

ANNUAL COMPREHENSIVE FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2023



VALLEY CENTER
MUNICIPAL
WATER DISTRICT



VALLEY CENTER, CA

Cover Photo: View from the Woods Valley Ranch Water Reclamation Facility Service Area, in the central area of Valley Center, facing southwest towards the neighboring City of Escondido.

Annual Comprehensive Financial Report

For The Fiscal Year Ended
June 30, 2023

Valley Center Municipal Water District



Prepared by:

Valley Center Municipal Water District's Finance Department

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www.valleycenterwater.org

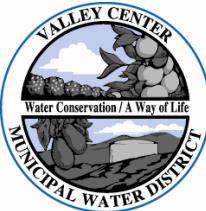
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Introductory Section



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VALLEY CENTER MUNICIPAL WATER DISTRICT

A Public Agency Organized July 12, 1954

Board of Directors
Robert A. Polito
President
Enrico P. Ferro
Vice President
Daniel E. Holtz
Director
Oliver J. Smith
Director
Cooper T. Ness
Director

December 4, 2023

The Honorable Board of Directors and Citizens of Valley Center
Valley Center Municipal Water District
29300 Valley Center Road
Valley Center, CA 92082

We are pleased to submit the Annual Comprehensive Financial Report (ACFR) for the Valley Center Municipal Water District (hereinafter referred to as “the District”) for the fiscal year ended June 30, 2023. The purpose of the report is to provide the Board of Directors, our customers, and any other interested parties with reliable financial information about the District.

The ACFR was prepared by the District's Finance Department in accordance with Generally Accepted Accounting Principles (GAAP). Management assumes full responsibility for the completeness and reliability of the information contained in this report, which is based upon a comprehensive framework of internal controls that were established for this purpose. Because the costs of internal controls should not exceed the anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements. We believe the data, as presented, is accurate in all material respects and that it is presented in a manner designed to set forth fairly the financial position and results of operations of the District, and that all disclosures necessary to enable readers to gain maximum understanding of the District's financial activity have been included.

The District's policy requires that an independent certified public accounting firm, selected by the Board, audit the basic financial statements on an annual basis. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Davis Farr, LLP have issued an unmodified (or clean) opinion on the District's financial statements for the fiscal year ended June 30, 2023. The independent auditor's report is presented as the first component of the Financial Section of this report.

Management's Discussion & Analysis (MD&A) immediately follows the independent auditor's report in the Financial Section and provides an overview, summary, and analysis of the basic financial statements. The MD&A complements this Letter of Transmittal and should be read in conjunction with it.

REPORTING ENTITY AND SERVICES

Valley Center Municipal Water District (the “District”) was founded on July 12, 1954 and was formed under the provisions of the California Municipal Water District Law of 1911 (California Water Code Sections 71000 et seq.). It is located in northern San Diego County and provides water and wastewater reclamation services to its domestic, agricultural, and commercial customers encompassing a 101 square mile service area, serving a population of approximately 29,938. It includes the unincorporated area of Valley Center and unincorporated areas north of Escondido.

The District is governed by a five-member Board of Directors (the “Board”), elected by geographic division and serving staggered four-year terms and manages the District through an appointed general manager. The District’s management team also includes four department heads that oversee the Finance, Engineering, Information Technology, and Operations & Facilities Departments. At June 30, 2023, there were 72 regular full-time employees working for the District.

For reporting purposes, the financial statements present a combined report which includes all District activities for which the Board of Directors of Valley Center Municipal Water District is primarily financially accountable. The District has established various self-balancing groups of accounts in order to enhance internal control and further the attainment of management objectives. The groups of accounts are identified in the District’s books and records as General, Lower Moosa Wastewater Treatment, and Woods Valley Ranch Wastewater.

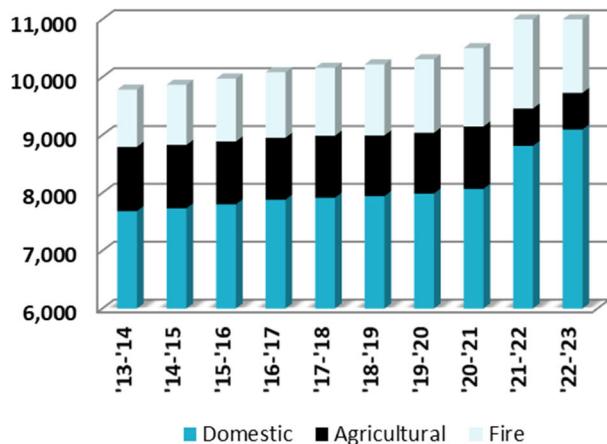
Custodial funds are reported on the Fiduciary Statements for Assessment District No. 2012-1 and Community Facilities District 2020-1, which are described in Note 6 of the Notes to the Basic Financial Statements.



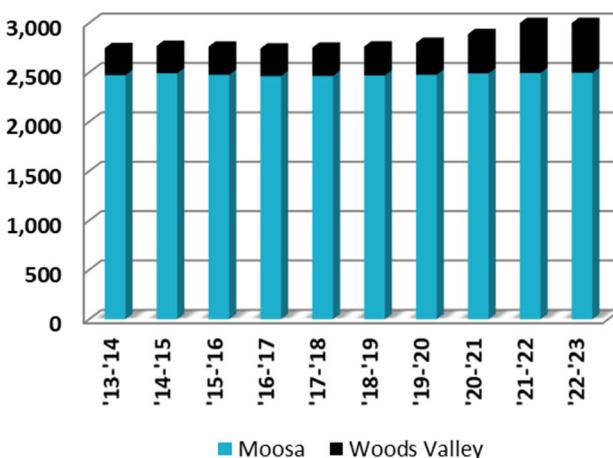
System Overview

- Aqueduct Connections: 7
- Miles of Water Main: 341
- Enclosed Reservoirs: 40
- Open Reservoirs: 1
- Pump Stations: 29
- Wastewater Treatment Facilities: 2
- Wastewater Connections: 3,414
- Miles of Wastewater Lines: 48
- 2022-23 Revenue: \$50.9 Million
- 2022-23 Expenses: \$51.4 Million

Active Water Meters



Wastewater Connections



FINANCIAL POLICIES

The District's Board of Directors has adopted a comprehensive set of financial policies. During the current year, three of these policies were of most significance.

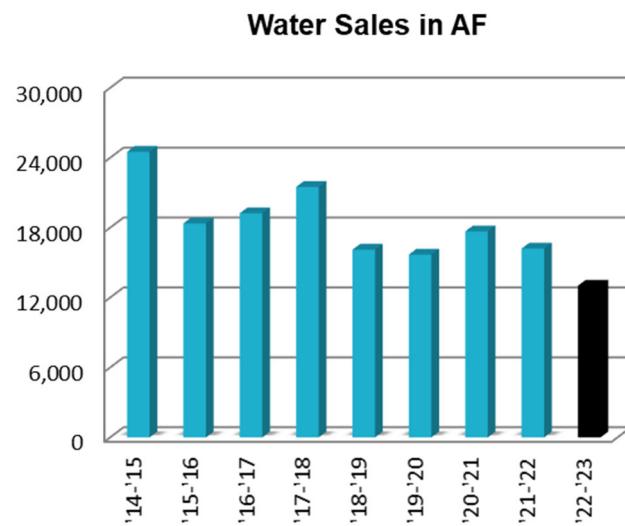
Budget – The Board of Directors annually adopts a Budget Policy that defines reserve requirements, outlines the budget process, and assigns control and accountability. Operating and capital budgets for the District are prepared by departments annually and are reviewed and modified by management before being compiled into a comprehensive document for approval by the Board. The annual budget document is adopted prior to the beginning of the fiscal year and provides the basis for prioritizing efforts, activities, financial resources, and personnel needs. Further information can be found in the budget, a copy of which is available on the District website at www.valleycenterwater.org.

Investment – Annually, the Board adopts an investment policy that is in compliance with California Government Code Section 53646(a)(2). The investment of idle funds is delegated to the District Treasurer, who further delegates the day-to-day operations of investment of public funds to Finance Department personnel. The District's investment policy is conservative in that the type of investments allowed in the policy is limited to those investments that carry the least risk while continuing to pay at least a market rate of return. The primary goals of the policy are: first, preservation of capital and second, to maintain enough liquidity to meet cash flow requirements. After these goals, investment income is considered. Refer to Note 2 in the Notes to the Financial Statements for detailed investment information.

Debt – The District established a formal Debt Policy that sets forth guidelines for the purpose, type, and management of debt used to finance the District's capital improvements program. Compliance with the policy is essential to ensure that the District maintains a sound debt position and that it preserves budgetary flexibility and its credit quality. The policy also establishes guidelines for its disclosure obligations and refunding of debt to reduce interest costs.

LOCAL ECONOMY AND OUTLOOK

Over the last decade, Valley Center has transitioned from being predominately agricultural to a more balanced rural-suburban and agricultural setting. Once over 90% of the water delivered by the District went to commercial agricultural users, the mix is now 57% agricultural and 43% domestic-commercial. The decline in agricultural use in Valley Center, as well as the nearby communities of Rainbow and Fallbrook, is due to rapid increases in wholesale water costs over the last 10 years, regulatory restrictions, labor costs and shortages, and market competition.

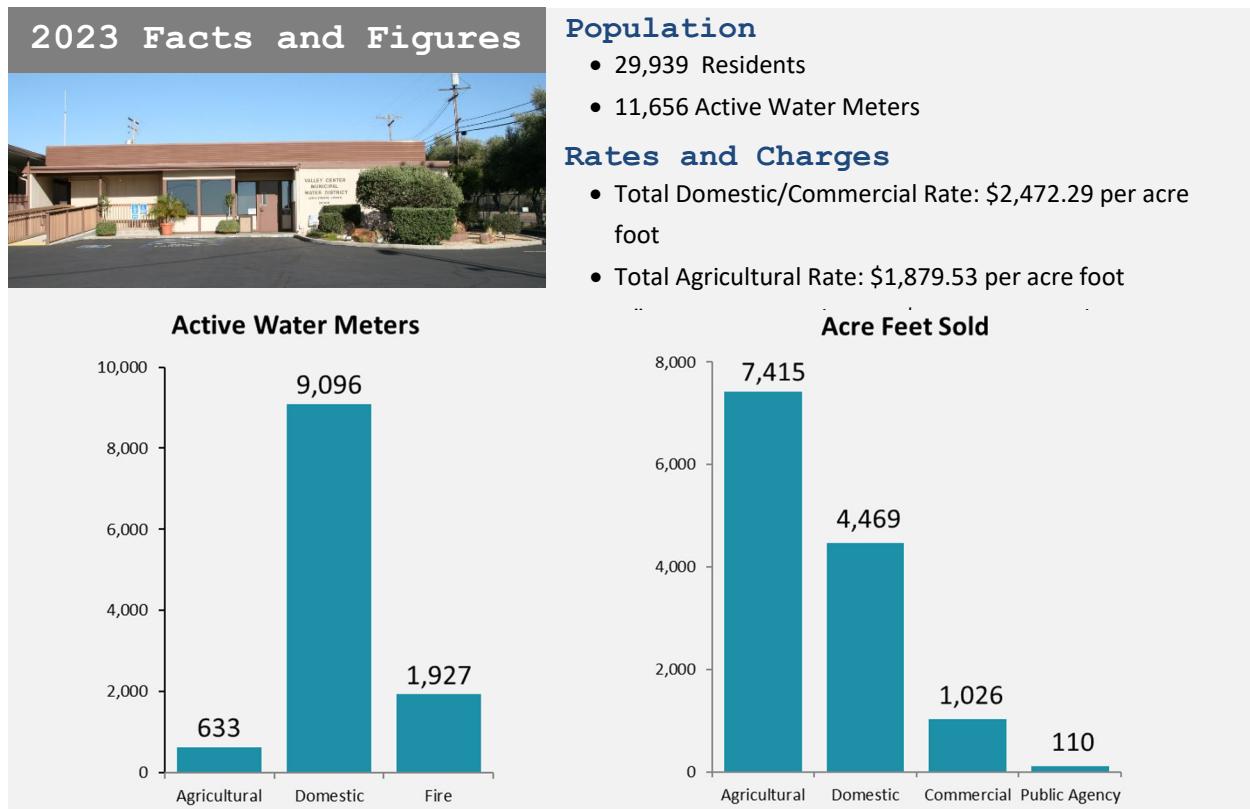


As a result, the District has seen a significant decrease in the volume of water deliveries to its customers. Water sales for the year ended June 30, 2023, totaled 13,020 acre feet. Compared to just 10 years ago, in Fiscal Year 2013-14 when the District sold 28,082 acre feet. Additionally, the volume of water purchased was 13,458 acre feet for the year ended June 30, 2023, which is among the lowest levels on record. By comparison, in Fiscal Year 2013-14, the District purchased 29,606 acre feet of water.

As of June 30, 2023, the estimated population of the area serviced by the District was 29,938. At June 30, 2023, unemployment in California was 4.9%, San Diego County was 4.0%, and the local rate in the Valley Center Census Designated Place (CDP) was 2.3%.

The District relies on the San Diego County Water Authority (SDCWA or “Authority”) as its’ sole source provider for treated potable water. The Authority imports water through the Metropolitan Water District of Southern California (MWD) system and its own aqueduct, storage, and treatment system. MWD obtains its imported water from two sources: the Colorado River Aqueduct and the State Water Project. These water sources have become increasingly unreliable in recent years as deteriorating ecological conditions have led to regulatory restrictions on pumping water supplies from the Bay-Delta and storage levels on the Colorado River System. The Bay-Delta is an inland river delta and estuary formed at the confluence of the Sacramento and San Joaquin Rivers east of San Francisco. It is a key water supply source for California including the millions of residents in San Diego County.

The Authority’s water supply portfolio also includes supplies secured in 2003 under the Quantification Settlement Agreement (QSA) from the Colorado River. These supplies include a water conservation and transfer agreement with the Imperial Irrigation District and water conserved by two projects, the All American Canal Lining Project and the Coachella Canal Lining Project.



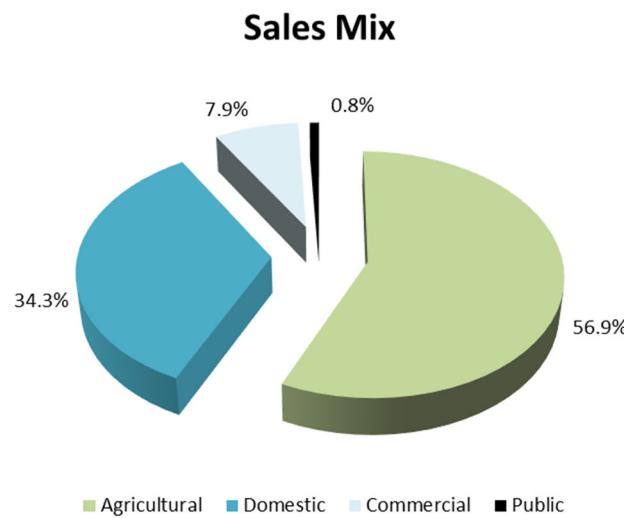
Additionally, the SDCWA added desalinated seawater to its water supply portfolio with the completion of the Carlsbad Desalination Plant in December 2015. This supply reduces the region's dependence on water from the Colorado River and the Bay-Delta that is vulnerable to droughts, natural disasters, and regulatory restrictions.

VCMWD and the entire California water community will continue to face challenges going forward. Uncertainties surrounding its main sources of imported water, the State Water Project and the Colorado River, the lack of enhancements to the statewide storage system in over 50 years, the effects of climate change, public environmental issues and state regulations concerning water use restrictions, increasing operating costs and depressing revenues all contribute to a difficult planning environment in which the cost of imported water is all but certain to continue to increase. Water shortages, both natural and man-made, continue to loom in the future. These factors have the potential to adversely impact the operations and finances of the District.

Financial and Economic Trends – Customer meter categories have stayed consistent with 553 new meter accounts having been established during 2022-23. This raised the total number of meter connections within the District to 12,555, of which 2,068 are fire meter accounts. Of the total meter accounts, 758 water service accounts and 141 fire service accounts are inactive, resulting in 11,656 revenue generating water meters at the close of the fiscal year. This is an increase of 540 active service accounts (271 water service and 269 fire) compared to the close of 2021-22.

Private development construction in fiscal year 2022-23 was comparable to that in the prior year as the Park Circle Development continued and neared completion of the build out of their community. The District continued to process 26 private development projects containing a total of 1,015 units in various stages of completion, from concept approval to warranty period. Additionally, there are 8 projects with 808 units that are in the active planning stage and 10 inactive projects with 139 units.

For the fiscal year ended June 30, 2023, water sales were 13,020 acre feet, down 3,187 acre feet or 19.7% from sales of 16,207 acre feet in 2021-22. This decrease is due in part to a 142% increase in total rainfall for the year, 25.2 inches versus 10.4 inches in 2021-22. Water deliveries are broken down as follows: 56.9% for agricultural purposes, 34.3% for domestic, 7.9% for commercial, and 0.8% for public use. The total cost of water purchased for the fiscal year was \$24.0 million, or 51.5% of the District's total water operating expenses.



SDCWA Permanent Special Agricultural Water Rate – The San Diego County Water Authority's Permanent Special Agricultural Water Rate (PSAWR) provides a rebate for qualifying agricultural water users. PSAWR customers do not pay for the full cost, nor do they benefit fully from, the SDCWA Emergency Storage or Carry-Over Storage Projects. In addition, the SDCWA melded rate reflects the costs of the supplemental supplies, such as those from the IID Transfer, the All-American-Coachella Canal Lining, and the Carlsbad Seawater Desalination project which PSAWR customers also do not pay.

In exchange for reduced rates, PSAWR customers agree to have their water supply reduced first and at a greater degree during droughts and other emergency situations. For calendar year 2022 the discount that certified agricultural customers received totaled \$583 per acre foot, based on water rates effective February 1, 2022. With the full PSAWR pricing differential, VCMWD participating agricultural customers will pay \$1,879.53 per acre foot, compared to the \$2,472.29 per acre foot that domestic/commercial customers will pay, a 24% reduction or savings of \$593 per acre foot in calendar year 2023.

Please refer to the MD&A in the financial section of this report for detailed schedules and analysis of the District's operating results for the fiscal year ended June 30, 2023.

Long-Term Capital Facility Planning and Financing – New capital improvement facilities are categorized as either, Replacement, System Upgrade or Expansion facilities. Replacement and System Upgrade facilities are currently funded from replacement and capital reserves, primarily on a pay as you go cash basis. These reserves are funded annually by a combination of capacity fees, water availability charges, property taxes, and excess operating and non-operating revenues. The District has increased its leverage of available funding through State Revolving Fund (SRF) financing by establishing a process to apply for funding on a yearly basis.

Facilities which are identified and budgeted annually for replacement are selected from a facility replacement priority list included in the District's Water Master Plan. In addition, the replacement of existing facilities can be triggered by the County of San Diego road improvement projects that require the relocation of facilities. Private development projects can also provide an opportunity to participate in the replacement of an existing facility or system upgrade when there is a benefit to the overall district system.

MAJOR INITIATIVES EFFORTS AND ACCOMPLISHMENTS

Water System Operations

Transmission, Distribution, and Storage Facilities Improvements – Major Capital improvement work completed during the fiscal year included the following projects: Gordon Hill Pipeline Phase 2 and the painting and recoating of six reservoirs - Weaver Reservoir; Burnt Mountain & Reidy Canyon Reservoirs; San Gabriel No. 1 Reservoir; and Mountain Meadows No. 1 and Reid Hill Reservoirs.



Exterior Paint & Coat of
Mtn Meadows No. 1 Reservoir



Interior Paint & Coat of
Weaver Reservoir



Exterior Paint & Coat of
Burnt Mtn Reservoir

Vehicle Replacements – On June 25, 2020, the California Air Resources Board (CARB) adopted Resolution No. 20-19, Advanced Clean Trucks Regulation for implementation in California. This is one of the many initiatives statewide to achieve the Green House Gas emission reduction goals of 40% under 1990 levels by 2030 and 80% under 1990 levels by 2050. This initiative was established in Senate Bill 350, the Clean Energy and Pollution Reduction Act passed and adopted in 2015.

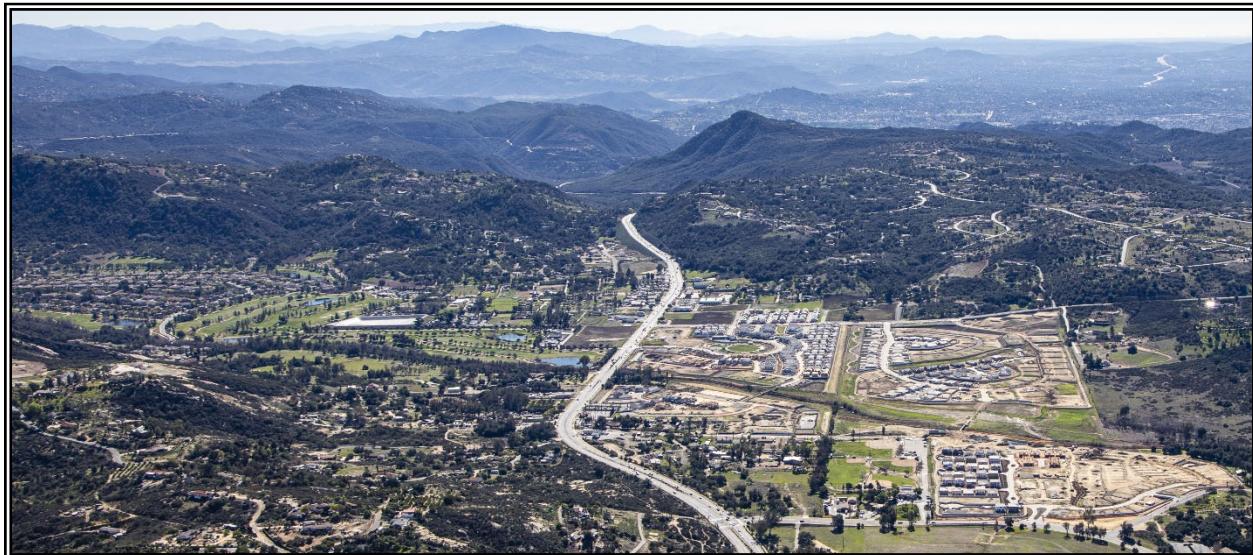
To meet their air quality standards and greenhouse gas emission reduction goals, CARB developed regulations for full transition of all vehicles, both heavy and light duty, to zero-emission technologies by 2045. The regulations require earlier transition for certain market segments, including a goal of 100% zero-emission vehicle (ZEV) public fleets by 2035. The proposed Advanced Clean Fleets (ACF) regulation will affect medium and heavy-duty trucks with a Gross Vehicle Weight Rating greater than 8,500 lbs. The implementation of the proposed ACF regulation will require 50% of the Districts new medium and heavy-duty truck purchases be ZEVs starting in Calendar Year 2024 and 100% in 2027.

The District's strategy to ensure the availability of vehicles needed for emergency response has been to replace the heavy-duty trucks prior to 2024. During Fiscal Year 2022-2023, one heavy-duty service truck was replaced. The District budgeted to replace four additional heavy-duty Service Trucks, a 6-yard Dump truck, and a heavy-duty Hooklift truck by the end of Fiscal Year 2023-24. This strategy will grant staff greater flexibility in managing the normal turnover cycle of the Districts vehicles and future ZEV purchases.

Water Loss and Meter Replacement – The District continues to survey, verify, and change out the top users' water meters throughout the service area. Continued meter maintenance programs provide further field observation of District meters. Crews continue to evaluate and survey cross country water mains and their associated appurtenances, through its leak detection program, for potential leaks and cross-connections. Field personnel continue to aggressively monitor and inspect the distribution system through these various strategies. For Calendar Year 2022, unaccounted water loss was 4.6% of total water sold, slightly higher than the 3.7% reported for Calendar Year 2021.

Wastewater System Operations

Woods Valley Ranch Water Reclamation Facility – The Woods Valley Ranch Water Reclamation Facility provides wastewater service to the Woods Valley Ranch, Bear Peak and Park Circle Subdivisions and the North and South Village areas.



The service area is located in the central portion of Valley Center generally along Valley Center Road from 1,300 feet east of Cole Grade to 1,500 feet south of Woods Valley Road. The facility was originally constructed in 2005 to service the 280-unit Woods Valley Ranch Subdivision and Golf Course. The facility was later expanded to its current capacity in 2017. The facility is permitted to treat up to 275,000 gallons per day (GPD) to Title 22 standards and the treated effluent is utilized for irrigation purposes at the Native Oaks Golf Club (formerly the Woods Valley Golf Course). Construction of the expansion was funded utilizing State Revolving Fund and Limited Obligation Bond debt financing secured by Assessment District No. 2012-1 annual assessments and Community Facilities District No. 2020-1 Annual Special Taxes. The funding commitments secured capacity reservations for 1,247 equivalent dwelling units (EDUs). Total allocated capacity of the facility is 1,527 EDUs.

The service area is growing with new homes and businesses being planned and constructed at a moderate pace. As of the close of the fiscal year, the facility received influent from 892 active connections via the gravity collection system in Woods Valley Ranch, Bear Peak and Park Circle Developments and 25 active connections via the Low Pressure Sewer collection system along the Valley Center Road Corridor, for a total of 917 active wastewater connections. Compared to the prior fiscal year, which had 674 active wastewater connections, that is an increase of 246, or 37%.

