REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2017**

**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	6/30/2015	6/30/2016
Employer's Proportion of the Collective Net Pension Liability <sup>1</sup>	0.40328%	0.41797%	0.43637%
Employer's Proportionate Share of the Collective Net Pension Liability	\$ 9,967,048	\$ 11,466,898	\$ 15,158,897
Employer's Covered Payroll	\$ 7,801,034	\$ 8,295,604	\$ 8,582,083
Employer's Proportionate Share of the Collective Net Pension Liability as a Percentage of the Employer's Covered Payroll	127.77%	138.23%	176.63%
Pension Plan's Fiduciary Net Position as a Percentage of the Total Pension Liability	83.03%	81.35%	76.65%

<sup>1</sup> Proportion of the collective net pension liability represents the plan's proportion of PERF C, which includes both the Miscellaneous and Safety Risk Pools excluding the 1959 Survivors Risk Pool.

\* Measurement period 2013-14 (fiscal year 2015) was the 1st year of implementation.

**VALLECITOS WATER DISTRICT**

**SCHEDULE OF PLAN CONTRIBUTIONS  
LAST 10 YEARS\***

	Fiscal Year		
	6/30/2015	6/30/2016	6/30/2017
Actuarially Determined Contributions	\$ 1,304,486	\$ 1,465,868	\$ 1,690,724
Contributions in Relation to the Actuarially Determined Contributions	(1,304,486)	(1,465,868)	(1,690,724)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
Employer's Covered Payroll	\$ 7,801,034	\$ 8,295,604	\$ 8,582,083
Contributions as a Percentage of Covered Payroll	16.72%	17.67%	19.70%

\* Measurement period 2013-14 (fiscal year 2014-15) was the 1st year of implementation.

*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, 2017**

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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 (c)	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, 2017**

**VALLECITOS WATER DISTRICT**

**SCHEDULE OF OPERATING EXPENSES – WATER DIVISION  
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

	2017	2016
Purchased Water	\$ 27,392,003	\$ 22,190,912
Pumping:		
Labor	84,567	77,021
Materials and supplies	24,536	39,698
Outside repair	20,789	22,253
Power	482,177	392,802
Total Pumping	<u>612,069</u>	<u>531,774</u>
Water Quality and Treatment:		
Labor	445,346	360,705
Materials and supplies	82,174	84,526
Outside Repair	62,167	69,902
Power	15,157	7,058
Total Water Treatment	<u>604,844</u>	<u>522,191</u>
Tanks and Reservoirs:		
Labor	216,923	225,456
Materials and supplies	15,056	28,618
Outside repair	76,427	112,257
Power	4,198	4,825
Total Tanks and Reservoirs	<u>312,604</u>	<u>371,156</u>
Transmission and Distribution:		
Labor	1,171,448	929,020
Materials and supplies	182,215	176,447
Outside repair	384,023	73,608
Power	10,081	10,362
Total Transmission and Distribution	<u>1,747,767</u>	<u>1,189,437</u>
Services:		
Labor	69,058	108,553
Materials and supplies	19,534	70,813
Outside repair	49,481	40,042
Total Services	<u>138,073</u>	<u>219,408</u>
Meters:		
Labor	595,587	639,288
Materials and supplies	24,087	69,031
Outside repair	5,902	4,845
Total Meters	<u>625,576</u>	<u>713,164</u>

**VALLECITOS WATER DISTRICT**

**SCHEDULE OF OPERATING EXPENSES – WATER DIVISION (Continued)  
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

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	<u>2017</u>	<u>2016</u>
Backflow Prevention:		
Labor	\$ 70,939	\$ 60,066
Materials and supplies	3,939	144
Total Backflow Prevention	<u>74,878</u>	<u>60,210</u>
 Customer Accounts:		
Labor	456,320	406,606
Materials and supplies	49,037	58,516
Uncollectible accounts	26,143	28,561
Outside Repair	32,401	40,223
Total Customer Accounts	<u>563,901</u>	<u>533,906</u>
 Equipment and Vehicles:		
Labor, fuel and repairs	219,612	212,658
Materials and supplies	66,270	66,899
Total Equipment and Vehicles	<u>285,882</u>	<u>279,557</u>
 Building and Grounds:		
Labor	208,064	175,710
Materials and supplies	23,023	36,373
Outside Repair	73,489	71,677
Power	96,236	67,557
Total Building and Grounds	<u>400,812</u>	<u>351,317</u>
 Engineering:		
Labor	1,363,299	1,213,380
Materials and supplies	12,255	36,588
Outside Repair	43,352	20,230
Total Engineering	<u>1,418,906</u>	<u>1,270,198</u>
 Safety:		
Labor	215,209	196,736
Materials and supplies	7,994	16,999
Safety support	10,276	10,025
Total Safety	<u>233,479</u>	<u>223,760</u>