Ultimate buildout of the service area is planned at 3,000 EDUs requiring a treatment capacity of 525,000 GPD. Construction of the expansion facilities is contingent upon development in the area and the availability of funding. Future discharge sources in addition to the Native Oaks Golf Club may include common area irrigation of nearby developments and roadway medians.

Lower Moosa Canyon Water Reclamation Facility – The Lower Moosa Canyon Water Reclamation Facility, built in 1974, provides sewer services to the District's Interstate 15 corridor area, from the Lawrence Welk development on the southern end, east to Hidden Meadows, and north to Circle R Drive. The facility receives sewage from 2,497 connected customers via 21.6 miles of VCP and PVC gravity collection mains (varying in size from 8-inch to 18-inch), with over 500 manholes, and 2,200 laterals. It is permitted to treat up to 440,000 gallons per day (493 AFY) of domestic and commercial wastewater to secondary standards before discharge. Secondary effluent from the Lower Moosa WRF is discharged to percolation ponds which recharge the groundwater table in the San Luis Rey River watershed. This groundwater is not used for human consumption.

Customer water conservation efforts have significantly reduced influent flow rates per connection. As a result, capacity requirements for ultimate buildout in the service area are not expected to exceed the current waste discharge limits. However, while conservation efforts have reduced the hydraulic loading requirements on the facility, expansion of the solids handling portion of the facility will be needed as connections are added to the system and are planned to occur in the next five years. Recent facility improvements have been focused on the replacement of aging infrastructure.

During the fiscal year major capital improvement work completed included the following projects: Replacement of the Main Motor Control Center and Sludge Transfer Pump as well as the Aeration Air Piping. Additionally, installation of new solar array under a Power Purchase Agreement, at this site, was completed and is expected to provide a significant savings in the cost of power required to operate the plant.



New solar array at Lower Moosa Canyon WRF.

Development Planning and Construction Projects

Development activity was minimal during the fiscal year due to regional economic factors, with the exception of the South Village Area of the District served by the Woods Valley Ranch Water Reclamation Facility. Primarily developers in other parts of the District continued their pursuit of land use entitlements from the County with minimal interactions required of the District. Several projects renewed their plan approvals to maintain their entitlements and the ability to start construction at a later date.

North and South Village Areas – With the completion of the Woods Valley Ranch Wastewater Expansion Project, several developments in the District's North and South Village Areas are planned to move forward in the upcoming fiscal year:

- **Touchstone Communities** has completed the Park Circle East/West development in the South Village Area. Park Circle West is a 300-unit residential subdivision and Park Circle East is a mixed-use development of 332 residential units, 4.2 acres of commercial area and 5 acres of parks and recreational facilities. Six major merchant builders have purchased lots within the development and began model and production home construction in October 2020, with approximately 562 new homes being occupied at the end of Fiscal Year 2022-2023.
- **Weston Towne Center** a previously planned mixed-use development in North Village split ownership between the residential and commercial development. North Ranch Estates is a planned 515-unit residential development and the remaining 13.93 acre commercial portion, Weston Towne Center, has a wastewater capacity allocation of 85 EDUs. The owners of both the residential and commercial portions continue to evaluate development options.
- The **North Village Station** project is a proposed 200 unit mixed-use residential, office/professional development owned by Valley Center View Properties, LLC. The developer continued processing their site plan through the County to complete the development entitlements for their project. The Miller Plaza portion of the development, consisting of a convenience store with a gas station and a car wash, restaurant and office professional building is nearing completion and is expected to be connected in Fiscal Year 2023-2024.

ACCOUNTING SYSTEMS

District records are maintained on an enterprise basis, as it is the intent of the Board of Directors that the cost of providing water and wastewater services to the customers of the District are financed primarily through user charges. Revenues and expenses are recognized on the accrual basis in that both are recognized in the accounting period they are earned or incurred. Capital assets are recorded in the fund purchasing the asset.

As an enterprise fund, the District maintains a self-balancing set of accounts established to record the financial position and results that pertain to each activity. The activities of enterprise funds are similar to regular businesses, whereby a governmental agency collects sufficient revenues through user charges to pay for operating expenses and maintain infrastructure in order to sustain operations.

INTERNAL CONTROLS

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

BUDGETARY CONTROLS

On an annual basis, the District's Board of Directors adopts a budget that is prepared on a departmental level. Although the District is not legally required to adopt and adhere to a budget or report on compliance with any prepared budgets, the Board of Directors chooses to approve a budget to be used solely as a management tool. Depending upon the timing and level of the demand for water services, the revenues and expenditures may vary significantly and cannot be strictly controlled by means of detailed and rigid appropriations. Therefore, the budget must be viewed as an estimate only. Budget appropriations for major capital projects continue from year to year until the project is completed.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Valley Center Municipal Water District for its Annual Comprehensive Financial Report for the Fiscal Year ended June 30, 2022. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Annual Comprehensive Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. Valley Center Municipal Water District has received a Certificate of Achievement each year since 1992. We believe our current report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility for another certificate.



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**Valley Center Municipal Water District
California**

For its Annual Comprehensive
Financial Report
For the Fiscal Year Ended

June 30, 2022

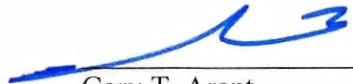
Christopher P. Morill

Executive Director/CEO

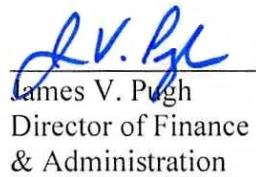
ACKNOWLEDGMENTS

We would like to express our appreciation to all members of the District's staff, particularly the members of the Finance Department who have participated in the preparation of this report. Special thanks are extended to the members of the District's Board of Directors for their continued interest and support in all aspects of the District's financial management.

Respectfully Submitted:



Gary T. Arant
General Manager



James V. Pugh
Director of Finance
& Administration

*Our mission is to ensure customer satisfaction
through quality service at the lowest possible cost.*

STRATEGIC PLAN PERFORMANCE MEASUREMENT STANDARDS RESULTS FOR CALENDAR YEAR ENDED DECEMBER 31, 2022

1. CUSTOMER SATISFACTION - Our standard will be that our service “meets” or “exceeds expectations” 95% of the time, based upon the “Customer Comment Card” responses.

Survey responses show the District met or exceeded the standard 100.0% of the time.

2. WATER LOSS – Report annually for the past 10 years of unknown water loss in terms of percent of water sold, acre feet, and value of water loss, as well as efforts to minimize and reduce unknown water loss wherever possible.

Unaccounted water loss for 2022 totaled 786.3 acre feet, 4.6% of total water sold, representing \$1,074,913.

3. DISCRETIONARY RESERVES - Unrestricted or uncommitted reserves not anticipated to be used in the current fiscal year equal to a minimum three and a maximum six months’ operations and maintenance expenses (excluding wholesale water and power purchases).

Discretionary Reserves as of December 31, 2022 represents 6 months operating and maintenance expenses.

4. RETURN ON INVESTMENTS - While seeking to preserve capital and maintain a level of liquidity necessary to meet cash flow requirements, our rate of return, on an annualized basis, shall be at least equal to the average rate of return on one year U.S. Treasury Bonds.

The weighted average return on all investments for calendar year 2022 was 1.344% as compared to the 12-month rolling average U.S. Treasury Bonds of 2.787%.

5. LOCAL COMMODITY RATE for LOCAL OPERATING and MAINTENANCE COSTS - We will hold the local share of total commodity costs as low as possible, but at no time will the local rate be more than 15% of total water commodity cost for Municipal & Industrial and 18% for Certified Agricultural.

The District’s component of the water rate for operating costs is currently 11.0% of Municipal & Industrial and 14.6% of Certified Agricultural.

6. PUMP EFFICIENCY - Through ongoing testing, adjusting, and maintenance, we will maintain pump efficiency above 95% of the design criteria.

Our pump efficiency was 105.7% of design criteria.

7. SOLAR ENERGY PRODUCTION – District owned and operated solar arrays shall be maintained at 90% of scheduled production which reflects array location and anticipated production loss due to panel age.

All six of the District-owned Solar Arrays, with a total capacity of 331.5kWdc, exceeded 90% of the low range of anticipated production.

8. PROJECT ACTUAL COST - ±10% of Engineer’s cost estimate.

Three projects were completed in calendar 2022 at 9.8% over the Engineer’s estimate.

9. CAPITAL IMPROVEMENT PROJECTS – Project timelines shall be under contract within 12 months of budget approval (new).

Of the eighteen Engineering Department projects with approved funding, all but two were under contract within 12 months.

10. WATER SERVICE RELIABILITY GREATER THAN 99% - We will strive to maintain water service to all customers at greater than a 99% reliability level. This will be measured based upon total hours of service interruption against all service hours in a given measurement period.

For Calendar Year 2022 service reliability was 99.999%.

11. LOST-TIME ACCIDENTS LESS THAN 1% OF TOTAL HOURS WORKED.

The District had two recordable accidents with zero lost-time in calendar 2022.

12. COMPLIANCE WITH ALL STATE & FEDERAL REGULATIONS.

100%.

DISTRICT OFFICIALS



**Robert A.
Polito**
President
Division 1
Since 1989



**Enrico P.
Ferro**
Vice-President
Division 4
Since 2016



**Daniel E.
Holtz**
Director
Division 5
Since 2018



**Oliver J.
Smith**
Director
Division 3
Since 2018



**Cooper T.
Ness**
Director
Division 2
Since 2022

Years of Service

35

7

5

5

1

Term Expires

December 2024

December 2024

December 2026

December 2026

December 2026

EXECUTIVE MANAGEMENT

Gary T. Arant
General Manager
34 years of service

Wally T. Grabbe
District Engineer
Deputy General Manager
31 years of service

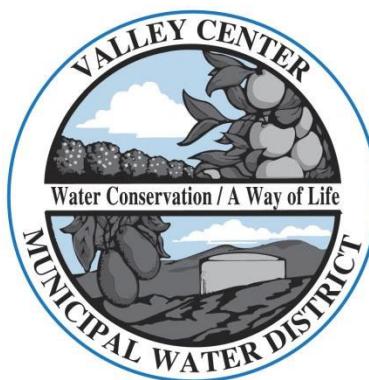
James V. Pugh
Director of Finance & Administration
Treasurer
20 years of service

Vanessa Velasquez
Manager of Accounting/Deputy
Director of Finance & Administration
8 years of service

Brian E. Lovelady
Director of Operations/Facilities
34 years of service

Ando Pilve
Director of Information Technology
15 years of service

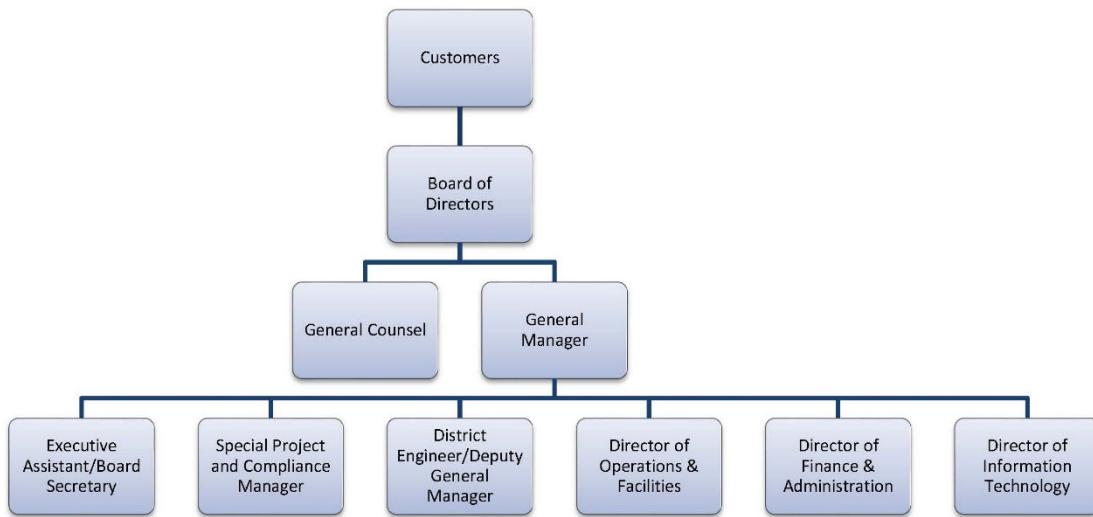
Kirsten N. Peraino
Executive Assistant
Board Secretary
3 years of service



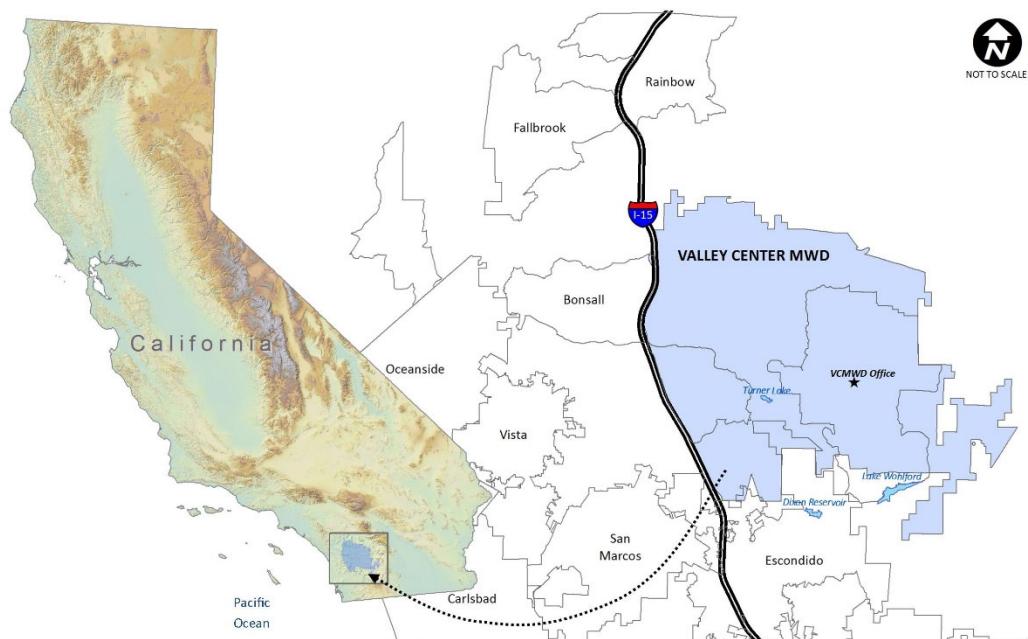
GENERAL COUNSEL

Paula C.P. de Sousa
Best, Best & Krieger, LLP
13 years

DISTRICT ORGANIZATION CHART



DISTRICT SERVICE AREA



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Financial Section



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Independent Auditor's Report

Board of Directors
Valley Center Municipal Water District
Valley Center, California

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the business-type activities and the aggregate remaining fund information of Valley Center Municipal Water District ("the District") as of and for the year June 30, 2023 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of the District, as of June 30, 2023, and the respective changes in financial position and cash flows thereof and for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Emphasis of Matter

As described further in note 14 to the financial statements, during the year ended June 30, 2023, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 96. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis, Schedule of Plan's Proportionate Share of the Net Pension Liability, Schedule of Contributions to the Pension Plan, Schedule of Changes in the District's Net OPEB Liability and Related ratios, and Schedule of OPEB Contributions* be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Summarized Comparative Information

We have previously audited the District's 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 5, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Combining Schedule of Net Position, Combining Schedule of Revenues, Expenses, Change in Net Position, Combining Statement of Fiduciary Net Position, and Combining Statement of Changes in Fiduciary Net Position are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Combining Schedule of Net Position, Combining Schedule of Revenues, Expenses, Change in Net Position, Combining Statement of Fiduciary Net Position, and Combining Statement of Changes in Fiduciary Net Position are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements.

Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining fund financial statements and summarized fiduciary fund statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the Annual Comprehensive Financial Report. The other information comprises the *introductory section* and *statistical section* but does not include the financial statements and our auditor's report thereon. Our opinions on the financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2023 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

DavisFarr LLP

Irvine, California
November 22, 2023

Management's Discussion and Analysis



MANAGEMENT'S DISCUSSION AND ANALYSIS

The intent of the Management's Discussion and Analysis (MD&A) is to provide highlights of the financial activities for the Fiscal Year (FY) ended June 30, 2023, of the Valley Center Municipal Water District (District). Readers are encouraged to read this section in conjunction with the Letter of Transmittal located in the front of this report and the accompanying basic financial statements.

DISTRICT OPERATIONS – AN OVERVIEW

The District operates under the authority of the State of California Water Code and engages in various activities including providing water to its domestic, agricultural, and commercial customers; along with wastewater collection, treatment, reclamation, and disposal in a service area that encompasses approximately 101 square miles.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements of the District report information utilizing the full accrual basis of accounting. The Financial statements conform to accounting principles, which are generally accepted in the United States of America and consist of three interrelated statements designed to provide the reader with relevant, understandable data on the District's financial condition and operating results. There are three required components to these statements: the MD&A, the Financial Statements, and the Notes to the Financial Statements.

The **Statement of Net Position** includes information on the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The **Statement of Revenues, Expenses and Changes in Net Position** identifies the District's revenues and expenses for the fiscal year ended June 30, 2023. It provides information on operations over the past fiscal year and can be used to determine whether the District has recovered its actual and projected costs through user fees and other charges.

The **Statement of Cash Flows** provides information regarding the District's cash receipts, cash disbursements, and changes in cash resulting from operations, investing and financing activities during the fiscal year. From the Statement of Cash Flows, the reader can obtain information on the source and use of cash and the changes in the cash balance of the last fiscal year.

Notes to the Basic Financial Statements (Notes) provide additional information that is essential to a full understanding of the information provided in the basic statements. The Notes also provide a description of the accounting policies used to prepare the financial statements and present material disclosures required by generally accepted accounting principles that are not otherwise present in the financial statements.

In addition, the District reports information on Fiduciary Fund types. This consists of two additional statements; **Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position**. The fiduciary fund statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong.

FINANCIAL HIGHLIGHTS

During Fiscal Year 2022-23, the District saw the lowest volume of water sold, 13,020 acre feet, since Fiscal Year 1969-70 when it sold 11,416 acre feet. Even at this sales volume, financial operations remained sound with a decrease in net position of only \$457,267.

Water System Operations

553 new water services were added this year, representing a 4.6% increase in the number of accounts it serves; compared to the prior year's increase of 601 accounts, representing a 5.3% increase. Total water services now equal 12,555 accounts, of which 11,656 are active and 899 inactive. During Fiscal Year 2022-23, water sales totaled 13,020 acre feet (AF) decreasing 19.6%, or 3,187 AF from the previous year.

Water demand in the District's service is largely influenced by temperature and rainfall given the rural-agricultural nature of the community. The annual rainfall during the fiscal year was up totaling 25.2 inches compared to the prior year of 10.4 inches, a 142% increase. Additionally, the average temperature was 62.7 degrees during FY 2022-23 compared to 63.5 degrees in FY 2021-22.

Cost of Water Sold is the District's highest single water operating expense. In January 2023, wholesale treated water rates from the San Diego County Water Authority increased 4.6% for domestic customers and 5.8% for certified agricultural customers. The total Cost of Water Sold during FY 2022-23 was \$24,059,220, or 13.3% lower than the previous year. The total amount of water purchased during the year was 13,458 AF compared to 17,131 AF in the previous year.

Wastewater System Operations

The original capacity of the Woods Valley Ranch Water Reclamation Facility provided wastewater service for 280 units generating annual sewer service charge revenue of \$331,300. With completion of the Woods Valley Ranch Expansion Project, wastewater capacity was made available for an additional 1,247 units. At full buildout the total annual sewer service charge revenues would increase to \$1.8M while the Sewer Standby Fee for the committed, but not connected, capacity units increased annual revenues in the current year by \$572,000.

All components of the Woods Valley Ranch Expansion Project funded from the SRF Loans and Limit Obligation Bonds have been completed, with the exception of the North Village Lift Station design. Funds will remain available to design the facility. Once development planning for the lift station site area is completed and approved by the County of San Diego the site and access easement can be dedicated to the District. Construction of the lift station will be the responsibility of the benefitting property owners.

The Park Circle Development will require 220 additional units of capacity above the capacity available from the Woods Valley Ranch Wastewater Expansion Project. The additional capacity is to be constructed as part of a Phase 3 Expansion Project. Community Facilities District (CFD 2020-1) was formed over the Park Circle Development to secure funding for the design and construction of the needed Phase 3 Expansion Facilities, along with the Orchard Run Lift Station Project and other minor capacity charges. Construction timing for the expansion facilities, secured by the formation of CFD 2020-1, will depend on the level of buildout within the Woods Valley Ranch Sewer Service Area.

Construction of the Phase 3 Facilities will be delayed until the actual flow rates generated in the service area approach the capacity of the existing facilities. The developer has posted a financial security to fund the costs that cannot be included in a future CFD Bond for the Phase 3 Facilities.

Sources of Revenue

Combined Revenues by Category

	Fiscal Year 2023	Fiscal Year 2022	Increase/ (Decrease)	% Change
Water Sales (Acre Feet)	13,020	16,207	-3,187	-19.7%
Revenues by Category:				
Water sales and pumping charges	\$28,508,971	\$34,310,691	(\$5,801,720)	-16.9%
Meter service charges	7,839,971	7,166,011	673,960	9.4%
Meter installation fees	984,220	933,816	50,404	5.4%
Other water operating revenues	710,954	986,803	(275,849)	-28.0%
Wastewater charges	4,227,215	4,601,540	(374,325)	-8.1%
Property taxes and assessments	4,234,849	3,853,473	381,376	9.9%
Investment income (loss)	1,759,216	(754,118)	2,513,334	-333.3%
Other nonoperating revenues	389,991	474,470	(84,479)	-17.8%
Gain (loss) on disposal of capital assets	18,719	10,523	8,196	-77.9%
Total Revenues	48,674,106	51,583,209	(2,909,103)	-5.6%
Capital contributions	2,304,934	1,815,304	489,630	27.0%
Total Revenues & Capital Contributions	<u>\$50,979,040</u>	<u>\$53,398,513</u>	<u>(\$2,419,473)</u>	<u>-4.5%</u>

Combined revenues (excluding capital contributions) for the fiscal year totaled \$48,674,106, a decrease of \$2,909,103 or 5.6% from the previous year. Details of this decrease in revenues are as follows:

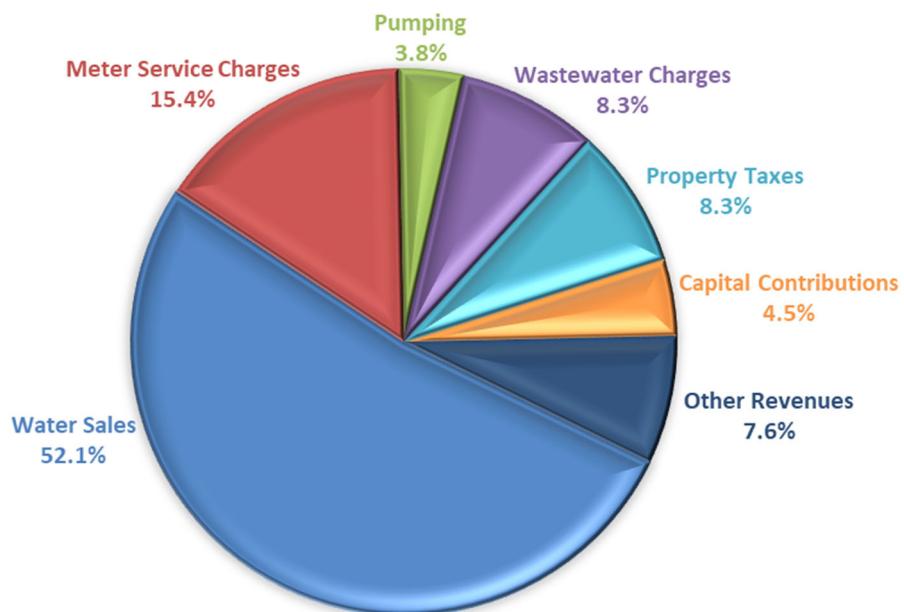
Water sales and pumping revenue decreased 16.9% or \$5,801,720, from the prior year as the sales volume decreased by 3,187 acre feet. The increased rainfall directly affects agricultural sales which is still the largest majority of the Districts sales mix. The decrease is due to the extreme wet weather conditions experienced during Fiscal Year 2022-23. Sales to Certified Agricultural customers decreased 2,555 AF for a total of 7,415 AF from 9,971 AF in the prior year, representing a 25.6% decrease.

Meter service charges of \$7,839,971 were \$673,960, or 9.4%, higher than the prior fiscal year. Monthly meter service charges increased 5.2% on January 4, 2023 and the number of active meters increased by 540 bringing the Fiscal Year 2022-23 count to 11,656 from 11,116 in the prior year.

Meter installation fees for the year were up 5.4%, or \$50,404, from the prior year due to an increase in the amount of new water meters and backflow devices purchased and installed. The majority of which are attributable to the new Park Circle development.

Other Water Operating Revenues decreased by 28.0%, or \$275,849, as a result of the one-time revenues of \$313,769 that were received in the prior year for the District's share of the Metropolitan Water District (MWD) Litigation Damages Award.

Source Of Revenues Fiscal Year Ended June 30, 2023



Wastewater charges are down by 8.1% or \$374,325. This decrease is primarily due to the collection of the one-time System Development Charge received in the prior year for the Woods Valley Ranch Wastewater Expansion Projects totaling \$822,557, paid for by participants of the expansion to match the contribution level of existing customers toward the facility value. The decrease was partially offset by sewer service charge increases of 5.2% on January 4, 2023 in the Lower Moosa service area. Although sewer service charges in the Woods Valley Ranch service area remained unchanged in 2023, the number of active meters increased by 246 bringing the Fiscal Year 2022-23 count to 917 as compared to 671 in the prior year.

Property taxes and assessments increased by 9.9%, or \$381,376. This increase is due to the increase in Total Assessed Value as a result of the Park Circle Development, resulting in higher Current Secured Property Tax Revenue than in the prior year. For all Fixed Charge Special Assessments (excluding the CFD 2020-1 Special Tax), the District has adopted San Diego County's Teeter Plan, an alternative method of distribution of tax levies and collections under which the County advances 100% of the secured tax levies due to the District each year without consideration for delinquencies.

Investment income was up 333.3%, or \$2,513,334, compared to the prior year. Although the District did earn a higher yield on investments, as the average yield increased from 0.8% in Fiscal Year 2021-22 up to 2.3% in Fiscal Year 2022-23, the major difference lies in the requirement to report the value of those assets at fair value (also known as market value). The fair value is the price that would be received if the assets were sold at the measurement date, June 30, 2023. Positive market value adjustments totaled \$1,960,934 in Fiscal Year 2022-23 compared to a negative value adjustment of \$1,265,484 in Fiscal Year 2021-22. The majority of the District's investments are held in the San Diego County Investment Fund, the California Asset Management Program, Certificates of Deposits, and Treasuries.

Other non-operating revenues decreased 17.8%, or \$84,479 due to the receipt of one-time revenues in the prior year: \$42,773 in COVID-19 relief funds from the Federal Arrearages Program; and an additional payment of \$28,281 for co-location fees at one of the cellular lease sites.

Functional Expenses

Combined Expenses by Category

	Fiscal Year 2023	Fiscal Year 2022	Increase/ (Decrease)	% Change
Water Purchased (Acre Feet)	13,458	17,131	-3,673	-21.4%
Expenses by Category:				
Cost of water sold	\$24,059,220	\$27,742,610	(\$3,683,390)	-13.3%
Energy and pumping costs	3,239,594	3,081,255	158,339	5.1%
Water systems operations	6,026,660	6,021,235	5,425	0.1%
Wastewater collection and treatment	1,918,109	1,770,086	148,023	8.4%
Engineering	2,133,505	2,320,092	(186,587)	-8.0%
General and administrative	8,884,912	3,657,388	5,227,524	142.9%
Depreciation	4,707,082	4,483,611	223,471	5.0%
Interest expense	467,225	489,687	(22,462)	-4.6%
Total expenses	<u>\$51,436,307</u>	<u>\$49,565,964</u>	<u>\$1,870,343</u>	<u>3.8%</u>

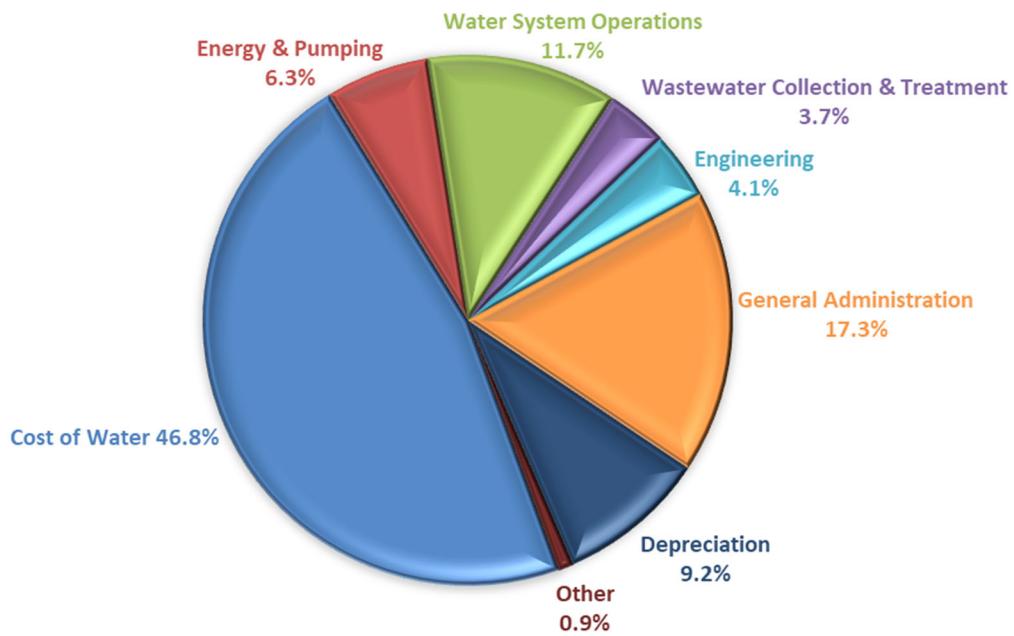
The **Cost of water sold** decreased 13.3% compared to the prior year. Water purchases were down 3,673 AF, or 21.4%, from the prior year, while wholesale water prices were up. In Fiscal Year 2021-22, the District purchased 17,131 AF of water at an average price of \$1,619 per acre foot. In the current year, the District purchased 13,458 AF of water at an average price of \$1,788 per acre foot, an increase of 10.4% or \$169 per acre foot. The average price per acre foot is impacted by the fixed components of the Metropolitan Water District of Southern California (MWD) and the San Diego County Water Authority (SDCWA) rate that the District must pay regardless of the volume of water purchased. These fixed components include a capacity reservation and readiness-to-serve charges by MWD and customer service, emergency storage, and supply reliability charges by the SDCWA.

Agricultural discounts passed through to District customers from the SDCWA on their melded water rate during the year were \$1,546,695 on 7,415 AF of sales. This cost reduction for agricultural water is passed through to the District's certified agricultural customers and is included in the Cost of water sold. The agricultural discount is higher than the previous year as the SDCWA melded supply rate, which agricultural customers do not pay, increased on January 1, 2023.

Energy and pumping costs during Fiscal Year 2022-23 were 5.1%, or \$158,339, higher than FY 2021-22. This is a result of higher gas and electric costs.

Water systems operations expenses increased \$5,425, or 0.1%, over Fiscal Year 2021-22. The increase is due to higher outside professional services, special department expenses, and Hazardous Waste Disposal Costs that were partially offset by slightly lower labor and benefits lower and outside professional services.

Source Of Expenses Fiscal Year Ended June 30, 2023



Combined **wastewater collection and treatment** costs for Lower Moosa and Woods Valley Ranch were \$148,023 or 8.4%, more than the prior year. The increase is a result of increased labor and benefits, outside professional services, chemical costs and maintenance expenses.

Engineering expenses for Fiscal Year 2022-23 were down 8.0%, or \$186,587, compared to Fiscal Year 2021-22. This decrease is a decrease in capital planning expenses, labor & benefits, and software technical support partially offset by increases in outside professional services.

General and administrative expenses increased 142.9%, or \$5,227,524, primarily due to higher Pension and OPEB expenses, that made up \$4.8M or 132% of that difference. The District's net pension liability for the risk pool is measured as the proportionate share of the risk pools net pension liability. Under GASB 68, gains and losses related to the changes in total pension liability and fiduciary net position are recognized as a pension expense systematically over time. Similar gains and losses are recognized for OPEB expenses. These systematic adjustments are not cash transactions, rather gains and losses that reflect the overall performance of the plans at the measurement date. More detailed information concerning the Pension and OPEB Plans can be found in Notes 8 and 9 of the Notes to the Financial Statements.

Other factors that resulted in the overall increase to general and administrative expenses were increases to labor and benefits and maintenance of equipment and software that were partially offset by decreases to paid sick leave related to COVID, medical insurance, postage, and one-time additional contributions to the OPEB Trust that were made in the prior fiscal year.

Depreciation expenses increased by \$223,471, or 5.0% compared to the prior year. This was due to the purchase of new equipment and completed projects in both the current and prior fiscal year.

Interest expense decreased by \$22,462, or 4.6% as a result of the regularly scheduled amortization payments made during the year on the State Revolving Fund Loans.

Statement of Revenues, Expenses and Changes In Net Position

	Fiscal Year 2023	Fiscal Year 2022	Increase/ (Decrease)	% Change
Operating Revenues:				
Water sales and pumping charges	\$28,508,971	\$34,310,691	(\$5,801,720)	-16.9%
Meter service charges	7,839,971	7,166,011	673,960	9.4%
Wastewater charges	4,227,215	4,601,540	(374,325)	-8.1%
Meter installation fees	984,220	933,816	50,404	5.4%
Other water operating revenues	<u>710,954</u>	<u>986,803</u>	<u>(275,849)</u>	<u>-28.0%</u>
Total operating revenues	<u>42,271,331</u>	<u>47,998,861</u>	<u>(5,727,530)</u>	<u>-11.9%</u>
Operating Expenses:				
Cost of water sold	24,059,220	27,742,610	(3,683,390)	-13.3%
Energy and pumping costs	3,239,594	3,081,255	158,339	5.1%
Water systems operations	6,026,660	6,021,235	5,425	0.1%
Wastewater collection and treatment	1,918,109	1,770,086	148,023	8.4%
Engineering	2,133,505	2,320,092	(186,587)	-8.0%
General and administrative	8,884,912	3,657,388	5,227,524	142.9%
Depreciation	<u>4,707,082</u>	<u>4,483,611</u>	<u>223,471</u>	<u>5.0%</u>
Total operating expenses	<u>50,969,082</u>	<u>49,076,277</u>	<u>1,892,805</u>	<u>3.9%</u>
Operating (Loss)	<u>(8,697,751)</u>	<u>(1,077,416)</u>	<u>(7,620,335)</u>	<u>707.3%</u>
Nonoperating Revenues and (Expenses):				
Property taxes and assessments	4,234,849	3,853,473	381,376	9.9%
Investment income (loss)	1,759,216	(754,118)	2,513,334	-333.3%
Other nonoperating revenues	389,991	474,470	(84,479)	-17.8%
Interest expense	(467,225)	(489,687)	22,462	4.6%
Gain (loss) on disposal of capital assets	<u>18,719</u>	<u>10,523</u>	<u>8,196</u>	<u>77.9%</u>
Total Nonoperating Revenues and (Expenses)	<u>5,935,550</u>	<u>3,094,661</u>	<u>2,840,889</u>	<u>91.8%</u>
Income Before Contributions	(2,762,201)	2,017,245	(4,779,446)	-236.9%
Capital contributions	<u>2,304,934</u>	<u>1,815,304</u>	<u>489,630</u>	<u>27.0%</u>
Change in Net Position	<u>(457,267)</u>	<u>3,832,549</u>	<u>(4,289,816)</u>	<u>-111.9%</u>
Net Position at Beginning of Year	<u>91,722,408</u>	<u>87,889,859</u>	<u>3,832,549</u>	<u>4.4%</u>
NET POSITION AT END OF YEAR	<u>\$91,265,141</u>	<u>\$91,722,408</u>	<u>(\$457,267)</u>	<u>-0.5%</u>

The District's **Net Position** at June 30, 2023 totaled \$91,265,141, a decrease of \$457,267, or 0.5%, from the previous year. Details of this decrease are on the following page:

Condensed Statement of Net Position

	Fiscal Year 2023	Fiscal Year 2022	Increase/ (Decrease)	% Change
Current Assets	\$48,361,250	\$47,107,337	\$1,253,913	2.7%
Restricted Assets	606,326	3,719,038	(3,112,712)	-83.7%
Long-Term Receivables	12,008,301	12,602,352	(594,051)	-4.7%
Capital Assets	114,206,898	100,462,256	13,744,642	13.7%
Total Assets	175,182,775	163,890,983	11,291,792	6.9%
Deferred Outflows of Resources	10,221,088	6,014,890	4,206,198	69.9%
Current Liabilities	31,929,378	22,227,416	9,701,962	43.6%
Long-term Debt	19,942,168	21,196,793	(1,254,625)	-5.9%
Other Noncurrent Liabilities	29,415,994	20,823,991	8,592,003	41.3%
Total Liabilities	81,287,540	64,248,200	17,039,340	26.5%
Deferred Inflows of Resources	12,851,182	13,935,265	(1,084,083)	-7.8%
Net Position:				
Net investment in capital assets	92,907,867	77,957,363	14,950,504	19.2%
Restricted for facility expansion	606,326	3,719,038	(3,112,712)	-83.7%
Unrestricted	(2,249,052)	10,046,007	(12,295,059)	-122.4%
Total Net Position	\$91,265,141	\$91,722,408	(\$457,267)	-0.5%

Total Assets:

Current Assets were up \$1,253,913, 2.7%, due to deposits received from the San Diego County Water Authority for the construction of the North County Emergency Storage Project and increased cash provided by investing activities which were partially offset by the increased use of cash for the construction of capital assets compared to the prior fiscal year.

Restricted Assets decreased by 83.7%, \$3,112,712, due to a decrease at year end in the Reserve for Water Fund Capacity Charges, which were used to fund capital projects.

Long-Term Receivables decreased \$594,051, 4.7%, due to the regularly scheduled amortization payments made during the year on the long-term receivables.

Capital Assets were up by 13.7%, or \$13,744,642, as a result of increased Capital Assets placed in service during Fiscal Year 2022-23 as well as increased Construction in Progress compared to Fiscal Year 2021-22.

Total Liabilities:

Current Liabilities increased \$9,517,271, 42.8%, due in large part to the deposit received from the San Diego County Water Authority for the construction of the North County Emergency Storage Project in the amount of \$11,325,000. That deposit was partially offset by decreases in other customer deposits and accounts payable at the end of the year compared to the prior year.

Long-term Debt at the end of the year was down 5.9%, or \$1,254,625, as a result of payments made during the year on the State Revolving Fund Loans.

Other Noncurrent Liabilities increased 42.1%, or \$8,776,687, as a result of an increase in Net Pension and OPEB liabilities.

More detailed information concerning the Deferred Outflows and Inflows of Resources can be found in Notes 8 and 9 of the Notes to the Financial Statements.

LONG TERM DEBT

At June 30, 2023 the District had \$21,163,845 of installment sales agreements consisting of four debt instruments; one for water facilities and three for wastewater facilities.

Water Facilities

The District has a Drinking Water State Revolving Fund Loan (DWSRF) used to finance the Cool Valley Reservoir Cover-Liner replacement. This loan for \$3,715,572 is payable over a twenty-year term (beginning in January 2018 and ending July 2037) at an annual interest rate of 1.6%. Annual debt service is \$220,420.

The District has also entered into a second DWSRF Loan for funding three projects included in the 2020 Pipeline Replacement Program. The project consists of the Oat Hill Discharge and Alps Way, the Gordon Hill Road, and the Lilac Road Pipeline Replacement Projects. The first draw on the loan was received on October 1, 2022. The SRF Loan has an approved principal value of \$8.5M payable over a thirty-year term (beginning November 1, 2025 and ending November 1, 2054) at an annual interest rate of 1.2%. Annual debt service is expected to be approximately \$340,000.

As of June 30, 2023, the District had no general obligation bonded debt. As the District has issued no bonded debt for public placement since 1968, it is not rated by any investment rating service.

Wastewater Facilities

The District has three Clean Water State Revolving Fund (CWSRF) Loans with the State of California that were used to finance the Woods Valley Ranch Wastewater Expansion Project located in the Central Valley Area of the District. The project provides wastewater collection, treatment and disposal capacity for an additional 1,247 Equivalent Dwelling Units of capacity. Annual assessments from the assessment district that was formed over the properties participating in the project will be utilized for repayment of the loan. The loans are payable over a twenty-year term (beginning in FY 2017-18 and ending FY 2036-37) at an annual interest rate of 2.2%. The three components of the project include the Woods Valley Ranch Water Reclamation Facility Phase 2 Expansion, the Charlan Road Seasonal Storage and the South Village Collection System Project components at a total cost of approximately \$27.6M, \$24.6M of which was funded from the CWSRF Loans and has a remaining balance of \$18.3M as of June 30, 2023. More detailed information regarding long-term debt activity is presented in Note 5 to the financial statements.

Assessment District No. 2012-1

To provide the additional funding needed to complete the design and construction of the North Village Collection System and the assessment district's share of the Orchard Run Lift Station construction, two Limited Obligation Improvement Bonds were issued by Assessment District No. 2012-1 under the Improvement Act of 1915. The balance of the Orchard Run Lift Station construction cost was funded by the developer and will ultimately be acquired by Community Facilities District No. 2020-1 and the developer will be reimbursed. Both the North Village Collection System and the Orchard Run Lift Station are components of the Woods Valley Ranch Wastewater Expansion Project. The Bonds were established and are repayable over a twenty-year term (beginning March 2019 and ending September 2038) at an annual interest rate of 2.2%, to match the Clean Water State Revolving Fund Loan financing terms. These bonds are not an obligation of the District but are secured by annual assessments that are billed to and collected from property owners within the assessment district and are presented on the Fiduciary Statements of this report. More detailed information regarding Assessment District 2012-1 is presented in Note 6 to the financial statements.

CAPITAL ASSETS

Capital assets include land, transmission and distribution system, general plant, and construction-in-progress. At June 30, 2023, the District had \$220,319,655 in capital assets with \$106,112,757 of accumulated depreciation. This represents a net increase (additions less deductions) of \$13,610,965 over the prior year. Annual depreciation usually approximates the amount transferred to reserves and in turn is reinvested in the capital plant.

Capital Assets

	Fiscal Year 2023	Fiscal Year 2022	Increase/ (Decrease)	%
Land	\$7,967,130	\$7,928,708	\$38,422	0.5%
Construction in progress	11,075,677	6,140,017	4,935,660	80.4%
Transmission and distribution system	183,132,602	170,857,559	12,275,043	7.2%
Right to use leased asset	185,882	185,882	0	100.0%
General plant	<u>17,958,364</u>	<u>17,616,770</u>	<u>341,594</u>	<u>1.9%</u>
Total assets	<u><u>\$220,319,655</u></u>	<u><u>\$202,728,936</u></u>	<u><u>\$17,590,719</u></u>	<u><u>8.7%</u></u>

Significant additions to general plant and transmission and distribution include the Advanced Metering Infrastructure System, the painting and recoating of the Gordon Hill Pipeline Phase 2 and the painting and recoating of six reservoirs - Weaver Reservoir; Burnt Mountain & Reidy Canyon Reservoirs; San Gabriel No. 1 Reservoir; Mountain Meadows No. 1 and Reid Hill Reservoir; and the Replacement of the Main Motor Control Center at the Lower Moosa Canyon Water Reclamation Facility. Significant additions to construction in progress include the Oat Hill Discharge and Alps Way project, the Lilac Road Pipeline Upsizing, and the Orchard Run Lift Station.

More detailed information about the District's capital assets is presented in Note 4 to the financial statements.

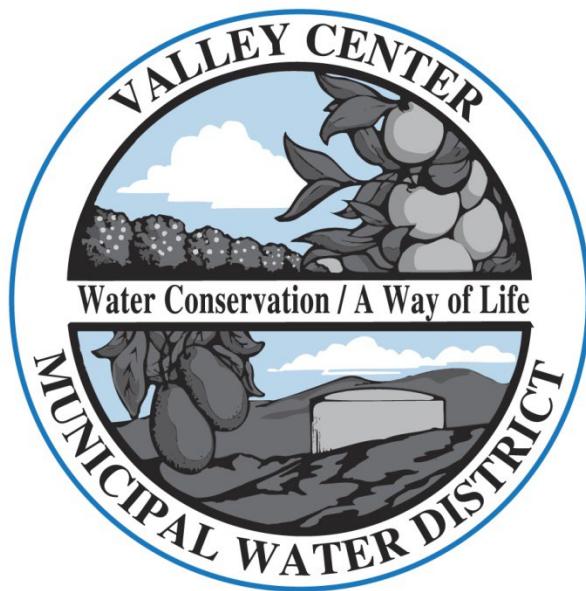
ECONOMIC FACTORS

Rates are set annually based upon anticipated water demands, known and anticipated wholesale water and power costs increases from its suppliers, and estimated cost increases for the local labor, materials, chemical and operational cost increases. A significant reduction in consumption could have an adverse effect on the District's financial position in a given fiscal year. However, any long-term impact will be counter-balanced to the District's diversified revenue portfolio, presence of non-commodity service charge, tax and standby/availability charge revenues. Additionally, the District purchases all of its water from the San Diego County Water Authority. Interruption of this service would have a significant negative effect on the District's financial position. At June 30, 2023, the District had designated \$5,017,289 of its unrestricted net position as a water operating reserve to mitigate the potential impacts of a short to mid-term interruption or reduction in water supply from the SDCWA. This represents approximately four months of operating and maintenance expenses. Wastewater fund reserves are excluded from this figure.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the financial resources it manages. If you have questions about this report or need additional financial information, contact the Valley Center Municipal Water District's Finance Department at 29300 Valley Center Road, Valley Center, California 92082, or call (760) 735-4500.

Financial Statements



VALLEY CENTER MUNICIPAL WATER DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2023
(WITH COMPARATIVE TOTALS FOR PRIOR YEAR)

	<u>2023</u>	<u>2022</u>
ASSETS:		
Current Assets:		
Cash and cash equivalents (Note 2)	\$ 30,258,713	\$ 28,736,540
Investments (Note 2)	10,047,340	9,539,783
Accounts receivable, net	5,615,179	6,776,780
Woods Valley Ranch Phase 1 receivable (Note 1i)	165,021	165,021
Interest receivable	257,544	118,703
Taxes receivable	171,748	37,918
Other receivables	3,058	3,853
Lease receivable (Note 11)	238,849	222,817
Inventory (Note 1k)	1,450,194	1,161,022
Prepaid expenses and deposits	153,604	344,900
Total Current Assets	<u>48,361,250</u>	<u>47,107,337</u>
Noncurrent Assets:		
Restricted cash and cash equivalents (Note 2)	606,326	582,751
Restricted investments (Note 2)	-	3,136,287
Woods Valley Ranch Phase 1 receivable (Note 1i)	2,341,532	2,506,553
Investment in VCMWD AD 2012-1 (Note 2)	4,055,000	4,245,000
Lease receivable (Note 11)	5,611,769	5,850,799
Nondepreciable capital assets (Note 4)	19,042,807	14,068,725
Depreciable capital assets, net (Note 4)	95,164,091	86,393,531
Total Noncurrent Assets	<u>126,821,525</u>	<u>116,783,646</u>
Total Assets	<u>175,182,775</u>	<u>163,890,983</u>
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred outflows related to pensions (Note 8)	8,374,440	4,665,030
Deferred outflows related to OPEB (Note 9)	1,846,648	1,349,860
Total Deferred Outflows of Resources	<u>10,221,088</u>	<u>6,014,890</u>

The accompanying notes are an integral part of the financial statements.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
STATEMENT OF NET POSITION (CONTINUED)
JUNE 30, 2023
(WITH COMPARATIVE TOTALS FOR PRIOR YEAR)**

	<u>2023</u>	<u>2022</u>
LIABILITIES:		
Current Liabilities:		
Accounts payable	7,071,105	7,645,566
Accrued payroll	292,197	267,092
Compensated absences (Note 5)	1,048,700	865,082
Interest payable	239,844	255,735
Customer deposits	21,920,669	11,885,841
Long-term liabilities (Note 5)	1,356,863	1,308,100
Total Current Liabilities	<u>31,929,378</u>	<u>22,227,416</u>
Noncurrent Liabilities:		
Compensated absences (Note 5)	1,455,711	1,606,581
Long-term liabilities (Note 5)	19,942,168	21,196,793
Net pension liability (Note 8)	27,148,513	18,565,726
Net OPEB liability (Note 9)	811,770	651,684
Total Noncurrent Liabilities	<u>49,358,162</u>	<u>42,020,784</u>
Total Liabilities	<u>81,287,540</u>	<u>64,248,200</u>
DEFERRED INFLOWS OF RESOURCES:		
Deferred inflows related to pensions (Note 8)	5,426,247	5,981,170
Deferred inflows related to OPEB (Note 9)	1,882,955	2,043,607
Deferred inflows related to leases (Note 11)	5,541,980	5,910,488
Total Deferred Inflows of Resources	<u>12,851,182</u>	<u>13,935,265</u>
NET POSITION:		
Net investment in capital assets	92,907,867	77,957,363
Restricted for facility expansion	606,326	3,719,038
Unrestricted (Note 7)	(2,249,052)	10,046,007
Total Net Position	<u>\$ 91,265,141</u>	<u>\$ 91,722,408</u>

The accompanying notes are an integral part of the financial statements.