**VALLECITOS WATER DISTRICT**

**SCHEDULE OF OPERATING EXPENSES – WATER DIVISION (Continued)  
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

	2017	2016
Information Technology		
Labor	\$ 438,533	\$ 376,974
Travel	1,992	824
Dues and subscriptions	147	147
Meetings and seminars	2,806	3,788
Other materials and supplies	18,973	39,736
Phone	21,341	22,508
Equipment Rent & Repair	34,710	33,862
Outside Repair	209,790	254,618
Total Information Technology	<u>728,292</u>	<u>732,457</u>
 General and Administration:		
Salaries	1,812,289	1,877,637
Other taxes/benefits	42,020	7,996
Social security	136,095	139,762
Group insurance	561,629	699,308
Public employees' retirement	492,618	325,659
Workers' compensation insurance	35,696	40,775
District insurance	137,963	131,220
Director's expense	43,343	58,531
Director's fees	50,703	51,512
Public awareness	91,026	171,822
Travel	11,261	20,551
Postage	7,121	2,607
Office supplies	38,058	81,861
Dues and subscriptions	53,791	77,211
Meetings and seminars	20,642	23,094
Legal	111,869	152,749
Auditing	16,083	12,528
Outside services	169,372	192,136
Election and annexations	6,127	-
Other	(40,648)	29,120
Administrative credits transferred	(737,301)	(640,668)
Total General and Administration	<u>3,059,757</u>	<u>3,455,411</u>
 Total Water Division Expenses	<u>\$ 38,198,843</u>	<u>\$ 32,644,860</u>

**VALLECITOS WATER DISTRICT**

**SCHEDULE OF OPERATING EXPENSES – WASTEWATER DIVISION  
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

	2017	2016
Collection System:		
Labor	\$ 1,422,004	\$ 1,179,829
Materials and supplies	92,870	75,214
Chemicals	241,625	306,209
Outside repair	138,821	200,232
Power	1,368	1,411
Total Collection System	<u>1,896,688</u>	<u>1,762,895</u>
Lift Stations		
Labor	156,632	152,261
Materials and supplies	19,165	29,291
Chemicals	421	-
Outside repair	66,053	43,965
Power	50,933	42,856
Total Lift Stations	<u>293,204</u>	<u>268,373</u>
Peroxide Station:		
Labor	1,291	308
Outside repair	-	-
Power	25	148
Total Peroxide Station	<u>1,316</u>	<u>456</u>
Source Control:		
Labor	146,018	128,670
Materials and supplies	14,771	3,862
Total Source Control	<u>160,789</u>	<u>132,532</u>
Encina Disposal	<u>2,529,715</u>	<u>2,485,765</u>
Meadowlark Lift Station:		
Labor	76,523	64,322
Materials and supplies	8,289	45,498
Chemicals	101,791	102,613
Outside repair	31,741	67,742
Power	89,791	65,685
Total Meadowlark Lift Station	<u>308,135</u>	<u>345,860</u>

**VALLECITOS WATER DISTRICT**

**SCHEDULE OF OPERATING EXPENSES – WASTEWATER DIVISION (Continued)  
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

	2017	2016
Meadowlark Plant:		
Labor	\$ 981,193	\$ 861,506
Materials and supplies	369,359	258,411
Chemicals	468,966	447,358
Outside repair	233,051	265,495
Power	413,397	379,522
Telephone	117	1,091
Total Meadowlark Plant	<u>2,466,083</u>	<u>2,213,383</u>
Mahr Reservoir:		
Labor	65,759	81,602
Materials and supplies	15,196	23,861
Chemicals	23,292	8,839
Outside repairs	115,449	76,642
Total Mahr Reservoir	<u>219,696</u>	<u>190,944</u>
Customer Accounts:		
Labor	303,605	273,567
Materials and supplies	45,344	49,613
Uncollectible accounts	13,852	13,426
Outside Services	31,564	33,503
Total Customer Accounts	<u>394,365</u>	<u>370,109</u>
Equipment and Vehicles:		
Labor, fuel and repairs	122,091	126,635
Materials and supplies	30,890	40,089
Fuel	32,517	39,122
Total Equipment and Vehicles	<u>185,498</u>	<u>205,846</u>
Buildings and Grounds:		
Labor	59,918	51,009
Materials and supplies	15,152	22,206
Outside repair	62,048	57,507
Power	91,921	64,004
Total Buildings and Grounds	<u>229,038</u>	<u>194,726</u>
Engineering:		
Labor	560,599	543,886
Materials and supplies	3,846	61,662
Outside repair	4,846	13,291
Total Engineering	<u>569,291</u>	<u>618,839</u>

**VALLECITOS WATER DISTRICT**

**SCHEDULE OF OPERATING EXPENSES – WASTEWATER DIVISION (Continued)  
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

	2017	2016
Safety:		
Labor	\$ 150,064	\$ 125,625
Materials and supplies	266	2,315
Outside services	8,609	9,811
Total Safety	<u>158,939</u>	<u>137,751</u>
Information Technology		
Labor	296,379	254,297
Materials and supplies	75,747	91,665
Outside services	220,427	268,604
Total Information Technology	<u>592,553</u>	<u>614,566</u>
General and Administration:		
Salaries	816,549	719,558
Other taxes/benefits	14,187	4,336
Social security	57,130	58,876
Group insurance	321,300	405,101
Public employees' retirement	260,834	155,620
Workers' compensation insurance	10,650	12,366
District insurance	132,552	126,074
Director's fees	42,899	37,813
Travel	-	-
Office supplies	16,955	18,547
Dues and subscriptions	16,155	421
Meetings and seminars	50	1,224
Legal	111,829	140,797
Auditing	15,477	12,062
Outside services	31,438	59,492
Other	(7,592)	3,123
Administrative credits transferred	(498,731)	(484,512)
Total General and Administration	<u>1,341,682</u>	<u>1,270,898</u>
Total Wastewater Division Expenses	<u>\$ 11,346,992</u>	<u>\$ 10,812,942</u>

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