VALLEY CENTER MUNICIPAL WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2023
(WITH COMPARATIVE TOTALS FOR PRIOR YEAR)

	2023	2022
Operating Revenues:		
Water sales and pumping charges	\$ 28,508,971	\$ 34,310,691
Meter service charges	7,839,971	7,166,011
Wastewater charges	4,227,215	4,601,540
Meter installation fees	984,220	933,816
Other water operating revenues	710,954	986,803
Total Operating Revenues	42,271,331	47,998,861
 Operating Expenses:		
Cost of water sold	24,059,220	27,742,610
Energy and pumping costs	3,239,594	3,081,255
Water systems operations	6,026,660	6,021,235
Wastewater collection and treatment	1,918,109	1,770,086
Engineering	2,133,505	2,320,092
General and administrative	8,884,912	3,657,388
Depreciation	4,707,082	4,483,611
Total Operating Expenses	50,969,082	49,076,277
 Operating Income (Loss)	(8,697,751)	(1,077,416)
 Nonoperating Revenues (Expenses):		
Property taxes and assessments	4,234,849	3,853,473
Investment income (loss)	1,759,216	(754,118)
Other nonoperating revenues	389,991	474,470
Interest expense	(467,225)	(489,687)
Gain (loss) on disposal of capital assets	18,719	10,523
Total Nonoperating Revenues (Expenses)	5,935,550	3,094,661
 Net Income Before Capital Contributions	(2,762,201)	2,017,245
 Capital Contributions	2,304,934	1,815,304
 Change in Net Position	(457,267)	3,832,549
 Net Position at Beginning of Year	91,722,408	87,889,859
 Net Position at End of Year	\$ 91,265,141	\$ 91,722,408

The accompanying notes are an integral part of the financial statements

**VALLEY CENTER MUNICIPAL WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2023
(WITH COMPARATIVE TOTALS FOR PRIOR YEAR)**

	<u>2023</u>	<u>2022</u>
Cash Flow From Operating Activities:		
Receipts from customers	\$ 43,433,727	\$ 48,252,575
Payments to suppliers	(27,647,639)	(27,346,803)
Payments to employees	(15,140,328)	(18,136,975)
Collection (return) of deposits	<u>10,034,828</u>	<u>5,895,719</u>
Net Cash Provided by Operating Activities	<u>10,680,588</u>	<u>8,664,516</u>
Cash Flow From Noncapital Financing Activities:		
Receipts from property taxes	<u>4,101,019</u>	<u>3,832,708</u>
Net Cash Provided by Noncapital Financing Activities	<u>4,101,019</u>	<u>3,832,708</u>
Cash Flows From Capital and Related Financing Activities:		
Proceeds from disposal of capital assets	19,460	10,523
Acquisition and construction of capital assets	(17,661,418)	(4,058,664)
Proceeds from capital contributions	1,486,879	1,639,443
Proceeds from leases	169,093	235,954
Interest paid on debt	(349,439)	(523,985)
Payments on debt	<u>(1,339,539)</u>	<u>(1,269,873)</u>
Net Cash Used in Capital and Related Financing Activities	<u>(17,674,964)</u>	<u>(3,966,602)</u>
Cash Flows From Investing Activities:		
Proceeds from investment in VCMWD AD 2012-1	190,000	170,000
Interest income	924,925	482,827
Proceeds from sale of investments	7,049,739	8,160,988
Purchase of investments	<u>(3,725,559)</u>	<u>(12,474,137)</u>
Net Cash Provided (Used) by Investing Activities	<u>4,439,105</u>	<u>(3,660,322)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,545,748	4,870,300
Cash and Cash Equivalents at Beginning of Year	<u>29,319,291</u>	<u>24,448,991</u>
Cash and Cash Equivalents at End of Year	<u>\$ 30,865,039</u>	<u>\$ 29,319,291</u>

(Continued)

The accompanying notes are an integral part of the financial statements.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2023
(WITH COMPARATIVE TOTALS FOR PRIOR YEAR)**

	<u>2023</u>	<u>2022</u>
Reconciliation of Operating Loss to Net		
Cash Provided by Operating Activities:		
Operating loss	\$ (8,697,751)	\$ (1,077,416)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	4,707,082	4,483,611
Change in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:		
Accounts receivable, net	1,161,601	(420,148)
Woods Valley Ranch receivable	165,021	161,469
Other receivable	795	677,415
Work in progress for others	-	2,042,452
Inventory	(289,172)	(67,496)
Prepaid expenses and deposits	191,296	(4,942)
Deferred outflows - pensions	(3,709,410)	1,067,244
Deferred outflows - OPEB	(496,788)	(510,090)
Accounts payable	(472,065)	478,918
Accrued payroll	25,105	16,413
Compensated absences	32,748	6,893
Customer deposits	10,034,828	3,853,267
Net pension liability	8,582,787	(6,238,593)
Net OPEB liability	160,086	(2,018,934)
Deferred inflows - pensions	(554,923)	5,054,939
Deferred inflows - OPEB	(160,652)	1,159,514
Net Cash Provided by Operating Activities	<u>\$ 10,680,588</u>	<u>\$ 8,664,516</u>
Cash and Cash Equivalents:		
Financial Statement Classification		
Cash and cash equivalents	\$ 30,258,713	\$ 28,736,540
Restricted cash and cash equivalents	606,326	582,751
Total Cash and Cash Equivalents	<u>\$ 30,865,039</u>	<u>\$ 29,319,291</u>
Noncash Investing, Capital and Financing Activities		
Net unrealized loss on investments	\$ 695,450	\$ 1,265,484
Capital assets included in increase in accounts payable	102,396	370,141
Capital assets contributed	893,443	251,249
Total Noncash Investing, Capital and Financing Activities	<u>\$ 1,691,289</u>	<u>\$ 1,886,874</u>

The accompanying notes are an integral part of the financial statements.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2023
(WITH COMPARATIVE TOTALS FOR PRIOR YEAR)**

	<u>2023</u>	<u>2022</u>
ASSETS:		
Cash and Investments (Note 2)	\$ 2,126,028	\$ 1,915,938
Taxes receivable	32,829	16,784
Prepaid expenses	260,412	131,726
Total Assets	<u>2,419,269</u>	<u>2,064,448</u>
NET POSITION:		
Held in trust for the benefit of residents of the AD 2012-1 and CFD 2020-1	<u>\$ 2,419,269</u>	<u>\$ 2,064,448</u>

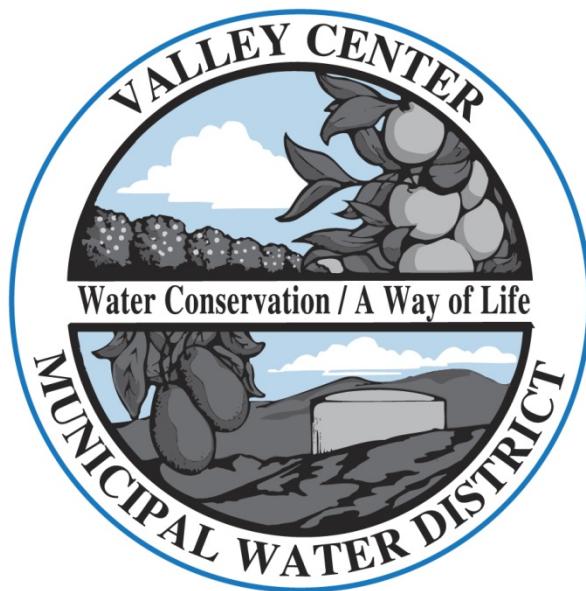
The accompanying notes are an integral part of the financial statements.

VALLEY CENTER MUNICIPAL WATER DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2023
(WITH COMPARATIVE TOTALS FOR PRIOR YEAR)

	2023	2022
ADDITIONS:		
Property taxes and assessments	\$ 617,223	\$ 611,094
Investment income	35,344	7,543
Proceeds of debt	-	700,000
Other revenue	2,483	1,490
Total additions	<u>655,050</u>	<u>1,320,127</u>
DEDUCTIONS:		
Labor and benefits	12,532	19,720
Outside professional services	7,810	8,587
Bond principal	190,000	170,000
Bond interest	89,887	99,035
Total deductions	<u>300,229</u>	<u>297,342</u>
Change in net position	354,821	1,022,785
Net Position - Beginning	<u>2,064,448</u>	<u>1,041,663</u>
Net Position - Ending	<u>\$ 2,419,269</u>	<u>\$ 2,064,448</u>

The accompanying notes are an integral part of the financial statements.

Notes to the Financial Statements



**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2023**

Note 1 - Organization and Summary of Significant Accounting Policies:

(a) Description of Reporting Entity

The Valley Center Municipal Water District (the "District") is a governmental corporation governed by an elected five-member board of directors. The District was incorporated July 12, 1954, under the provisions of the California Water District Act of 1911. The District's 101 square mile service area lies in northern San Diego County and the majority of its sales are to agricultural users. The District's offices are located in Valley Center, California.

In keeping its books and records, the District has established various self-balancing groups of accounts in order to enhance internal control and to further the attainment of other management objectives. These groups of accounts are identified in the District's books and records as General, Lower Moosa Wastewater Treatment, and Woods Valley Ranch Wastewater. All significant inter-group transactions and accounts are eliminated in the combination of the accounts for the financial statements of the reporting entity.

The criteria used in determining the scope of the reporting entity are based on the provisions of GASB Cod. Sec. 2100 "Defining the Financial Reporting Entity". The District is the primary government unit. Component units are those entities which are financially accountable to the primary government, either because the District appoints a voting majority of the component unit's board, or because the component unit will provide a financial benefit or impose a financial burden on the District. The District has no component units.

(b) Method of Accounting

The District's financial activities are accounted for as an enterprise fund. An enterprise fund is a Proprietary-type fund used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Water and wastewater lines may be constructed by private developers and then dedicated to the District, which is then responsible for future maintenance. These lines are recorded as capital contributions when they pass inspection by the District and the estimated costs are capitalized as transmission and distribution. The District also reports the following Fiduciary Fund types:

Custodial Funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, and other governments. The custodial funds are used to account for taxes received for special assessments debt for which the District is not obligated.

The Community Facilities District No. 2020-1 (CFD 2020-1) was created by the District on May 18, 2020, pursuant to the Mello-Roos Community Facilities Act of 1982, as amended to provide financing for the design and construction of certain water and wastewater system facilities necessary to serve new development within CFD 2020-1. The District's board sits as the legislative body of CFD 2020-1 which approves the rate and apportionment of a special tax within CFD 2020-1 to fund the facilities.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2023**

Note 1 - Organization and Summary of Significant Accounting Policies: (Continued)

(b) Method of Accounting (Continued)

The District acts solely as the agent in the collection and remittance of the special taxes for the CFD 2020-1 and initiates foreclosure proceedings as required under the bond covenants.

The Valley Center Municipal Water District Assessment District (AD 2012-1) was created by the District to account for special assessment bonds. The limited obligation bonds and interest are paid from general special assessments on property within AD 2012-1. The annual assessments are billed to and collected from the AD 2012-1 property owners, along with other property taxes and assessments, and remitted to the District. The District remits the annual assessments as well as any prepaid assessments received from property owners to the bondholder, of which the District is the sole bondholder.

(c) Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, deferred inflows of resources, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(d) Revenue Recognition

Revenues from water sales and pumping charges, meter service charges, meter installation fees, and wastewater charges are recognized as they are earned. Taxes and assessments are recognized as revenue based upon amounts reported to the District by the County of San Diego, net of an allowance for estimated uncollectible taxes.

Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal operations. The principal operating revenues of the District consist of water sales, wastewater service, and connection and installation fees. Nonoperating revenues consist of property taxes and assessments, investment income, and special charges that can be used for either operating or capital purposes. Operating expenses include the cost of sales, operation, maintenance, and administrative expenses, and depreciation on capital assets. Expenses not meeting this definition are reported as nonoperating expenses.

Capital contributions consist of contributed assets and special charges that are legally restricted for capital expenditures by state law or by the Board action that established those charges.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2023**

Note 1 - Organization and Summary of Significant Accounting Policies: (Continued)

(e) 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 for the fiscal year ended June 30, 2023, was 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

The County collects the taxes from the property owners and remits the funds to the District periodically during the year. The District has an arrangement with the County whereby the County remits taxes which are delinquent as of each June 30 to the District in exchange for the right to retain the delinquent taxes, penalties, and interest when these amounts are subsequently collected with the exception of CFD 2020-1.

(f) Cash and Cash Equivalents

Cash and cash equivalents include deposits in SEC-registered money market mutual funds, deposits in external investment pools, and marketable securities that mature within three months of purchase. Such marketable securities and deposits in money market funds are carried at fair value. Investment pool deposits are carried at the District's proportionate share of the fair value of each pool's underlying portfolio.

(g) Investments

Investments are stated at their fair value, which represents the quoted or stated market value. Investments that are not traded on a market, such as investments in external pools, are valued based on the stated fair value as represented by the external pool. All investments are stated at their fair value. The District has not elected to report certain investments at amortized costs.

(h) Accounts Receivable - Water and Wastewater

The District extends credit to customers in the normal course of operations. Management has evaluated the accounts and has established an allowance for doubtful accounts for the accounts that they believe are not collectible.

(i) Woods Valley Ranch Phase 1 Receivable

The Woods Valley Ranch (WVR) Water Reclamation Facility - Phase 1 project was funded, constructed and dedicated to the District by the developer. Pursuant to the Reimbursement Agreement for Construction of Water Reclamation Facilities (Agreement), the developer was required to oversize certain facilities to serve other areas in addition to the developer's property. The District agreed to reimburse the developer for the cost of benefiting future development facilities with funds collected from participants in future expansion phases and submit payment to the Developer. In May 2016, the District refunded to the developer the \$3,589,720 pursuant to the Agreement.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2023**

Note 1 - Organization and Summary of Significant Accounting Policies: (Continued)

(i) Woods Valley Ranch Phase 1 Receivable

The refund was funded with proceeds from the Installment Sales agreement from the State of California Water Resources Control board obtained for the Phase 2 expansion project and will be repaid from annual assessments from the Phase 2 participants over a 20-year period through June 30, 2036. The WVR Phase I Buy-In receivable totaled \$2,506,553 at June 30, 2023.

(j) Investment in VCMWD AD 2012-1

On July 31, 2018, the Valley Center Municipal Water District Assessment District 2012-1 (AD2012-1) issued \$4,035,000 of limited obligation improvement bonds. The bonds and interest are paid from general special assessments on property within AD 2012-1. On July 31, 2018 the District purchased this bond in its entirety and is the sole bondholder.

On March 21, 2022, the Valley Center Municipal Water District Assessment District 2012-1 (AD2012-1) issued an additional \$700,000 of limited obligation improvement bonds. The District purchased this bond in its entirety and is the sole bondholder. The VCMWD AD-2012-1 limited obligation bonds totaled \$4,055,000 at June 30, 2023.

(k) Inventory

Inventory consists of water and materials in storage valued at average cost. Water inventory is valued at cost at which the water was purchased using the last-in-first-out (LIFO) method. Total inventory at June 30, 2023 is \$1,450,194.

(l) Capital Assets

Capital assets purchased or acquired with an initial individual cost exceeding \$2,000 and an estimated useful life of more than two years are reported at historical costs. Donated capital assets, donated works of art, and similar items, and capital assets received in service concession agreements are reported at acquisition value. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Upon sale or disposition of property and equipment, the asset account is relieved of the cost and the accumulated depreciation account is charged with depreciation taken prior to the sale and any resultant gain or loss is credited or charged to earnings. Depreciation is calculated on the straight-line method over the following estimated useful lives:

	<u>Useful Life</u>
Transmission and distribution system	10 - 40 years
General plant	2 - 40 years
Right to Use Asset / SBITA	The estimated life of the leased asset or the contract term whichever is shorter

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2023**

Note 1 - Organization and Summary of Significant Accounting Policies: (Continued)

(m) Compensated Absences

Accumulated unpaid vacation and sick leave totaling \$2,504,411 is accrued when incurred and included in current and noncurrent liabilities at June 30, 2023.

(n) Leases

The District is a lessor and lessee for leases as detailed in Footnotes 5 and 11. The District recognizes a lease receivable, a deferred inflow of resources, and a lease payable in the financial statements.

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

Key estimates and judgments include how the district determines the discount rate it uses to discount the expected lease payments to present value.

- The District used the incremental borrowing rate for leases.
- The lease term includes the noncancelable period of the lease.

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

(o) Subscription-Based Information Technology Arrangements

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset – an intangible asset – and a corresponding liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 96, *SBITA*, as amended. The District is a lessor as detailed in Note 5.

(p) Deferred Outflows of Resources and Deferred Inflows of Resources

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

VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2023

Note 1 - Organization and Summary of Significant Accounting Policies: (Continued)

(p) Deferred Outflows of Resources and Deferred Inflows of Resources (Continued)

The District has two items that qualify for reporting in this category, deferred actuarial pension costs and deferred actuarial OPEB costs are items that are deferred and recognized as an outflow of resources in the period the amounts become available.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net assets that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The District has three items that qualify for reporting in this category. The items, deferred actuarial pension costs, deferred actuarial OPEB costs, and deferred lease revenue are deferred and recognized as an inflow of resources in the period that the amounts become available.

(q) Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position and additions to/deductions from the Plan's 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 due and payable in accordance with the benefit terms. Investments are reported at fair value. CalPERS audited financial statements are publicly available reports that can be obtained at CalPERS website under Forms and Publications.

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

Valuation Date	June 30, 2021
Measurement Date	June 30, 2022
Measurement Period	July 1, 2021 to June 30, 2022

(r) Postemployment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Other Postemployment Benefit Programs of the Valley Center Municipal Water District (OPEB Plan), the assets of which are held by the California Employers' Retiree Benefit Trust (CERBT), and additions to/deductions from the OPEB Plan's fiduciary net position have been determined by an independent actuary. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2023

Note 1 - Organization and Summary of Significant Accounting Policies: (Continued)

(r) Postemployment Benefits (OPEB)

Generally accepted accounting principles require that the reported results must pertain to liability and fiduciary net position information within certain defined time frames. For this report, the following time frames are used:

Valuation Date	June 30, 2021
Measurement Date	June 30, 2022
Measurement Period	July 1, 2021 to June 30, 2022

(s) Net Position

The difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources is called net position. Net position is comprised of three components: net investment in capital assets, restricted, and unrestricted.

- *Net investment in capital assets* consists of capital assets, net of accumulated depreciation/amortization and reduced by outstanding balances of bonds, notes, and other debt that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in this component of net position.
- *Restricted* net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Assets are reported as restricted when constraints are placed on asset use either by external parties or by law through constitutional provision or enabling legislation.
- The *unrestricted* net position of the District is restricted by state law for sole use by the District for its operations. It is reported as unrestricted net position in the accompanying financial statements because this restriction corresponds to the general purpose for which the District has been established. It is unavailable for other government uses and is committed to the ongoing operations of the District, including amounts necessary to cover contingencies, unanticipated expenditures, revenue shortfalls, and weather and economic fluctuations.

(t) Prior Year Comparative Information

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the government's prior year financial statements, from which this selected financial data was derived.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2023**

Note 2 - Cash and Investments:

(a) Authorized Investments

The District's Ordinances authorize the District to invest in bonds issued by the District; obligations of the United States Treasury, agencies, and government sponsored enterprises; certificates of deposit at commercial banks and savings and loans when insured or collateralized in accordance with law; shares of beneficial interest issued by a diversified management company as authorized by California Government Code Section 53601(k); the State of California Local Agency Investment Fund; the California Asset Management Program; as well as deposits with the Treasurer of the County of San Diego.

These authorized investments are more restrictive than those permitted by the California Government Code, which would also allow investments in prime commercial paper, bankers' acceptances, repurchase and reverse repurchase agreements, financial futures or financial options contracts, obligations of the State of California, and obligations of local agencies within California.

Cash and investments held by the District were comprised of the following at June 30, 2023:

Demand Deposits	\$ 949,115
Investments	<u>46,144,292</u>
Total	<u><u>\$ 47,093,407</u></u>

Financial Statement Classification:

Cash and Cash Equivalents	\$ 30,258,713
Investments	10,047,340
Cash and Cash Equivalents - Restricted	606,326
Investment in VCMWD AD 2012-1 Limited Obligation Bonds	4,055,000
Fiduciary Funds	
Cash and Investments	2,126,028
Total	<u><u>\$ 47,093,407</u></u>

(b) Concentration of Credit Risk

The District's policy is that investments should be diversified through limited investment to avoid over-concentration in securities from a specific issuer (excluding U.S. Treasury securities), by varying maturities, and by investing a portion of the portfolio in external investment pools or money market funds to ensure that appropriate liquidity is maintained in order to meet ongoing obligations. The District further limits certificates of deposit to 30% of its portfolio. State law limits investment in money market funds to 20% of the total portfolio, and investments in any one fund to 10%. At June 30, 2023, (other than U.S. Treasury obligations, mutual funds, and external investment funds) the following investments represented more than 5% of the District's investment portfolio.

Investment in VCMWD AD 2012-1 Limited Obligation Bonds	\$ 4,055,000
Federal Home Loan Banks	5,467,848

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2023**

Note 2 - Cash and Investments (Continued)

(c) Credit Risk

The District's ordinances subject management of the investment portfolio to the "prudent investor" standard, which states that "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived." Certificates of deposit must be fully insured and have a rating of satisfactory or better. As of June 30, 2023 the District's investments were rated by Standard & Poor's and by Moody's Investors Service as follows:

	<u>Standard & Poor's</u>	<u>Moody's</u>
Money Market Funds	AAAm	Aaa
California Local Agency Investment Fund	Not rated	Not rated
San Diego County Treasurer's Investment Pool	AAA	Not rated
Investment in VCMWD AD 2012-1 Limited Obligation	Not rated	Not rated
California Asset Management Program	AAA	Aaa
U.S. Government Agencies Securities	AA+	AAA

(d) Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. To eliminate custodial credit risk, the District's ordinances require that all demand deposits be entirely insured or collateralized and that all investment securities be in the name of the District and held by an insured depository. At June 30, 2023 the District held no deposits or investments that were exposed to custodial credit risk.

(e) Interest Rate Risk

The District's ordinances state that the District will structure the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity. The District cannot invest in any security that could result in zero interest accrual if held to maturity. Maturities are limited to five years unless the Board of Directors has granted specific express authority to purchase the investment.

VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2023

Note 2 - Cash and Investments (Continued)

(e) Interest Rate Risk (continued)

	Total	Investment Maturities (In Years)			
		Less Than 1 Year	1-3	3-5	More Than 5 Years
Investments:					
Money Market Funds	\$ 103,911	\$ 103,911	\$ -	\$ -	\$ -
California Local Agency Investment Fund (LAIF)	346,297	346,297	-	-	-
San Diego County Investment Pool	26,588,855	26,588,855	-	-	-
United States Government Agencies Securities	7,447,710	3,395,916	3,715,672	336,122	-
United States Treasury Obligations	744,864	744,864	-	-	-
Certificates of Deposit	1,854,766	368,540	1,486,226	-	-
California Asset Management Program (CAMP)	5,002,889	5,002,889	-	-	-
Investment in VCMWD AD 2012-1 Limited Obligation Bonds	4,055,000	215,000	440,000	465,000	2,935,000
Total Cash and Investments	<u>\$ 46,144,292</u>	<u>\$ 36,766,272</u>	<u>\$ 5,641,898</u>	<u>\$ 801,122</u>	<u>\$ 2,935,000</u>

(f) 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.

(g) Investment in San Diego County Pooled Investment Fund

The District is a voluntary participant in 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.

(h) Investment in California Asset Management Program (CAMP)

The District is a voluntary participant in the California Asset Management Program (CAMP) that is regulated by the California Government Code. 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 CAMP for the entire CAMP portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by CAMP, which are recorded on an amortized cost basis.

VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2023

Note 2 - Cash and Investments: (Continued)

(i) Fair Value Measurements

The District categorizes its fair value measurement within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the relative inputs used to measure the fair value of the investments. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

The three levels of the fair value hierarchy are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the District has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs reflect the District's own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include the District's own data.

The asset or liability's level within the hierarchy is based on the lowest level of input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The determination of what constitutes as observable requires judgment by the District's management. District management considers observable data to be that market data, which is readily available, regularly distributed or updated, reliable, and verifiable, not proprietary, and provided by multiple independent sources that are actively involved in the relevant market.

The categorization of an investment or liability within the hierarchy is based upon the relative observability of the inputs to its fair value measurement and does not necessarily correspond to District management's perceived risk of that investment or liability.

Fair value of assets measured on a recurring basis at June 30, 2023 are as follows:

Investment	Total	Quoted Prices Level 1	Observable Inputs Level 2	Unobservable Inputs Level 3
United States Government Agencies Securities	\$ 7,447,710	\$ -	\$ 7,447,710	\$ -
United States Treasury Obligations	744,864	744,864	-	-
Certificates of Deposit	1,854,766	1,854,766	-	-
Investment in VCMWD AD 2012-1 Limited Obligation Bonds	4,055,000	4,055,000	-	-
Total Investments at Fair Value	\$ 14,102,340	\$ 6,654,630	\$ 7,447,710	\$ -

VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2023

Note 3 - Restricted Assets:

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as necessary.

Note 4 - Capital Assets:

Capital assets consist of the following at June 30, 2023:

	Balance at June 30, 2022	Additions	Deletions	Balance at June 30, 2023
Capital Assets Not Being Depreciated:				
Land and Annex Charges	\$ 7,928,708	\$ 38,422	\$ -	\$ 7,967,130
Construction in progress	6,140,017	16,941,624	(12,005,964)	11,075,677
	<u>14,068,725</u>	<u>16,980,046</u>	<u>(12,005,964)</u>	<u>19,042,807</u>
Capital Assets Being Depreciated:				
Pumping plants, sewer plants, transmission and distribution system	170,857,559	12,920,739	(645,696)	183,132,602
Right to use asset / SBITA*	185,882	-	-	185,882
General plant	17,616,770	423,976	(82,382)	17,958,364
	<u>188,660,211</u>	<u>13,344,715</u>	<u>(728,078)</u>	<u>201,276,848</u>
Less Accumulated Depreciation:				
Pumping plants, sewer plants, transmission and distribution system	86,863,836	4,166,544	(644,946)	90,385,434
Right to use asset / SBITA	10,270	43,686	-	53,956
General Plant	15,258,897	496,852	(82,382)	15,673,367
	<u>102,133,003</u>	<u>4,707,082</u>	<u>(727,328)</u>	<u>106,112,757</u>
Net Capital Assets Being Depreciated	<u>86,527,208</u>	<u>8,637,633</u>	<u>(750)</u>	<u>95,164,091</u>
Net Capital Assets	<u>\$ 100,595,933</u>	<u>\$ 25,617,679</u>	<u>\$ (12,006,714)</u>	<u>\$ 114,206,898</u>

*Beginning balances restated due to implementation of GASB Statement No. 96, Subscription Based Information Technology Arrangements.

Depreciation totaled \$4,707,082 for the year ended June 30, 2023.

Note 5 – Long Term Liabilities:

Long Term debt consist of the following at June 30, 2023:

	Balance at June 30, 2022	Additions	Deletions	Balance at June 30, 2023	Current Portion
Installment sales agreements	\$ 22,451,002	\$ -	\$ (1,287,157)	\$ 21,163,845	\$ 1,314,440
Financing loan agreements	11,114	-	(11,114)	-	-
Lease payable / SBITA*	176,454	-	(41,268)	135,186	42,423
Compensated absences	2,471,663	1,263,964	(1,231,216)	2,504,411	1,048,700
Total Long Term Liabilities	<u>\$ 25,110,233</u>	<u>\$ 1,263,964</u>	<u>\$ (2,570,755)</u>	<u>\$ 23,803,442</u>	<u>\$ 2,405,563</u>

*Beginning balances restated due to implementation of GASB Statement No. 96, Subscription Based Information Technology Arrangements.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2023**

Note 5 – Long Term Liabilities: (Continued)

Installment Sales Agreements

State of California, Water Resources Control Board - The District entered into a contract with the State of California, Water Resources Control Board, for a loan in an amount up to \$17,393,705 for the expansion of the Woods Valley Ranch Reclamation Facility. The loan accrues interest at 2.2% with annual payments of principal and interest in the amount of \$1,084,260 beginning in December 2018. The loan matures December 15, 2036. The loan is secured by a lien and pledge of the assessments, assessment fund, enterprise funds, net revenues, and any reserve fund specified in the installment sale agreement. Interest payable totaled \$153,690 at June 30, 2023.

\$ 12,943,432

State of California, Water Resources Control Board - The District entered into a contract with the State of California, Water Resources Control Board, for a loan in an amount up to \$4,752,616 for the expansion of the Woods Valley Ranch Reclamation Facility. The loan accrues interest at 2.2% with annual payments of principal and interest in the amount of \$294,679 beginning in October 2017. The loan matures October 20, 2036. The loan is secured by a lien and pledge of the assessments, assessment fund, enterprise funds, net revenues, and any reserve fund specified in the installment sale agreement. Interest payable totaled \$53,643 at June 30, 2023.

3,517,754

State of California, Water Resources Control Board - The District entered into a contract with the State of California, Water Resources Control Board, for a loan in an amount up to \$3,715,572 for the Cool Valley Reservoir Cover/Liner Replacement. The loan accrues interest at 1.6% with semi-annual payments of principal and interest in the amount of \$110,211 beginning in January 2020. The loan matures July 1, 2037. The loan is secured by a lien and pledge of the assessments, assessment fund, enterprise funds, net revenues, and any reserve fund specified in the installment sale agreement.

2,754,884

State of California, Water Resources Control Board - The District entered into a contract with the State of California, Water Resources Control Board, for a loan in an amount up to \$2,626,653 for the expansion of the Woods Valley Ranch Reclamation Facility. The loan accrues interest at 2.2% with annual payments of principal and interest in the amount of \$163,449 beginning in August 2018. The loan matures August 15, 2036. The loan is secured by a lien and pledge of the assessments, assessment fund, enterprise funds, net revenues, and any reserve fund specified in the installment sale agreement. Interest payable totaled \$37,451 at June 30, 2023.

1,947,775

Total Installment Sales Agreements

\$ 21,163,845

VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2023

Note 5 – Long Term Liabilities: (Continued)

Lease Payable

The District has one radio communication site lease payable with a lease term of five years. The District is required to make monthly payments ranging from \$867 to \$938, with a discount rate of 2.0%. As of June 30, 2023, the value of the lease payable is \$32,948.

\$ 32,948

Subscription-Based Information Technology Arrangements

The District has one SBITA lease payable with a lease term of five years. The District is required to make annual payments ranging from \$32,182 to \$33,722, with an interest rate of 2.37%. As of June 30, 2023, the value of the lease payable is \$102,238.

102,238

Total Lease Payable and SBITA: \$ 135,186

Debt service requirements on the long-term debt are as follows:

Year Ended June 30	Installment Sales Agreements		Lease Payable / SBITA		Total
	Principal	Interest	Principal	Interest	
2024	\$ 1,314,440	\$ 448,370	\$ 42,423	\$ 2,984	\$ 1,808,217
2025	1,342,307	420,503	43,609	2,014	1,808,433
2026	1,370,769	392,040	45,762	1,020	1,809,591
2027	1,399,841	362,968	3,392	-	1,766,201
2028	1,429,536	333,224	-	-	1,762,760
2029-2033	7,615,819	1,198,230	-	-	8,814,049
2034-2037	6,691,133	623,214	-	-	7,314,347
	<u>\$21,163,845</u>	<u>\$3,778,549</u>	<u>\$ 135,186</u>	<u>\$ 6,018</u>	<u>\$25,083,598</u>

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2023**

Note 6 - Special Assessment Bonds:

On July 31, 2018, Valley Center Municipal Water District Assessment District No. 2012-1 (AD 2012-1) issued \$4,035,000 of limited obligation improvement bonds.

On March 21, 2022 VCMWD AD 2012-1 issued another \$700,000 of limited obligation improvement bonds pursuant to the provisions of the Municipal Improvement Act of 1913 and the Improvement Bond Act of 1915. Under the Acts, the District is not obligated to repay the AD 2012-1 bonds and the District does not intend in any manner to assume responsibility for the repayment of such debt. The bond proceeds were used to establish reserve funds, pay bond issuance costs, and fund public improvements consisting of the North Village Collection System within and for AD 2012-1. AD 2012-1 bonds payable totaled \$4,055,000 at June 30, 2023.

The bonds and interest are paid from annual special assessments on property within AD 2012-1. The annual assessments are billed to and collected from the AD 2012-1 property owners, along with other property taxes and assessments, and remitted to the District. The District remits the annual assessments as well as any prepaid assessments received from property owners to the bondholder.

Note 7 - Unrestricted Net Position:

Unrestricted net position has been designated by the Board of Directors for the following purposes at June 30, 2023:

Capital improvements	\$11,984,102
Operating reserve	6,702,095
Debt service	1,763,809
Wastewater capital replacement reserves	2,349,339
Net pension liability	(24,200,320)
Net OPEB liability	(848,077)
Unrestricted Net Position	<u><u>\$ (2,249,052)</u></u>

Note 8 - Defined Benefit Pension Plan:

(a) General Information About the Pension Plans

Plan Description - All qualified permanent and probationary employees are eligible to participate in the Miscellaneous Plan of the Valley Center Municipal Water District, (The Plans) a cost-sharing multiple employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and Local Government 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. The Plan consists of the Miscellaneous Plan and the Miscellaneous PEPRA Plan.

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. Miscellaneous Plan members with five years of service are eligible to retire at age 50 with statutorily reduced benefits.

VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2023

Note 8 - Defined Benefit Pension Plan (Continued):

(a) General Information About the Pension Plans (Continued)

PEPRA Miscellaneous members with five years of service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability retirement benefits after five years of service. The death benefit is the basic death benefit. The cost-of-living adjustments for each plan are applied as specified by the Public Employees Retirement law per contract. The Plan's provisions and benefits in effect at June 30, 2023, are summarized as follows:

	Miscellaneous	
	Prior to <u>January 1, 2013</u>	On or After <u>January 1, 2013</u>
Benefit formula	2.7% @ 55	2% @ 62
Benefit vesting schedule	5 years' service	5 years' service
Benefit payments	Monthly for life	Monthly for life
Minimum retirement age	50	52
Monthly benefits, as a % of eligible compensation	2.0% to 2.7%	1.0% to 2.5%
Required employee contribution rates	8.00%	7.0%
Required employer contribution rates	14.34%	7.56%

In addition to the contribution rates above, the District was also required to make payments of \$2,246,755 toward its unfunded actuarial liability during the year ended June 30, 2023.

The Miscellaneous Plan is closed to new members that are not already CalPERS eligible participants.

Contribution Description - 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 the CalPERS annual actuarial process. 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.

VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2023

Note 8 - Defined Benefit Pension Plan (Continued):

(b) Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

The District reported the following net pension liability for its proportionate share of net position liability of the risk pool at June 30, 2023:

	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability (c) = (a) - (b)
Balance at: 6/30/2022	\$ 69,117,425	\$ 50,551,698	\$ 18,565,726
Balance at: 6/30/2023	75,048,905	47,900,391	27,148,513
Net Changes	<u>\$ 5,931,480</u>	<u>\$ (2,651,306)</u>	<u>\$ 8,582,786</u>

The District's net pension liability for the risk pool is measured as the proportionate share of the risk pool's net pension liability. GASB 68 indicates that to the extent different contribution rates are assessed based on separate relationships that constitute the collective net pension liability, the determination of the employer's proportionate share of the collective net pension liability should be made in a manner that reflects those relationships. The allocation method used by CalPERS to determine each employer's proportionate share reflects those relationships through the employer rate plans they sponsor within the respective risk pools. An actuarial measurement of the employer's rate plan liability and asset-related information are used where available, and proportional allocations of individual employer rate plan amounts as of the valuation date are used where not available.

The District's proportionate share of the net pension liability as of June 30, 2021, the valuation date, was calculated as follows:

- In determining an employer's proportionate share, the employer rate plans included in the Plan were assigned to the miscellaneous risk pool. Estimates of the total pension liability and the fiduciary net position were first determined as of the valuation date, June 30, 2021.
- Each employer rate plan's fiduciary net position was subtracted from its total pension liability to obtain its net pension liability as of the valuation date. The District's proportionate share percentage at the valuation date was calculated by dividing the District's net pension liability for each of its employer rate plans by the net pension liability of the risk pool as of the valuation date.

The District's proportionate share of the net pension liability as of June 30, 2022, the measurement date, was calculated as follows:

Each risk pool's total pension liability was computed at the measurement date, June 30, 2022, by applying standard actuarial roll-forward methods to the total pension liability amounts as of the valuation date. The fiduciary net position for the risk pool at the measurement date was determined by CalPERS' Financial Office. The net pension liability for the risk pool at June 30, 2022, was computed by subtracting the respective risk pool's fiduciary net position from its total pension liability.

VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2023

Note 8 - Defined Benefit Pension Plan: (Continued)

(b) Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

- The individual employer risk pool's proportionate share percentage of the total pension liability and fiduciary net position as of June 30, 2022, was calculated by applying the District's proportionate share percentage as of the valuation date (described above) to the total pension liability and fiduciary net position as of June 30, 2022, to obtain the total pension liability and fiduciary net position as of June 30, 2022. The fiduciary net position was then subtracted from total pension liability to obtain the net pension liability as of the measurement date.

The District's proportionate share percentage of the net pension liability as of June 30, 2021 and June 30, 2022, was as follows:

	Miscellaneous Risk Pool
Proportion at measurement date - June 30, 2021	0.97776%
Proportion at measurement date - June 30, 2022	0.58019%
Change - Increase (Decrease)	<u>(0.39757%)</u>

For the year ended June 30, 2023, the District recognized pension expense of \$4,318,454. The District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources at June 30, 2023:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 328,775	\$ 220,199
Changes of assumptions	1,677,621	-
Net difference between projected and actual earnings on pension plan investments	2,448,078	-
Adjustment due to difference in proportions	-	5,206,048
Differences between actual and required contributions	799,379	-
Contributions after measurement date	3,120,587	-
Total	<u>\$ 8,374,440</u>	<u>\$ 5,426,247</u>

The \$3,120,587 of pension contributions subsequent to the measurement date but before the end of the reporting period will be recognized as a reduction of the net pension liability in the subsequent fiscal period rather than the current fiscal period. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as expense as follows:

VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2023

Note 8 - Defined Benefit Pension Plan: (Continued)

(b) Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

Fiscal Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2024	\$ 2,535,497
2025	(634,252)
2026	(5,017)
2027	1,051,965
2028	-
Thereafter	-
Total	<u>\$ 2,948,193</u>

(d) Amortization of Deferred Outflows and Deferred Inflows of Resources

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

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

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

Net Difference between projected and actual earning on pension plan investments	5-year straight-line amortization
All other amounts	Straight-line amortization over the expected average remaining service lifetime (EARSL) of all members that are provided with benefits (Active, inactive, and retired) as of the beginning of the measurement period.

VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2023

Note 8 - Defined Benefit Pension Plan: (Continued)

(d) Actuarial Assumptions

The total pension liabilities in the June 30, 2021 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2021
Measurement Date	June 30, 2022
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	6.90%
Inflation	2.30%
Projected Salary Increases	Varies by Entry Age and Service
Mortality Rate Table ¹	Derived using CalPERS' membership data for all funds
Post Retirement Benefit Increase	The lesser of contract COLA or 2.30% until Purchasing Power Protection Allowance floor on purchasing power applies, 2.30% thereafter

¹ The mortality table used was developed based on CalPERS-specific data. The probabilities of mortality are based on the 2021 CalPERS Experience Study for the period from 2001 to 2019. Pre-retirement and Post-retirement mortality rates include generational mortality improvement using 80% of Scale MP-2020 published by the Society of Actuaries. For more details on this table, please refer to the CalPERS Experience Study and Review of Actuarial Assumptions report from November 2021 that can be found on the CalPERS website.

(e) Discount Rate

The discount rate used to measure the total pension liability was 6.90%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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 long-term market return expectations as well as the expected pension fund cash flows. Projected returns for all asset classes are estimated and combined with risk estimates, are used to project compound (geometric) returns over the long term. The discount rate used to discount liabilities was informed by the long-term projected portfolio return.

VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2023

Note 8 - Defined Benefit Pension Plan: (Continued)

(e) Discount Rate (Continued)

The expected real rates of return by asset class are as followed:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Real Return Years 1 – 10^{1,2}</u>
Global equity – cap-weighted	30.00%	4.45%
Global equity – non-cap-weighted	12.00	3.84
Private Equity	13.00	7.28
Treasury	5.00	0.27
Mortgage-backed Securities	5.00	0.50
Investment Grade Corporates	10.00	1.56
High Yield	5.00	2.27
Emerging market Debt	5.00	2.48
Private Debt	5.00	3.57
Real Assets	15.00	3.21
Leverage	(5.00)	(0.59)
	<u>100.00%</u>	

¹ An expected inflation of 2.30% used for this period.

² Figures are based on the 2021-22 Asset Liability Management study

(f) Subsequent Events

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

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

VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2023

Note 8 - Defined Benefit Pension Plan: (Continued)

(g) Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate (Continued)

The following presents the District's proportionate share of the net pension liability of the risk pool as of the measurement date, calculated using the discount rate, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage-point lower or one percentage-point higher than the current rate:

	Current		
	Discount Rate -1%	Discount Rate	Discount Rate +1%
	5.90%	6.90%	7.90%
Net Pension Liability - Miscellaneous	\$ 37,379,032	\$ 27,148,513	\$ 18,731,335

Note 9 - Other Postemployment Benefits:

(a) General Information About the OPEB Plan

Plan Description - The District's Board of Directors adopted the Retiree's Health Benefits Plan (Plan) on January 16, 1995, for the benefit of all individuals (excluding members of the Board of Directors) employed by the District. The Plan is permitted under Government Code Section 53200 et. Seq. The Plan was closed to employees hired after June 30, 2008.

Benefits Provided - The District provides a contribution for continuation of medical coverage for the eligible retirees and eligible spouses, if elected by the retiree. Retirees may be eligible to continue dental and vision coverage on a self-pay basis. In order to participate in the plan, an employee must have at least five years of employment with the District and his or her attained age plus accrued Benefit Units at termination must equal at least 65. Benefit Units are earned based upon the hours worked during a plan year including leave during the year of termination. The District's payment percentage applicable to a plan designated by the District ("Designated Plan") varies based on the sum of the eligible employee's age and Benefits Units at termination. The Designated Plan means the HMO plan offered from time to time by the District or an alternative similar plan designated at the discretion of the District. An eligible employee may elect to participate in the Plan under one of three participant options (Full Spousal Benefits, Reduced Spousal Benefits, and No Spousal Benefits). An election of a participant option is irrevocable once made. Spouse coverage may continue upon death of the retiree. District Directors are not eligible to participate in the Plan unless independently eligible as an employee of the District or as a spouse of an eligible employee.

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

Active employees	33
Inactive employees or beneficiaries currently receiving benefit payments	51
Inactive employees entitled to but not yet receiving benefit payments	4
	<u>88</u>

VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2023

Note 9 - Other Postemployment Benefits: (Continued)

(a) General Information About the OPEB Plan (Continued)

Contributions - The District has established an irrevocable trust fund through the California Employers' Retiree Benefits Trust (CERBT), an agent multiple-employer postemployment healthcare trust administered by CalPERS. For the period from July 1, 2022 to June 30, 2023, the District's cash contributions were \$528,958. The employer contributions include retiree benefits payments inclusive of subsidy not reimbursed from the trust.

Net OPEB Liability - The District's net OPEB liability was measured as of June 30, 2022 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2021.

Actuarial Assumptions - The total OPEB liability in the June 30, 2021 actuarial valuation was determined using the following assumptions applied to all periods included in the measurement, unless otherwise specified.

Actuarial Cost Method	Entry Age Normal Cost, Level Percent of Pay
Actuarial Assumptions:	
Discount Rate	6.00%
Inflation	2.75%
Salary Increases	2.75%
Investment Rate of Return	6.00%
Mortality Rate	Derived using CalPERS' Membership Data for all funds
Pre-Retirement Turnover	Derived using CalPERS' Membership Data for all funds
Healthcare Trend Rate	Pre-65 rate of 7.75% decreasing 0.25% annually to 5.50% Post-65 rate of 6.75% decreasing 0.25% annually to 4.50% Medicare Part B rate of 5.75% decreasing 0.25% annually to 3.50%

Mortality information for active and retired employees was based on SOA Pub-2010 General Headcount Weighted Mortality Table fully generational using Scale MP-2021. The pre-retirement turnover information was developed based on the 2021 experience study for the CalPERS pension plan.

VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2023

Note 9 - Other Postemployment Benefits: (Continued)

(a) General Information About the OPEB Plan (Continued)

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return¹</u>
Global Equity	49.0%	N/A
Global Debt Securities	23.0%	N/A
Inflation Assets	5.0%	N/A
Commodities	3.0%	N/A
REIT's	20.0%	N/A
Total	<u>100.0%</u>	6.00%

Long-term expected rate of return is 6.00%

¹ Consistent with the information provided by CERBT, L/T Expected Real ROR is not provided by asset class from CERBT and therefore shown as N/A here.

(b) Discount Rate

The discount rate used to measure the total OPEB liability was 6.00%. The projection of cash flows used to determine the discount rate assumed that the District will continue to fund the actuarial determined contribution each year. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return of OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2023

Note 9 - Other Postemployment Benefits: (Continued)

(c) Changes in the OPEB Liability

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

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Increase (Decrease) Net OPEB Liability (c) = (a) - (b)
Balance, Beginning of Year	\$8,529,517	\$ 7,877,833	\$ 651,684
Service cost	164,132	-	164,132
Interest expense	577,307	-	577,307
Benefit payments	(414,491)	(414,491)	-
Changes in assumptions	694,331	-	694,331
Employer contributions	-	1,349,861	(1,349,861)
Differences between expected and actual experience	(1,092,716)	-	(1,092,716)
Net investment income	-	(1,164,796)	1,164,796
Administrative expense	-	(2,097)	2,097
Balance, End of Year	<u>\$8,458,080</u>	<u>\$ 7,646,310</u>	<u>\$ 811,770</u>

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

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage-point higher than the current discount rate:

	1% Decrease 5.00%	Current Discount Rate 6.00%	1% Increase 7.00%
Net OPEB liability (asset)	<u>\$ 1,829,472</u>	<u>\$ 811,770</u>	<u>\$ (41,860)</u>

VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2023

Note 9 - Other Postemployment Benefits: (Continued)

(e) Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current healthcare cost trend rate:

	1% Decrease (5.75% Decreasing to 3.50%)	Current Healthcare Cost Trend Rates	1% Increase (6.75% Decreasing to 4.50%)	(7.75% Decreasing to 5.50%)
Net OPEB liability (asset)	\$ (229,312)	\$ 811,770	\$ 2,081,494	

(f) OPEB Plan Fiduciary Net Position

The California Public Employees' Retirement System's California Employers' Retirement Benefit Trust (CERBT) issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained from the California Public Employees' Retirement System, CERBT, Post Office Box 942703, Sacramento, California 94429-2703.

(g) OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2023, the District recognized OPEB credit of \$497,354. The District reported deferred outflows and inflows of resources related to OPEB from the following sources at June 30, 2023:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ (1,798,755)
Changes in assumptions	578,608	(84,200)
Net difference between projected and actual earnings in OPEB plan investments	739,082	-
Contributions subsequent to the measurement date	528,958	-
Total	\$ 1,846,648	\$ (1,882,955)

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2023**

Note 9 - Other Postemployment Benefits: (Continued)

(g) OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

The \$528,958 of OPEB contributions subsequent to the measurement date but before the end of the District's reporting period will be recognized as a reduction of the net OPEB liability in the subsequent fiscal period rather than the current fiscal period. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as expense as follows:

Fiscal Year End June 30,	Deferred Outflows/(Inflows) of Resources
2024	\$ (140,062)
2025	(149,417)
2026	(188,794)
2027	56,000
2028	(142,991)
Thereafter	-
Total	<u>\$ (565,264)</u>

(h) Defined Contribution Plan

Employees hired on or after July 1, 2008, participate in a defined contribution plan, Retiree Welfare Benefits Plan. The District administers the plan through an agreement with Mission Square Retirement.

The plan was established by the District's Board of Directors pursuant to Internal Revenue Code Section 115 and may be amended by the Board from time to time.

Employees contribute 3% of their annual covered payroll to the plan, and any sick leave accrued at termination. The District contribution is 1.15% of annual covered payroll plus \$30 per participant. The District has no payment obligation once the employee separates from the District. During the year ended June 30, 2023, District contributions were \$41,325.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2023**

Note 10 - Risk Management:

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The District is a member of the Association of California Water Agencies Joint Powers Insurance Authority (JPIA). The JPIA is a risk-pooling self-insurance authority, created under provisions of California Government Code Sections 6500 et. seq. The purpose of the JPIA is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage from commercial insurance carriers to reduce its exposure to large losses.

The District pays annual premiums for its liability (auto, general, and public officials), property loss, workers' compensation, and fidelity bond coverage. They are subject to retrospective adjustments based on claims experience. The nature and amounts of these adjustments cannot be estimated and are charged or credited to expense as invoiced. The District's insurance expense for the year ended June 30, 2023 was \$283,969. There were no instances in the past three years where a settlement exceeded the District's coverage.

Note 11 – Lease Receivable:

The District has entered into 11 cell site leases with lease terms ranging from one year to 25 years. The lessees are required to make monthly payments ranging from \$878 to \$4,250 and have discount rates ranging from 2.00% to 3.00%. As of June 30, 2023, the lease receivable is \$5,850,618 and deferred inflows of resources is \$5,541,980. The District recognized \$369,508 of lease revenue during the fiscal year.

Note 12 - Economic Dependency:

All water sold by the District is purchased from the San Diego County Water Authority. Almost all electricity and natural gas used by the District for pumping and operations is purchased from San Diego Gas and Electric.

Note 13 - Commitments and Contingencies:

(a) Contracts

The District has entered into various contracts for the purchase of material, and construction of the capital assets. The amounts contracted for are based on the contractors' estimated cost of construction. At June 30, 2023, the total unpaid amount on these contracts is approximately \$11,319,805 for water operations and \$175,268 for wastewater operations.

(b) Litigation

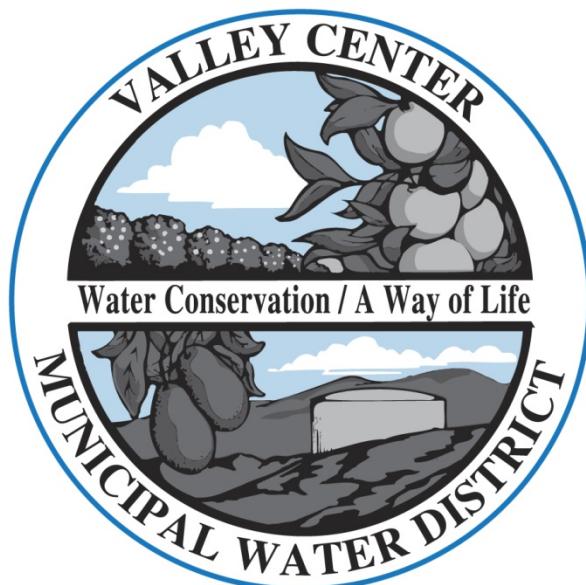
There are pending lawsuits in which the District is involved. The District's management and legal counsel estimate that the potential claims against the District, not covered by insurance, if unfavorable decisions are rendered in these pending legal actions, would not materially affect the operations or financial condition of the District.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2023**

Note 14 – Implementation of New Accounting Standards:

As described in Note 5 to the financial statements, the District changed accounting policies related to subscription-based information technology arrangements by adopting Statement of Governmental Accounting Standards Board (GASB) Statement No. 96, Subscription Based Information Technology Arrangements, in the fiscal year 2023. The District did not restate the prior year balances as it was not practicable to do so.

Required Supplementary Information



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

	Measurement Date				
	6/30/2022	6/30/2021	6/30/2020	6/30/2019	6/30/2018
Proportion of the collective net pension liability	0.5802%	0.9778%	0.5880%	0.5915%	0.6019%
Proportionate share of the collective net pension liability	\$ 27,148,513	\$ 18,565,726	\$ 24,804,319	\$ 23,686,880	\$ 22,685,118
Covered payroll	\$ 7,018,725	\$ 7,042,969	\$ 6,784,178	\$ 6,180,656	\$ 5,894,187
Proportionate share of the collective net pension liability as percentage of covered payroll	386.80%	263.61%	365.62%	383.25%	384.87%
Plan fiduciary net position as a percentage of the total pension liability	63.83%	73.14%	62.00%	61.49%	61.51%

Notes to Schedule:

Benefit Changes:

There were no changes to benefit terms that applied to all members of the Public Agency Pool. However, individual employers in the Plan may have provided a benefit improvement to their employees such as Golden Handshakes, service purchases, and other prior service costs. Additionally, the figures above do not include any liability impact that occurred after the June 30, 2021 valuation date, unless the liability impact is deemed to be material to the Public Agency Pool.

Changes in Assumptions:

Effective with the June 30, 2021 valuation date (2022 measurement date), the accounting discount rate was reduced from 7.15% to 6.90%. In determining the long-term expected rate of return, CalPERS took into account long-term market return expectations as well as the expected pension fund cash flows. Projected returns for all asset classes are estimated, combined with risk estimates, and are used to project compound (geometric) returns over the long term. The discount rate used to discount liabilities was informed by the long-term projected portfolio return. In addition, demographic assumptions and the inflation rate assumption were changed in accordance with the 2021 CalPERS Experience Study and Review of Actuarial Assumptions.

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

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

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

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

	Measurement Date			
	6/30/2017	6/30/2016	6/30/2015	6/30/2014
Proportion of the collective net pension liability	0.5859%	0.6024%	0.0687%	0.6973%
Proportionate share of the collective net pension liability	\$ 23,136,342	\$20,928,033	\$ 18,860,732	\$ 17,234,744
Covered payroll	\$ 5,940,494	\$ 5,916,822	\$ 5,465,453	\$ 5,410,242
Proportionate share of the collective net pension liability as percentage of covered payroll	389.47%	353.70%	345.09%	318.55%
Plan fiduciary net position as a percentage of the total pension liability	59.30%	58.82%	60.99%	61.73%

Notes to Schedule:

Benefit Changes:

There were no changes to benefit terms that applied to all members of the Public Agency Pool. However, individual employers in the Plan may have provided a benefit improvement to their employees such as Golden Handshakes, service purchases, and other prior service costs. Additionally, the figures above do not include any liability impact that occurred after the June 30, 2021 valuation date, unless the liability impact is deemed to be material to the Public Agency Pool.

Changes in Assumptions:

Effective with the June 30, 2021 valuation date (2022 measurement date), the accounting discount rate was reduced from 7.15% to 6.90%. In determining the long-term expected rate of return, CalPERS took into account long-term market return expectations as well as the expected pension fund cash flows. Projected returns for all asset classes are estimated, combined with risk estimates, and are used to project compound (geometric) returns over the long term. The discount rate used to discount liabilities was informed by the long-term projected portfolio return. In addition, demographic assumptions and the inflation rate assumption were changed in accordance with the 2021 CalPERS Experience Study and Review of Actuarial Assumptions.

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

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

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

VALLEY CENTER MUNICIPAL WATER DISTRICT
SCHEDULE OF CONTRIBUTIONS TO THE PENSION PLAN
Last Ten Fiscal Years*

	Fiscal Year			
	6/30/2023	6/30/2022	6/30/2021	6/30/2020
Actuarially determined contribution	\$ 3,120,587	\$ 2,907,655	\$ 2,736,175	\$ 2,505,591
Contributions in relation to the Actuarially Determined Contribution	<u>(3,120,587)</u>	<u>(2,907,655)</u>	<u>(2,736,775)</u>	<u>(2,505,452)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (600)</u>	<u>\$ 139</u>
Covered payroll	\$ 7,329,072	\$ 7,018,725	\$ 7,042,969	\$ 6,784,178
Contributions as a percentage of covered payroll	42.58%	41.43%	38.86%	36.93%

Notes to Schedule:

Fiscal Year End: 06/30/23
 Valuation Date: 06/30/20

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry age Normal in accordance with the requirements of GASB 68
Amortization Method	Level percent of payroll
Asset Valuation Method	Market Value
Discount Rate	7.00%
Inflation	2.50%
Payroll Growth	2.75%

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

VALLEY CENTER MUNICIPAL WATER DISTRICT
SCHEDULE OF CONTRIBUTIONS TO THE PENSION PLAN
Last Ten Fiscal Years*

	<u>6/30/2019</u>	<u>6/30/2018</u>	<u>6/30/2017</u>	<u>6/30/2016</u>	<u>6/30/2015</u>
Actuarially determined contribution	\$ 2,250,183	\$ 2,061,087	\$ 1,945,730	\$ 1,806,422	\$ 1,764,663
Contributions in relation to the Actuarially Determined Contribution	<u>(2,250,183)</u>	<u>(2,061,087)</u>	<u>(1,945,730)</u>	<u>(1,806,422)</u>	<u>(1,764,663)</u>
Contribution deficiency (excess)	\$ _____ -	\$ _____ -	\$ _____ -	\$ _____ -	\$ _____ -
Covered payroll	\$ 6,180,656	\$ 5,894,187	\$ 5,940,494	\$ 5,916,822	\$ 5,465,453
Contributions as a percentage of covered payroll	36.41%	34.97%	32.75%	30.53%	32.29%

Notes to Schedule:

Fiscal Year End: 06/30/23
 Valuation Date: 06/30/20

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry age Normal in accordance with the requirements of GASB 68
Amortization Method	Level percent of payroll
Asset Valuation Method	Market Value
Discount Rate	7.00%
Inflation	2.50%
Payroll Growth	2.75%

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

VALLEY CENTER MUNICIPAL WATER DISTRICT
SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS
Last Ten Fiscal Years*

	Measurement Date					
	2022	2021	2020	2019	2018	2017
Total OPEB liability						
Service cost	\$ 164,132	\$ 215,323	\$ 222,328	\$ 180,014	\$ 174,771	\$ 163,337
Interest on the total OPEB liability	577,307	605,221	640,904	584,591	555,262	525,499
Actual and expected experience difference	(1,092,716)	(418,269)	(1,031,442)	418,684	-	-
Changes in assumptions	694,331	(117,880)	-	(99,117)	-	-
Changes in benefit terms	-	-	-	-	-	-
Benefit payments	(414,491)	(364,965)	(305,133)	(344,067)	(288,490)	(261,691)
Net change in total OPEB liability	(71,437)	(80,570)	(473,343)	740,105	441,543	427,145
Total OPEB liability - beginning	8,529,517	8,610,087	9,083,430	8,343,325	7,901,782	7,474,637
Total OPEB liability - ending (a)	<u>\$ 8,458,080</u>	<u>\$ 8,529,517</u>	<u>\$ 8,610,087</u>	<u>\$ 9,083,430</u>	<u>\$ 8,343,325</u>	<u>\$ 7,901,782</u>
Plan Fiduciary Net Position						
Contribution - employer	\$ 935,370	\$ 656,994	\$ 643,050	\$ 658,700	\$ 722,386	\$ 690,259
Net investment income	(1,163,850)	1,649,671	193,466	300,177	323,308	344,077
Benefit payments	-	(364,965)	(305,133)	(344,067)	(288,490)	(261,691)
Administrative expense	(2,097)	(4,282)	(4,659)	(2,365)	(7,520)	(1,759)
Net change in plan fiduciary net position	(230,577)	1,937,418	526,724	612,445	749,684	770,886
Plan fiduciary net position - beginning	7,876,887	5,939,469	5,412,745	4,800,300	4,050,616	3,279,730
Plan fiduciary net position - ending (b)	<u>\$ 7,646,310</u>	<u>\$ 7,876,887</u>	<u>\$ 5,939,469</u>	<u>\$ 5,412,745</u>	<u>\$ 4,800,300</u>	<u>\$ 4,050,616</u>
Net OPEB (asset) liability - ending (a)-(b)	<u>\$ 811,770</u>	<u>\$ 652,630</u>	<u>\$ 2,670,618</u>	<u>\$ 3,670,685</u>	<u>\$ 3,543,025</u>	<u>\$ 3,851,166</u>
Plan fiduciary net position as a percentage of the total OPEB liability	90.40%	92.35%	68.98%	59.59%	57.53%	51.26%
Covered-employee payroll**	\$ 3,947,784	\$ 4,197,174	\$ 4,637,566	\$ 4,539,319	\$ 5,148,345	\$ 5,018,358
Net OPEB (asset) liability as a percentage of covered-employee payroll	20.56%	15.55%	57.59%	80.86%	68.82%	76.74%

Notes to Schedule:

Changes in assumptions:

The discount rate of 6.00% was used in the valuation. The interest rate used in the prior valuation was 6.80% per year net of expenses.

*Historical information is required only for measurement periods for which GASB 75 is applicable. Future years' information will be displayed up to 10 years as information becomes available.

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

VALLEY CENTER MUNICIPAL WATER DISTRICT
SCHEDULE OF OPEB CONTRIBUTIONS
Last Ten Fiscal Years*

	Fiscal Year					
	2023	2022	2021	2020	2019	2018
Actuarially Determined Contribution (ADC)	\$ 406,778	\$ 482,483	\$ 578,463	\$ 572,254	\$ 556,404	\$ 637,891
Contributions in relation to the ADC	(528,957)	(656,994)	(643,050)	(658,700)	(722,386)	(690,259)
Contribution deficiency (excess)	\$ (122,179)	\$ (174,511)	\$ (64,587)	\$ (86,446)	\$ (165,982)	\$ (52,368)
Covered-employee payroll	\$ 4,312,596	\$ 3,947,784	\$ 4,197,174	\$ 4,664,150	\$ 4,539,319	\$ 5,148,345
Contributions as a percentage of covered-employee payroll	12.27%	16.64%	15.32%	14.12%	15.91%	13.41%

Notes to Schedule:

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

Methods and assumptions used to determine contributions:

Actuarial Cost Method	Entry Age Normal
Amortization Method/Period	Level percent of payroll over a closed rolling 15-year period
Asset Valuation Method	Market Value
Inflation	2.75%
Payroll Growth	2.75% per annum, in aggregate
Investment Rate of Return	6.00%, assuming actuarially determined contributions funded into California Employers' Retiree Benefit Trust Investment Strategy 2.
Healthcare cost-trend rates	Based on recent premium experience, assuming 1%-1% increase due to market trends then reduced to a rate reflecting medical price inflation.
Retirement Age	Tier 1 employees - 2.7% @55
Mortality	The probabilities of Retirement are based on the 2021 CalPERS Experience Study The mortality assumptions are based on the SOA Pub-2010 General Headcount Weighted Mortality Table fully generational using Scale MP-2021.

*Historical information is required only for measurement periods for which GASB 75 is applicable. Future years' information will be displayed up to 10 years as information becomes available.

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Combining Statements



**VALLEY CENTER MUNICIPAL WATER DISTRICT
COMBINING STATEMENT OF NET POSITION
JUNE 30, 2023**

	General	Lower Moosa Wastewater	Woods Valley Ranch Wastewater	Total
ASSETS:				
Current Assets:				
Cash and cash equivalents	\$ 18,145,822	\$ 1,045,116	\$ 11,067,775	\$ 30,258,713
Investments	10,047,340	-	-	10,047,340
Accounts receivable, net	5,615,179	-	-	5,615,179
Woods Valley Ranch Phase 1 receivable	-	-	165,021	165,021
Interest receivable	257,544	-	-	257,544
Taxes receivable	20,718	-	151,030	171,748
Other receivables	3,058	-	-	3,058
Current lease receivable	238,849	-	-	238,849
Inventory	1,450,194	-	-	1,450,194
Prepaid expenses and deposits	<u>153,604</u>	-	-	<u>153,604</u>
Total Current Assets	<u>35,932,308</u>	<u>1,045,116</u>	<u>11,383,826</u>	<u>48,361,250</u>
Noncurrent Assets:				
Restricted cash and cash equivalents	-	606,326	-	606,326
Woods Valley Ranch Phase 1 receivable	-	-	2,341,532	2,341,532
Investment in VCMWD AD 2012-1	3,370,000	-	685,000	4,055,000
Nondepreciable capital assets	10,419,109	334,691	8,289,007	19,042,807
Depreciable capital assets, net	61,243,807	7,064,293	26,855,991	95,164,091
Lease receivable	5,611,769	-	-	5,611,769
Total Noncurrent Assets	<u>80,644,685</u>	<u>8,005,310</u>	<u>38,171,530</u>	<u>126,821,525</u>
Total Assets	<u>116,576,993</u>	<u>9,050,426</u>	<u>49,555,356</u>	<u>175,182,775</u>
DEFERRED OUTFLOWS OF RESOURCES:				
Deferred outflows related to pensions	8,374,440	-	-	8,374,440
Deferred outflows related to OPEB	<u>1,846,648</u>	-	-	<u>1,846,648</u>
Total Deferred Outflows of Resources	<u>10,221,088</u>	-	-	<u>10,221,088</u>
LIABILITIES:				
Current Liabilities:				
Accounts payable	6,869,101	121,942	80,062	7,071,105
Accrued payroll	292,197	-	-	292,197
Compensated absences	1,048,700	-	-	1,048,700
Interest payable	-	-	239,844	239,844
Customer deposits	12,813,203	22,700	9,084,766	21,920,669
Long-term liabilities	340,070	-	1,016,793	1,356,863
Total Current Liabilities	<u>21,363,271</u>	<u>144,642</u>	<u>10,421,465</u>	<u>31,929,378</u>
Noncurrent Liabilities:				
Compensated absences	1,455,711	-	-	1,455,711
Long-term liabilities	2,550,001	-	17,392,167	19,942,168
Net pension liability	27,148,513	-	-	27,148,513
Net OPEB Liability	811,770	-	-	811,770
Total Noncurrent Liabilities	<u>31,965,995</u>	-	<u>17,392,167</u>	<u>49,358,162</u>
Total Liabilities	<u>53,329,266</u>	<u>144,642</u>	<u>27,813,632</u>	<u>81,287,540</u>
DEFERRED INFLOWS OF RESOURCES:				
Deferred inflows related to pensions	5,426,247	-	-	5,426,247
Deferred inflows related to OPEB	1,882,955	-	-	1,882,955
Deferred inflows related to leases	<u>5,541,980</u>	-	-	<u>5,541,980</u>
Total Deferred Inflows of Resources	<u>12,851,182</u>	-	-	<u>12,851,182</u>
NET POSITION:				
Net investment in capital assets	68,772,845	7,398,984	16,736,038	92,907,867
Restricted for facility expansion	-	606,326	-	606,326
Unrestricted	<u>(8,155,212)</u>	<u>900,474</u>	<u>5,005,686</u>	<u>(2,249,052)</u>
Total Net Position	<u>\$ 60,617,633</u>	<u>\$ 8,905,784</u>	<u>\$ 21,741,724</u>	<u>\$ 91,265,141</u>

VALLEY CENTER MUNICIPAL WATER DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2023

	General	Lower Moosa Wastewater	Woods Valley Ranch Wastewater	Total
Operating Revenues:				
Water sales and pumping charges	\$ 28,508,971	\$ -	\$ -	\$ 28,508,971
Meter service charges	7,839,971	-	-	7,839,971
Wastewater charges	-	1,860,896	2,366,319	4,227,215
Meter installation fees	984,220	-	-	984,220
Other water operating revenues	710,444	510	-	710,954
Total Operating Revenues	38,043,606	1,861,406	2,366,319	42,271,331
Operating Expenses:				
Cost of water sold	24,059,220	-	-	24,059,220
Energy and pumping costs	3,010,720	124,520	104,354	3,239,594
Water systems operations	6,026,660	-	-	6,026,660
Wastewater collection and treatment	-	1,182,215	735,894	1,918,109
Engineering	2,068,970	58,219	6,316	2,133,505
General and administrative	8,336,407	321,264	227,241	8,884,912
Depreciation	3,241,580	377,571	1,087,931	4,707,082
Total Operating Expenses	46,743,557	2,063,789	2,161,736	50,969,082
Operating Income (Loss)	(8,699,951)	(202,383)	204,583	(8,697,751)
Nonoperating Revenues (Expenses):				
Property taxes and assessments	3,717,866	-	516,983	4,234,849
Investment income (loss)	1,503,871	40,788	214,557	1,759,216
Other nonoperating revenues	389,991	-	-	389,991
Interest expense	(52,544)	-	(414,681)	(467,225)
Gain (loss) on disposal of capital assets	18,719	-	-	18,719
Total Nonoperating Revenues (Expenses)	5,577,903	40,788	316,859	5,935,550
Income (Loss) Before Contributions	(3,122,048)	(161,595)	521,442	(2,762,201)
Capital Contributions	1,939,697	40,456	324,781	2,304,934
Change in Net Position	(1,182,351)	(121,139)	846,223	(457,267)
Net Position at Beginning of Year	61,799,984	9,026,923	20,895,501	91,722,408
Net Position at End of Year	\$ 60,617,633	\$ 8,905,784	\$ 21,741,724	\$ 91,265,141

VALLEY CENTER MUNICIPAL WATER DISTRICT
COMBINING STATEMENT OF FIDUCIARY NET POSITION
CUSTODIAL FUNDS
JUNE 30, 2023

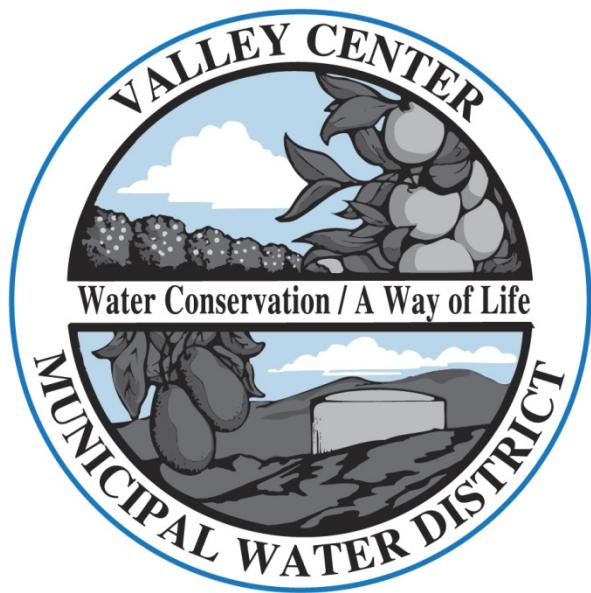
	Assessment District 2012-1	Community Facilities District 2020-1	Total
ASSETS			
Cash and Investments	\$ 1,517,852	\$ 608,176	\$ 2,126,028
Taxes receivable	-	32,829	32,829
Prepaid expenses	-	260,412	260,412
Total Assets	<u>1,517,852</u>	<u>901,417</u>	<u>2,419,269</u>
NET POSITION			
Held in trust for the benefit of residents of the AD - 2012-1 and CFD 2020-1	<u>\$ 1,517,852</u>	<u>\$ 901,417</u>	<u>\$ 2,419,269</u>

VALLEY CENTER MUNICIPAL WATER DISTRICT
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
CUSTODIAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2023

	Assessment District 2012-1	Community Facilities District 2020-1	Total
ADDITIONS:			
Property taxes and assessments	\$ 279,888	\$ 337,335	\$ 617,223
Investment income	34,056	1,288	35,344
Other revenue	-	2,483	2,483
Total additions	<u>313,944</u>	<u>341,106</u>	<u>655,050</u>
DEDUCTIONS:			
Labor and benefits	-	12,532	12,532
Outside professional services	-	7,810	7,810
Bond principal	190,000	-	190,000
Bond interest	89,887	-	89,887
Total deductions	<u>279,887</u>	<u>20,342</u>	<u>300,229</u>
Change in net position	<u>34,057</u>	<u>320,764</u>	<u>354,821</u>
Net Position - Beginning of Year	<u>1,483,795</u>	<u>580,653</u>	<u>2,064,448</u>
Net Position - End of year	<u>\$ 1,517,852</u>	<u>\$ 901,417</u>	<u>\$ 2,419,269</u>

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Statistical Section



STATISTICAL SECTION

This part of the Valley Center Municipal Water District's (the "District") annual comprehensive financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the District's overall financial health.

CONTENTS	PAGE
Financial Trends <i>These schedules contain trend information to help the reader understand how the District's financial performance and well-being have changed over time.</i>	73
Revenue Capacity <i>These schedules contain information to help the reader access the District's two most significant local revenue sources, water sales and property levies.</i>	75
Debt Capacity <i>These schedules present information to help the reader access the affordability of the District's current levels of outstanding debt and the District's ability to issue additional debt in the future.</i>	85
Demographic and Economic Information <i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place.</i>	87
Operating Information <i>These schedules contain service and infrastructure data to help the reader understand how the information in the District's financial report relates to the services the District provides and the activities it performs.</i>	89

Sources: Unless otherwise noted, the information in these schedules is derived from the annual comprehensive financial reports for the relevant year.

Table I
Net Position by Component (Last Ten Fiscal Years)

	Fiscal year ended				
	2023	2022	2021	2020 ⁽¹⁾	2019
Primary government					
Net investment in capital assets	\$ 92,907,867	\$ 77,957,363	\$ 76,127,791	\$ 75,005,714	\$ 74,019,639
Restricted for facility expansion	606,326	3,719,038	2,129,567	1,717,852	1,550,544
Unrestricted	(2,249,052)	10,046,007	9,632,501	8,730,860	11,333,093
Total primary government net position	\$ 91,265,141	\$ 91,722,408	\$ 87,889,859	\$ 85,454,426	\$ 86,903,276

	Fiscal year ended				
	2018 ⁽¹⁾	2017 ⁽¹⁾	2016	2015 ⁽¹⁾	2014
Primary government					
Net investment in capital assets	\$ 71,684,014	\$ 72,382,729	\$ 84,494,979	\$ 79,423,330	\$ 75,462,875
Restricted for facility expansion	1,359,327	1,177,622	1,075,636	947,142	1,047,564
Unrestricted	10,718,376	8,073,823	276,747	3,026,744	20,655,672
Total primary government net position	\$ 83,761,717	\$ 81,634,174	\$ 85,847,362	\$ 83,397,216	\$ 97,166,111

(1) As restated (See Table II, Notes 3-6).

Source: Valley Center Municipal Water District

Net Position

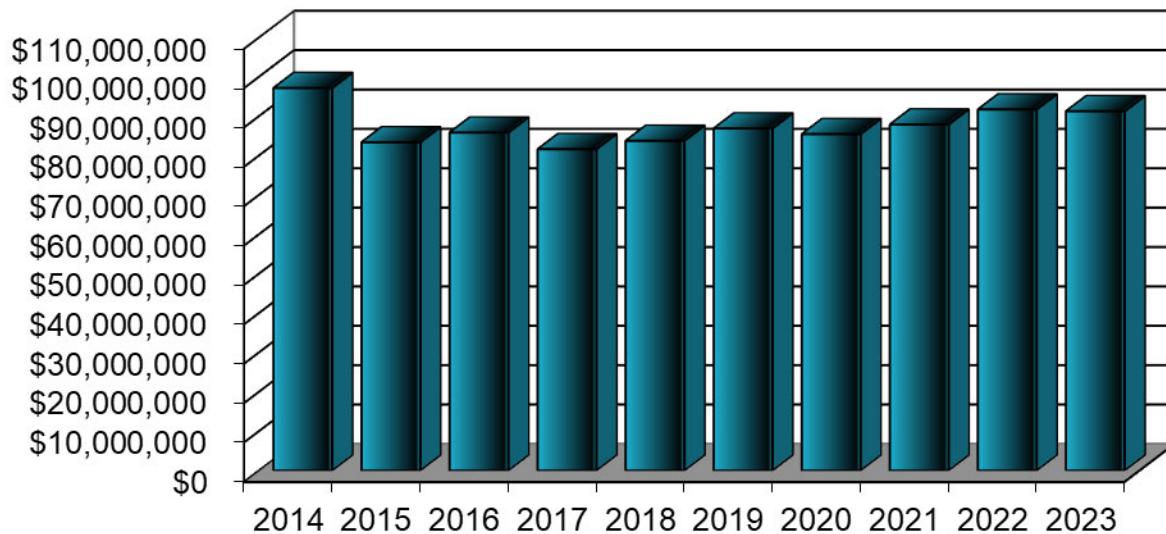


Table II
Changes in Net Position (Last Ten Fiscal Years)

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
<u>Operating Revenues:</u>										
Water sales ⁽¹⁾	\$34,388,425	\$39,190,250	\$40,125,745	\$34,608,677	\$34,579,905	\$42,445,575	\$ 36,090,543	\$ 33,785,302	\$ 39,792,544	\$44,114,111
Pumping charges	1,960,517	2,286,452	2,419,527	2,045,383	2,038,850	2,773,079	2,139,381	1,978,644	2,702,605	3,124,770
Wastewater charges	4,227,215	4,601,540	3,589,915	4,041,954	4,016,703	4,056,779	4,239,359	2,521,787	2,090,109	2,088,681
Meter installation fees	984,220	933,816	365,321	320,408	224,666	222,587	196,154	215,995	233,939	139,563
Other water operating revenues	710,954	986,803	2,262,881	453,037	588,436	610,544	645,435	545,347	565,452	622,128
Total operating revenues	\$42,271,331	\$47,998,861	\$48,763,389	\$41,469,459	\$41,448,560	\$50,108,564	\$ 43,310,872	\$ 39,047,075	\$ 45,384,649	\$50,089,453
<u>Operating Expenses:</u>										
Cost of water sold	\$24,059,220	\$27,742,610	\$28,666,422	\$25,099,762	\$25,048,234	\$30,744,890	\$ 26,930,842	\$ 25,358,738	\$ 30,583,409	\$33,822,193
Energy and pumping costs	3,239,594	3,081,255	2,848,421	2,636,432	2,457,485	2,888,038	2,631,927	2,733,376	3,019,017	2,766,632
Water systems operations	6,026,660	6,021,235	5,901,561	5,753,366	5,571,209	5,890,653	5,304,895	5,267,718	5,047,286	5,123,092
Wastewater collection and treatment	1,918,109	1,770,086	1,588,055	1,521,242	1,458,174	1,333,425	1,283,283	1,121,601	1,104,544	1,086,185
Engineering	2,133,505	2,320,092	2,855,523	2,000,013	1,571,413	1,455,201	1,695,911	1,450,071	1,313,336	1,548,003
General and administrative	8,884,912	3,657,388	4,719,888	5,470,523	5,246,189	5,677,591	2,527,800	1,944,488	3,048,293	2,861,803
Depreciation	4,707,082	4,483,611	4,312,773	4,231,732	4,135,118	3,402,608	3,306,838	3,525,655	3,465,543	3,757,012
Total operating expenses	\$50,969,082	\$49,076,277	\$50,892,643	\$46,713,070	\$45,487,822	\$51,392,406	\$ 43,681,496	\$ 41,401,647	\$ 47,581,428	\$50,964,920
Operating (Loss)	\$ (8,697,751)	\$ (1,077,416)	\$ (2,129,254)	\$ (5,243,611)	\$ (4,039,262)	\$ (1,283,842)	\$ (370,624)	\$ (2,354,572)	\$ (2,196,779)	\$ (875,467)
<u>Nonoperating Revenues and (Expenses):</u>										
Property taxes and assessments	\$ 4,234,849	\$ 3,853,473	\$ 3,740,185	\$ 3,096,661	\$ 2,985,886	\$ 2,878,959	\$ 2,777,382	\$ 2,665,133	\$ 2,558,443	\$ 2,486,977
Investment income (loss)	1,759,216	(754,118)	277,671	866,684	861,130	345,698	169,070	201,138	157,024	130,887
Other nonoperating revenues	389,991	474,470	360,531	384,328	336,181	325,571	350,924	328,923	341,794	323,813
Interest expense	(467,225)	(489,687)	(514,995)	(539,660)	(557,983)	(540,037)	(238,935)	(47,272)	(15,030)	(7,749)
Gain (loss) on disposal of capital assets ⁽²⁾	18,719	10,523	(61,688)	15,074	16,278	123,546	23,747	13,484	(163,605)	(2,448)
Total Nonoperating Revenues and (Expenses)	\$ 5,935,550	\$ 3,094,661	\$ 3,801,704	\$ 3,823,087	\$ 3,641,492	\$ 3,133,737	\$ 3,082,188	\$ 3,161,406	\$ 2,878,626	\$ 2,931,480
Income (Loss) Before Contributions	\$ (2,762,201)	\$ 2,017,245	\$ 1,672,450	\$ (1,420,524)	\$ (397,770)	\$ 1,849,895	\$ 2,711,564	\$ 806,834	\$ 681,847	\$ 2,056,013
Capital contributions	2,304,934	1,815,304	762,983	872,099	3,539,329	396,898	205,285	1,643,312	2,510,558	1,183,194
Change in Net Position	\$ (457,267)	\$ 3,832,549	\$ 2,435,433	\$ (548,425)	\$ 3,141,559	\$ 2,246,793	\$ 2,916,849	\$ 2,450,146	\$ 3,192,405	\$ 3,239,207
Net Position at Beginning of Year	\$91,722,408	\$87,889,859	\$85,454,426	\$86,903,276	\$83,761,717	\$81,634,174	\$85,847,362	\$83,397,216	\$97,166,111	\$93,926,904
Restatement ⁽³⁾⁽⁴⁾⁽⁵⁾⁽⁶⁾	\$ -	\$ -	\$ -	\$ (900,425)	\$ -	\$ (119,250)	\$ (7,130,037)	\$ -	\$ (16,961,300)	\$ -
Restated Net Position at Beginning of Year	\$91,722,408	\$87,889,859	\$85,454,426	\$86,002,851	\$83,761,717	\$81,514,924	\$78,717,325	\$83,397,216	\$80,204,811	\$93,926,904
NET POSITION AT END OF YEAR	\$91,265,141	\$91,722,408	\$87,889,859	\$85,454,426	\$86,903,276	\$83,761,717	\$81,634,174	\$85,847,362	\$83,397,216	\$97,166,111

(1) A detailed schedule of water sales is presented in Table III.

(2) Net of loss on termination of projects and disposition of assets.

(3) The Restatement of Net Position in 2020 is due to previously reported construction in progress projects that are not capitalizable pursuant to GASB 51 in the amount of \$544,764 in both the Lower Moosa and Woods Valley Wastewater Funds and the previously reported AD 2012-1 portion of the Tax Assessment Revenue totaling \$355,661 received in the Woods Valley Ranch Wastewater Expansion Fund.

(4) The Restatement of Net Position in 2018 of \$119,250 is due to a reclassification of contributed capital previously recorded as revenue in the Lower Moosa Wastewater Fund.

(5) The Restatement of Net Position in 2017 is due to the requirement per GASB 75 for OPEB Liability in the amount of \$3,504,756 and the reclassification of \$3,625,281 in developer deposits to be refunded in the Woods Valley Ranch Wastewater Fund.

(6) The Restatement of Net Position in 2015 is due to the requirement per GASB 68 to record the Pension Liability of \$16,961,300.

Source: Valley Center Municipal Water District

Table III
Water Sales by User Type ⁽¹⁾ (Last Ten Fiscal Years)

Fiscal Year	Domestic		Commercial		Certified Agricultural ⁽²⁾		Total	
	Ended	Value	Acre Feet	Value	Acre Feet	Value	Acre Feet	Value
2023	\$17,006,069	4,468.9	\$3,042,101	1,136.3	\$14,340,254	7,415.3	\$34,388,424	13,020.5
2022	\$17,947,573	4,893.8	\$3,362,725	1,342.3	\$17,879,952	9,970.9	\$39,190,250	16,207.0
2021	\$17,835,007	4,854.2	\$3,429,176	1,695.8	\$18,861,563	11,132.7	\$40,125,745	17,682.7
2020	\$14,376,850	4,229.8	\$3,333,040	1,567.3	\$16,898,786	9,893.8	\$34,608,677	15,690.9
2019	\$13,446,211	4,379.6	\$3,752,336	1,476.3	\$17,381,357	10,260.4	\$34,579,905	16,116.3
2018	\$14,545,576	5,118.4	\$4,438,219	1,884.2	\$23,461,780	14,495.3	\$42,445,575	21,497.9
2017	\$13,002,142	4,691.3	\$4,010,125	1,682.1	\$19,078,276	12,865.7	\$36,090,543	19,239.1
2016	\$12,000,426	4,173.4	\$3,362,113	1,517.2	\$18,422,763	12,678.8	\$33,785,302	18,369.4
2015	\$12,153,672	5,293.7	\$3,720,867	1,999.8	\$23,918,005	17,217.9	\$39,792,544	24,511.4
2014	\$13,709,488	6,221.0	\$3,893,594	2,210.7	\$26,511,029	19,650.4	\$44,114,111	28,082.1

(1) Water sales include monthly meter charges but exclude pumping charges. Amounts in acre feet are water billed.

(2) Includes only sales under interruptible agricultural water rates.

(3) Calculated average rate, including commodity and monthly meter charges. See Table IX for actual rates.

Source: Valley Center Municipal Water District

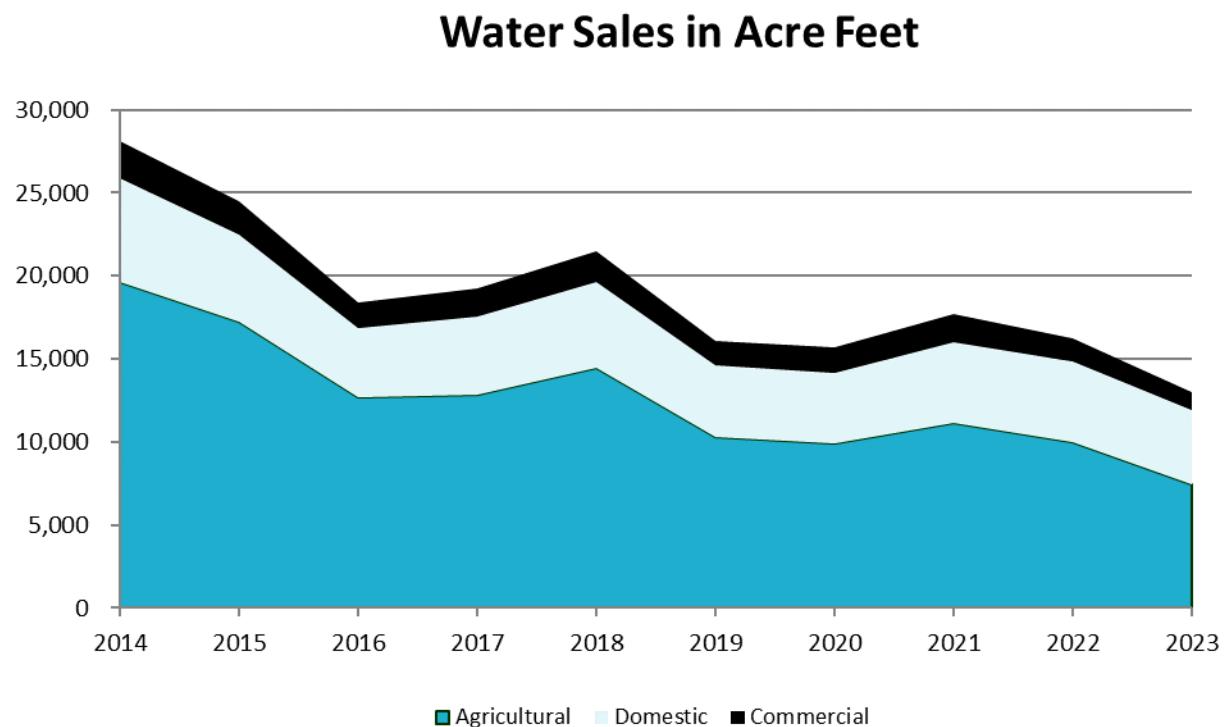


Table IV
Active Water Meters (Last Ten Fiscal Years)

Fiscal Year Ended	Domestic	Commercial	Certified Agricultural ⁽¹⁾	Total Active	All Inactive Meters	Total
2023	10,643	380	633	11,656	899	12,555
2022	10,091	380	645	11,116	886	12,002
2021	9,073	351	1,079	10,503	898	11,401
2020	8,891	367	1,051	10,309	903	11,212
2019	8,709	463	1,050	10,222	859	11,081
2018	8,633	459	1,071	10,163	864	11,027
2017	8,556	459	1,071	10,086	821	10,907
2016	8,433	456	1,087	9,976	860	10,836
2015	8,368	405	1,096	9,869	892	10,761
2014	8,242	432	1,111	9,785	890	10,675

(1) Includes only meters participating in an interruptible agricultural water rate.

Source: Valley Center Municipal Water District

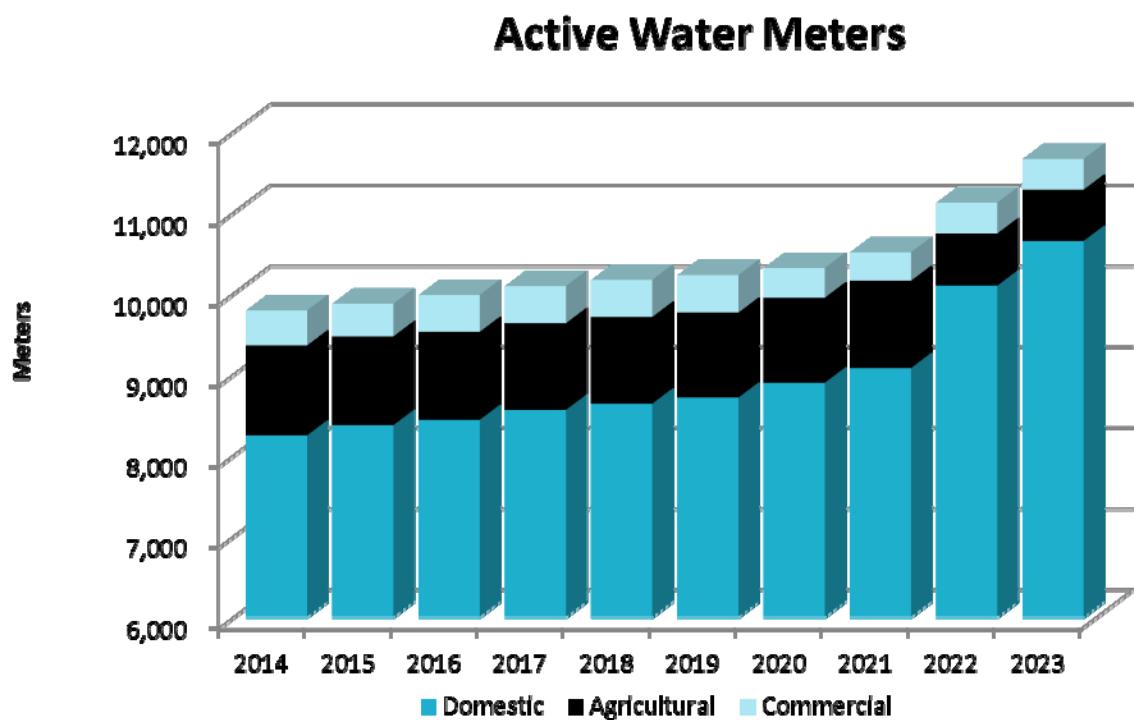


Table V
Assessed Value of Taxable Property (Last Ten Fiscal Years)

Fiscal Year Ended	Secured			Net Assessed Value	Assessed Unsecured Value	Total Assessed Value	Tax Rate
	Real Property	Personal Property	Exemptions				
2023	\$5,819,563,471	\$23,734	\$49,745,335	\$5,769,818,136	\$202,564,317	\$5,972,382,453	0
2022	\$5,313,315,351	\$23,472	\$47,533,219	\$5,265,782,132	\$44,151,557	\$5,309,933,689	0
2021	\$5,104,159,878	\$24,442	\$44,746,043	\$5,059,438,277	\$44,318,095	\$5,103,756,372	0
2020	\$4,897,386,842	\$24,677	\$40,888,444	\$4,856,523,075	\$27,269,285	\$4,883,792,360	0
2019	\$4,667,105,535	\$25,149	\$39,637,005	\$4,627,493,679	\$26,245,630	\$4,653,739,309	0
2018	\$4,440,851,377	\$25,856	\$37,354,411	\$4,403,522,822	\$26,531,923	\$4,430,054,745	0
2017	\$4,244,393,695	\$651,184	\$33,823,178	\$4,211,221,701	\$23,668,704	\$4,234,890,405	0
2016	\$4,036,249,358	\$733,024	\$31,225,271	\$4,005,757,111	\$23,401,366	\$4,029,158,477	0
2015	\$3,852,112,900	\$1,215,597	\$29,635,128	\$3,823,693,369	\$20,367,813	\$3,844,061,182	0
2014	\$3,706,577,321	\$1,376,872	\$28,443,008	\$3,679,511,185	\$20,755,618	\$3,700,266,803	0

Source: Office of the Auditor Controller, County of San Diego

Assessed Value of Taxable Property

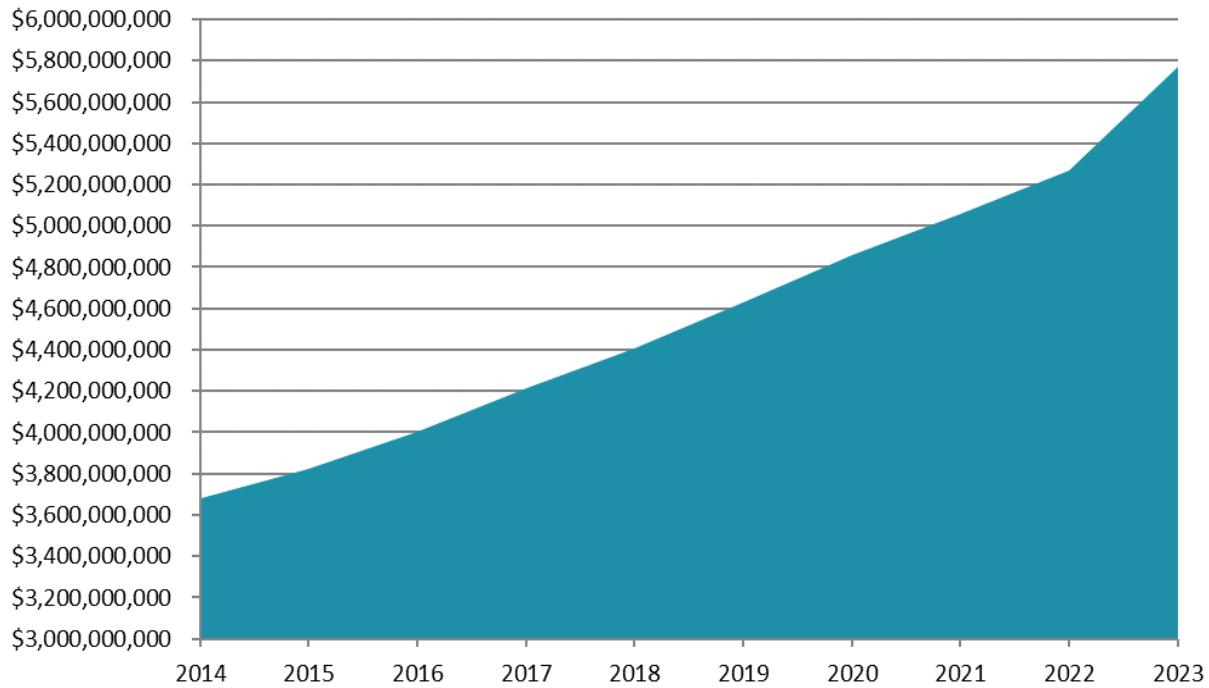


Table VI

Property Taxes and Assessment Levies and Collections⁽¹⁾ (Last Ten Fiscal Years)

Fiscal Year Ended	Levy					
	Property Taxes	Special Assessments ⁽²⁾	Total Levy	Total Collections ⁽³⁾	Net Delinquent ⁽⁴⁾	Percent Delinquent ⁽⁵⁾
2023	\$3,262,795	\$4,073,125	\$7,335,920	\$7,285,709	\$50,211	0%
2022	\$2,862,972	\$3,853,841	\$6,716,813	\$6,665,680	\$51,133	0%
2021	\$2,716,539	\$3,585,758	\$6,302,297	\$6,264,443	\$37,854	0%
2020	\$2,601,005	\$3,250,234	\$5,851,239	\$5,819,285	\$31,954	0%
2019	\$2,486,393	\$3,213,240	\$5,699,633	\$5,667,517	\$32,116	0%
2018	\$2,366,917	\$3,224,152	\$5,591,068	\$5,564,397	\$26,671	0%
2017	\$2,267,255	\$3,210,182	\$5,477,437	\$5,448,333	\$29,104	0%
2016	\$2,153,564	\$1,659,911	\$3,813,476	\$3,787,091	\$26,384	0%
2015	\$2,050,185	\$1,254,306	\$3,304,491	\$3,278,508	\$25,982	0%
2014	\$1,979,568	\$1,253,812	\$3,233,380	\$3,204,819	\$28,561	0%

(1) Percent delinquencies for assessments and property taxes are the same since they are both collected on one tax bill.

(2) Increase in 2017 is due to new annual assessment for the Woods Valley Ranch Water Reclamation Facility Expansion AD 2012-1 totaling \$1,713,781.

(3) Collections do not include miscellaneous adjustments.

(4) Net Delinquent includes uncollectible portion.

(5) Percent delinquent represents current secured only. Beginning in fiscal year 1993-94, the County of San Diego remits to the District 100% of the secured property taxes and special assessments assessed. The County of San Diego pursues collection of any remaining delinquencies through the Teeter Plan.

Source: Valley Center Municipal Water District and the Office of the Auditor Controller, County of San Diego

Property Tax Collections

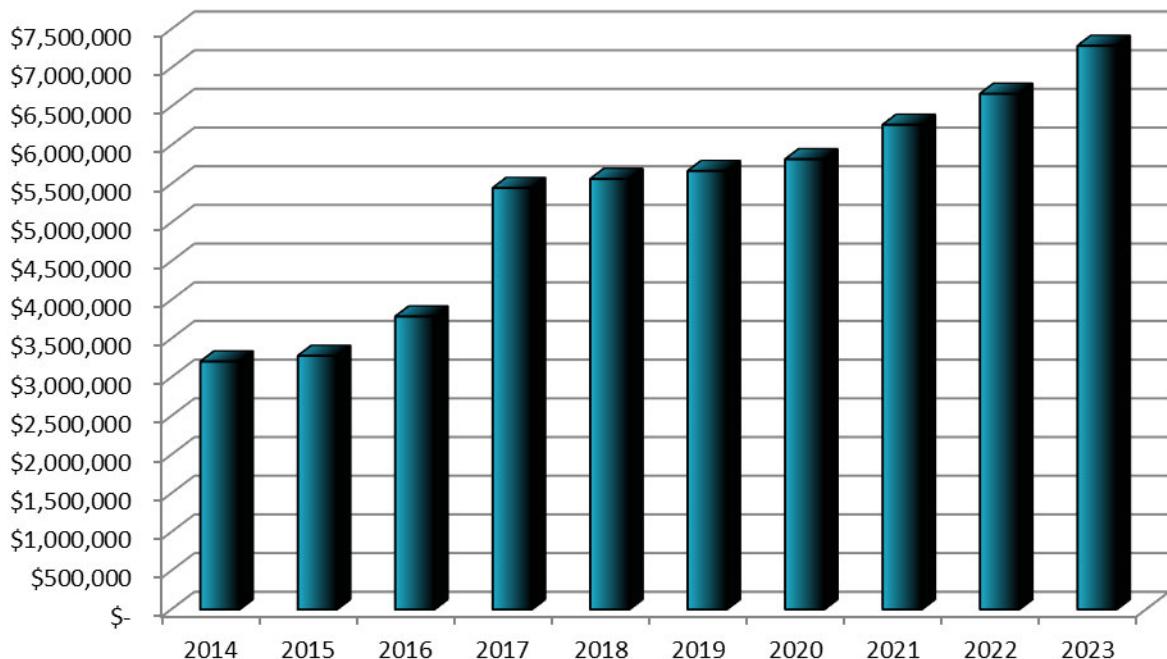


Table VII
Direct and Overlapping Bonded Debt ⁽¹⁾ (June 30, 2023)

2022-23 Assessed Valuation: \$5,972,327,197

	Total Debt 6/30/2023	% Applicable ⁽¹⁾	District's Share of Debt 6/30/23
DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:			
Metropolitan Water District	\$ 19,215,000	0.164%	\$ 31,513
Palomar Pomerado Hospital District	400,167,282	5.702%	22,817,538
Palomar Community College District	641,965,146	3.961%	25,428,239
Escondido Union High School District	76,648,138	5.911%	4,530,671
Escondido Union School District	165,824,622	6.105%	10,123,593
Bonsall Unified School District	10,433,071	3.629%	378,616
Valley Center-Pauma USD Community Facilities District No. 2003-1	5,335,000	100.000%	5,335,000
City of Escondido	48,340,000	0.029%	14,019
Valley Center Municipal Water District	0	100.000%	0
Valley Center Municipal Water District Assessment District No. 2012-1	4,055,000	100.000%	4,055,000
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT			<u>\$72,714,189</u>
OVERLAPPING GENERAL FUND DEBT:			
San Diego County General Fund Obligations	\$ 229,680,000	0.909%	\$ 2,087,791
San Diego County Pension Obligation Bonds	277,990,000	0.909%	2,526,929
San Diego County Superintendent of Schools Certificates of Participation	6,935,000	0.909%	63,039
Palomar Community College District Certificates of Participation	1,310,000	3.961%	51,889
Bonsall Unified School District Certificates of Participation	6,283,900	3.629%	228,043
Escondido Union High School District Certificates of Participation	47,555,000	5.911%	2,810,976
Escondido Union School District Certificates of Participation	11,065,000	6.105%	675,518
City of Escondido Certificates of Participation	2,495,000	0.029%	724
TOTAL OVERLAPPING GENERAL FUND DEBT			<u>\$8,444,909</u>
TOTAL DIRECT DEBT			\$0
TOTAL OVERLAPPING DEBT			<u>\$81,159,098</u>
COMBINED TOTAL DEBT			<u><u>\$81,159,098</u></u> ⁽²⁾

Ratios to Assessed Valuation:

Direct Debt	0.00%
Total Direct and Overlapping Tax and Assessment Debt	1.22%
Combined Total Debt	1.36%

2022-23 TYPICAL TOTAL TAX RATE (TRA 94-075): 1.05955

(1) The percentage of overlapping debt applicable to the district is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the overlapping district's assessed value that is within the boundaries of the water district divided by the overlapping district's total taxable assessed value.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.

Source: California Municipal Statistics, Inc.

Table VIII
Property Owners by Highest Cumulative Net Assessed Property Value (Current Fiscal Year)

Fiscal Year Ended June 30, 2023			Fiscal Year Ended June 30, 2014		
Property Owner	Cumulative Net Assessed Value	Percent of Total Net Assessed Value	Property Owner	Cumulative Net Assessed Value	Percent of Total Net Assessed Value
Welk Resort Platinum Owners Assoc.	\$61,782,016	1.03%	Welk Resort Platinum Owners Assoc.	\$38,498,009	1.04%
Meritage Homes of California Inc.	23,157,680	0.39%	Bell Holdings LLC	11,634,315	0.31%
Richmond American Homes of MD Inc	17,178,247	0.16%	Welk Resort Properties Inc.	11,576,996	0.31%
Beazer Homes Holdings LLC	15,553,022	0.26%	A T C Realty Sixteen Inc.	9,006,600	0.24%
Welk Resort Properties Inc.	12,868,062	0.22%	Skyline Ranch Country Club LLC	8,903,235	0.24%
Welk Mountain Villas Inc.	9,681,284	0.16%	Welk Mountain Villas	7,406,892	0.20%
Skyline Ranch Country Club LLC	9,645,555	0.29%	San Pasqual Band of Mission Indians	6,827,391	0.18%
Welk Resort Group Inc.	9,283,317	0.16%	Federal Boulevard Properties LLC	6,505,572	0.18%
McMillan Trust 11-09-05	7,869,230	0.13%	Welk Gargen Villas Inc.	6,178,206	0.17%
Federal Boulevard Properties LLC	7,700,020	0.13%	Fairfield Farms	6,107,651	0.17%
Total Top Ten Property Owners	\$174,718,433	2.93%	Total Top Ten Property Owners	\$112,644,867	3.04%
Other Property Owners	\$5,797,664,020	97.07%	Other Property Owners	\$3,587,621,936	96.96%
Total Assessed Valuation	\$5,972,382,453	100.00%	Total Assessed Valuation	\$3,700,266,803	100.00%

Data Source: 2022 Master Property Records from San Diego County Used for 2022-23 Property Taxes.

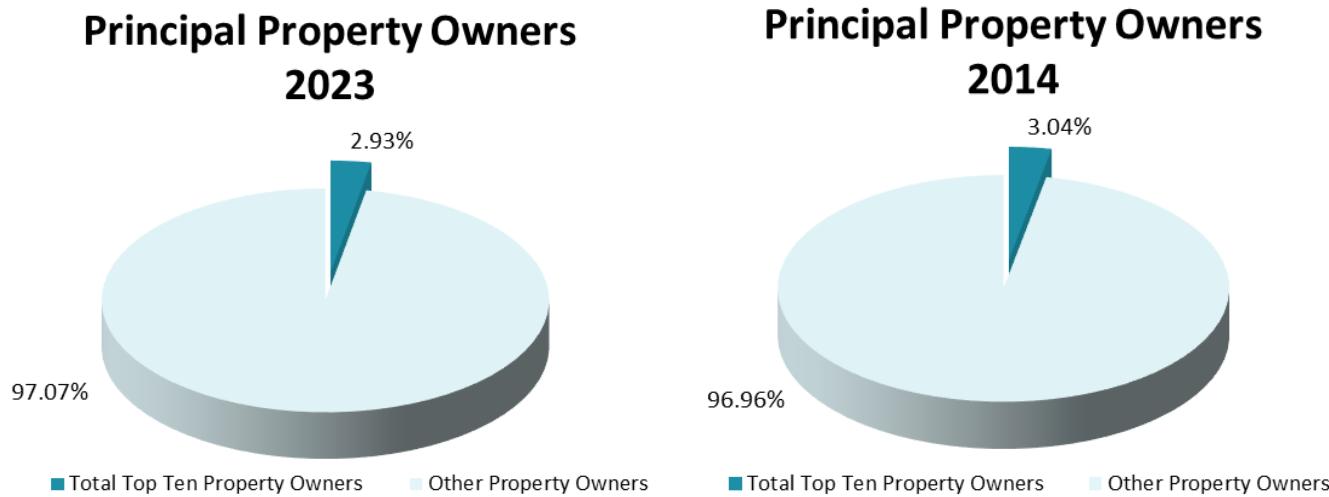


Table IX
Water Rates (Last Ten Fiscal Years)

Fiscal Year Ended ⁽¹⁾	Commodity Charge ⁽²⁾						Monthly Service Charge ⁽⁴⁾	
	Domestic			PSAWR ⁽³⁾				
	MWD/ SDCWA Wholesale	VCMWD	Total	MWD/ SDCWA Wholesale	VCMWD	Total	3/4" Meter	1" Meter ⁽⁵⁾
2023	\$2,199	\$273	\$2,472	\$1,606	\$273	\$1,879	\$47.46	\$64.84
2022	\$2,101	\$260	\$2,361	\$1,518	\$260	\$1,778	\$45.12	\$61.64
2021	\$2,012	\$246	\$2,258	\$1,467	\$246	\$1,713	\$42.77	\$58.43
2020	\$1,941	\$241	\$2,182	\$1,375	\$241	\$1,616	\$41.77	\$57.06
2019	\$1,884	\$232	\$2,116	\$1,320	\$232	\$1,552	\$39.93	\$54.55
2018	\$1,884	\$232	\$2,116	\$1,320	\$232	\$1,552	\$39.93	\$54.55
2017	\$1,827	\$221	\$2,048	\$1,277	\$221	\$1,498	\$39.93	\$54.55
2016	\$1,714	\$201	\$1,915	\$1,182	\$201	\$1,383	\$36.30	\$49.59
2015	\$1,558	\$183	\$1,741	\$1,151	\$183	\$1,334	\$33.00	\$45.08
2014	\$1,490	\$175	\$1,665	\$1,139	\$175	\$1,314	\$31.55	\$43.10

(1) Rate as of January 1.

(2) Excludes pumping charges.

(3) Permanent Special Agricultural Water Rate effective January 1, 2021. Initially implemented by SDCWA on January 1, 2009 as the Transitional Special Agricultural Water Rate.

(4) Excludes SDCWA Infrastructure Access Charge.

(5) Larger meters are multiples of the charge for a 1" meter.

Source: Valley Center Municipal Water District

Water Rates

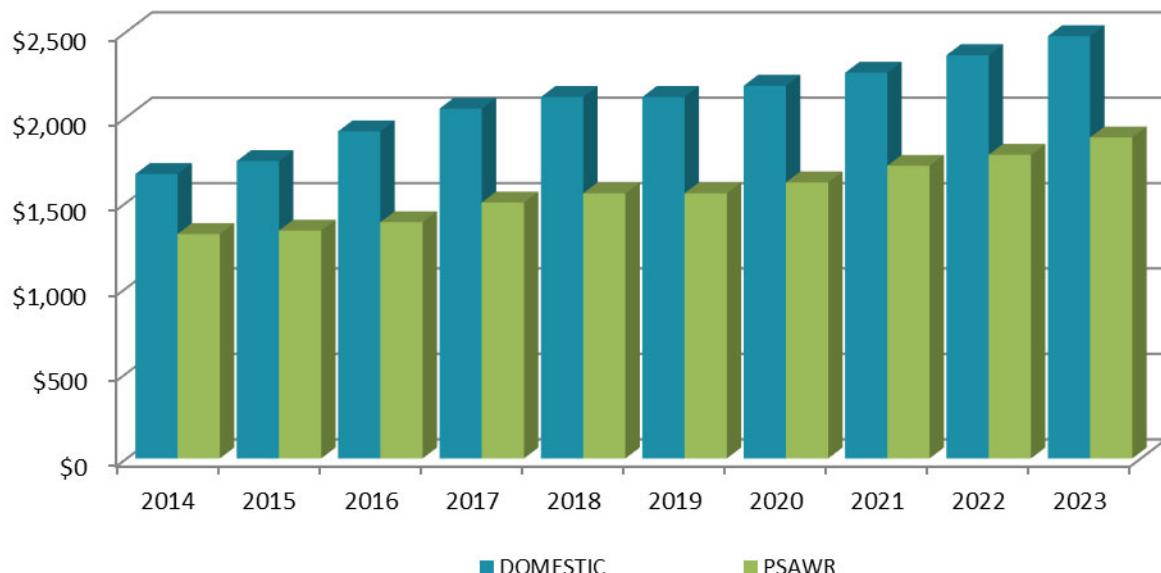


Table X
Wastewater Rates⁽²⁾ (Last Ten Fiscal Years)

Fiscal Year Ended ⁽¹⁾	Moosa Gravity	Moosa Pressure	Woods Valley Ranch
2023	\$61.72	\$112.65	\$98.60
2022	\$58.67	\$107.09	\$98.60
2021	\$57.80	\$105.50	\$98.60
2020	\$56.45	\$103.03	\$98.60
2019	\$56.45	\$103.03	\$98.60
2018	\$56.45	\$103.03	\$98.60
2017	\$53.76	\$98.12	\$98.60
2016	\$51.20	\$93.45	\$98.60
2015	\$51.20	\$93.45	\$98.60
2014	\$51.20	\$93.45	\$98.60

(1) Rate as of January 1.

(2) Rates per equivalent dwelling unit (EDU).

Source: Valley Center Municipal Water District

Wastewater Rates

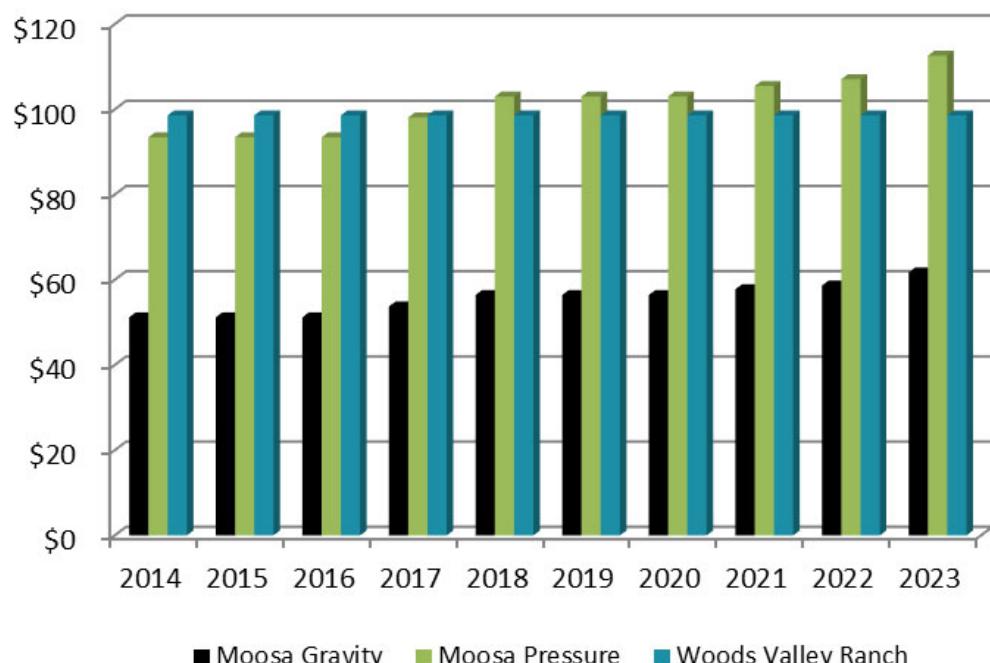


Table XI
Wastewater Services

Fiscal Year Ended ⁽¹⁾	Moosa				Woods Valley Ranch				Grand Total
	Domestic	Commercial	Other	Total	Domestic	Commercial	Other	Total	
2023	2,396	100	1	2,497	875	38	4	917	3,414
2022	2,393	100	1	2,494	626	32	4	662	3,156
2021	2,388	100	2	2,490	353	33	3	389	2,879
2020	2,388	87	2	2,477	295	27	-	322	2,799
2019	2,383	84	2	2,469	274	19	-	293	2,762
2018	2,384	79	2	2,465	270	15	-	285	2,750
2017	-	-	-	2,463	-	-	-	279	2,742
2016	-	-	-	2,476	-	-	-	271	2,747
2015	-	-	-	2,492	-	-	-	277	2,769
2014	-	-	-	2,472	-	-	-	274	2,746

(1) Enterprise Resource Planning (ERP) upgrade was implemented during FY 2017. Detailed customer type data is only available beginning FY 2018 as the legacy software did not track this information.

Source: Valley Center Municipal Water District

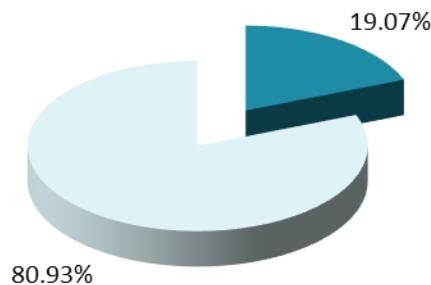


Table XII
Principal Water Customers

Fiscal year ended June 30, 2023			Fiscal year ended June 30, 2014		
Customer	Usage in Acre Feet	Percent of Water Sold	Customer	Usage in Acre Feet	Percent of Water Sold
2K Commercial CDV LLC	495.6	3.81%	Coykendall, H. C. J.	665.4	2.37%
Harold Investments LP	483.1	3.71%	Grandon Ranch Corp.	635.5	2.26%
A-1 Sunshine Farms LLC	269.3	2.07%	Harlan Beck & Associates	559.3	1.99%
Rancho Erico	217.0	1.67%	Stehly, N. J. C.	434.4	1.55%
Woods Valley Country Club	208.1	1.60%	BSTCO	371.5	1.32%
BSTCO	195.4	1.50%	Sundance Natural Foods	347.7	1.24%
Stehly, N. J.	178.8	1.37%	Rancho Trio	340.1	1.21%
Holtz, E	150.8	1.16%	Rancho Sereno	319.4	1.14%
San Pasqual Band of Mission Indians	147.4	1.13%	Rancho Erico	308.8	1.10%
Rancho Sereno	136.2	1.05%	Bihjiau Wang	285.7	1.02%
Total Top Ten Customers	2,481.7	19.07%	Total Top Ten Customers	4,267.8	15.20%
Other Customers	10,538.8	80.93%	Other Customers	23,814.3	84.80%
Total Water Sales	13,020.5	100.00%	Total Water Sales	28,082.1	100.00%

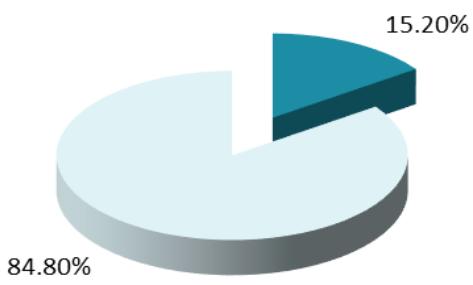
Source: Valley Center Municipal Water District

Principal Water Customers
2023



■ Total Top Ten Customers ■ Other Customers

Principal Water Customers
2014



■ Total Top Ten Customers ■ Other Customers

Table XIII
Ratios of Outstanding Debt by Type (Last Ten Fiscal Years)

Fiscal Year Ended	General Obligation Bonds ⁽¹⁾	Revenue Bonds ⁽²⁾	Notes Payable	Financing Loan Agreement ⁽⁴⁾	Lease Payable ⁽⁵⁾	Total	Percentage of Personal Income ⁽⁶⁾	Per Capita ⁽⁶⁾
2023	-	-	\$21,163,845	\$0	\$135,186	\$21,299,031	0.94%	\$711
2022	-	-	\$22,451,002	\$11,114	\$42,777	\$22,504,893	1.02%	\$758
2021	-	-	\$23,711,447	\$27,081	-	\$23,738,528	1.21%	\$886
2020	-	-	\$24,945,739	\$39,349	-	\$24,985,088	1.30%	\$876
2019	-	-	\$25,809,665	\$58,943	-	\$25,868,608	1.61%	\$1,004
2018	-	-	\$26,753,731	\$78,537	-	\$26,832,268	1.70%	\$1,042
2017	-	-	\$23,029,735	\$98,130	-	\$23,127,865	1.55%	\$902
2016	-	-	\$7,679,830	\$117,724	-	\$7,797,554	0.54%	\$304
2015	-	-	\$676,310	\$137,318	-	\$813,638	0.06%	\$32
2014	-	-	\$676,310	\$88,123	-	\$764,433	0.06%	\$30

(1) The District has had no General Obligation Bonded Debt since 1999.

(2) On June 29, 1993, the District issued to a bank \$1,400,000 of water revenue bonds to finance legally required water system improvements. The final payment on the outstanding revenue bonds was made on July 1, 2012.

(3) In Fiscal Years 2014 - 2019 the District began receiving funds from the State Revolving Fund Loans for the Cool Valley Reservoir and the Woods Valley Ranch Water Reclamation Facility Expansion.

(4) Financing Loan Agreements consist of two unsecured, non-interest bearing loan agreements with San Diego Gas & Electric.

(5) In Fiscal Year 2022 the District recorded a Lease Payable for the right-to-use a leased asset known as the Palomar repeater site.

(6) See Table XIV for personal income and population data.

Source: Valley Center Municipal Water District

Table XIV
Pledged-Revenue Coverage (Last Ten Fiscal Years)

Fiscal Year Ended	Operating Revenues ⁽¹⁾	Nonoperating Revenues ⁽¹⁾	Gross Revenues	Less: Operating Expenses ⁽¹⁾⁽²⁾	Net Available Revenues	Debt Service			Coverage Ratio ⁽³⁾
						Principal	Interest	Total	
2023	\$42,271,331	\$6,402,775	\$48,674,106	\$46,262,000	\$2,412,106	\$1,308,100	\$467,225	\$1,775,325	1.36
2022	\$47,998,861	\$3,584,348	\$51,583,209	\$44,592,666	\$6,990,543	\$1,275,618	\$489,687	\$1,765,305	3.96
2021	\$48,763,389	\$4,316,699	\$53,080,088	\$46,579,870	\$6,500,218	\$1,252,207	\$514,995	\$1,767,202	3.68
2020	\$41,469,459	\$4,362,747	\$45,832,206	\$42,481,338	\$3,350,868	\$1,211,612	\$539,660	\$1,751,272	1.91
2019	\$41,448,560	\$4,199,475	\$45,648,035	\$41,352,704	\$4,295,331	\$1,182,874	\$557,983	\$1,740,857	2.47
2018	\$50,108,564	\$3,673,774	\$53,782,338	\$47,989,798	\$5,792,540	\$1,108,980	\$540,037	\$1,649,017	3.51
2017	\$43,310,872	\$3,321,123	\$46,631,995	\$40,374,658	\$6,257,337	\$19,594	\$238,935	\$258,529	24.20
2016	\$39,047,075	\$3,195,194	\$42,242,269	\$37,875,992	\$4,366,277	\$19,594	\$47,272	\$66,866	65.30
2015	\$45,384,649	\$3,057,261	\$48,441,910	\$44,115,885	\$4,326,025	\$9,527	\$15,030	\$24,557	176.16
2014	\$50,089,453	\$2,941,677	\$53,031,130	\$47,207,908	\$5,823,222	\$6,351	\$7,749	\$14,100	412.99

(1) See Table II

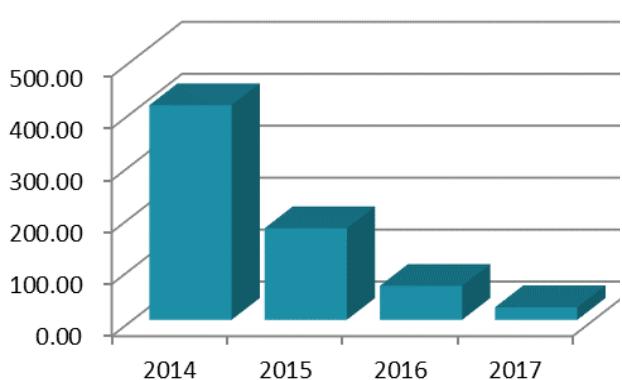
(2) Operating expenses excluding depreciation.

(3) Coverage ratio increased dramatically in Fiscal Year 2014 because the District's debt payments decreased significantly.

See Table XII, Notes 2 – 4.

Source: Valley Center Municipal Water District

Coverage Ratio
Fiscal Years 2014 - 2017



Coverage Ratio
Fiscal Years 2018 - 2023

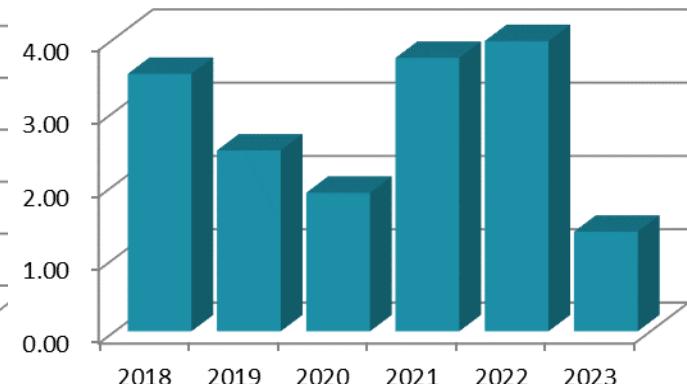


Table XV
Demographic and Economic Statistics (Last Ten Fiscal Years)

Fiscal Year Ended	Population (1)	Total Personal Income (2)	Per Capita Personal Income (3)	Unemployment Rate (4)
2023	29,938	\$2,269,300,000	\$75,800	2.3%
2022	29,708	\$2,208,077,000	\$74,326	2.3%
2021	26,780	\$1,964,313,000	\$73,350	3.2%
2020	28,507	\$1,925,249,000	\$67,536	6.4%
2019	25,766	\$1,611,225,000	\$62,533	3.5%
2018	25,760	\$1,581,303,000	\$61,386	3.1%
2017	25,630	\$1,489,026,000	\$58,097	2.3%
2016	25,608	\$1,442,294,000	\$56,322	3.6%
2015	25,394	\$1,353,449,000	\$53,298	3.5%
2014	25,248	\$1,292,041,000	\$51,174	2.9%

(1) Beginning FYE 2022, population estimate is based on data from the 2020 federal census. This figure was also used for the Division Boundary Reapportionment that was approved in April 2022. The FYE 2021 population estimate is based on SanDAG Series 14 Regional Growth Forecast (Version 17). The FYE 2020 population estimate is based on ESRI Demographics. Prior to that, years 2013 - 2019 were estimated by VCMWD using average household size estimated by SanDAG.

(2) Calculated using the estimated per capita personal income.

(3) Per capita personal income estimated using San Diego County, a close approximation of the VCMWD area. U.S. Department of Commerce, Bureau of Economic Analysis, St. Louis Federal Reserve Economic Data (FRED).

(4) Source: State of California Employment Development Department for the Valley Center Census Designated Place (CDP) which is a close approximation of the VCMWD area.

Source: Valley Center Municipal Water District except as noted.

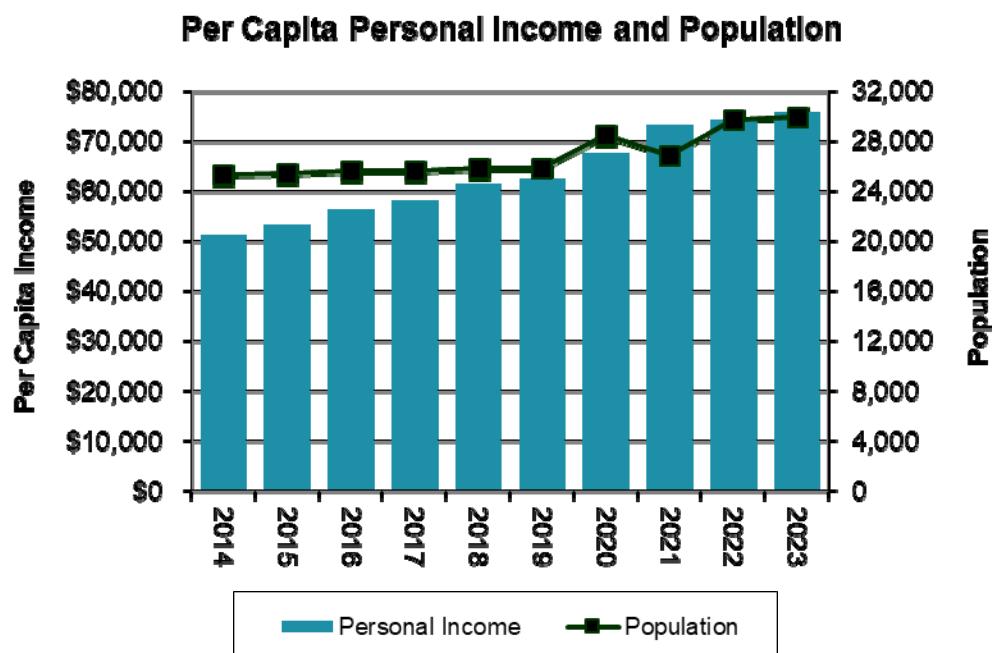


Table XVI
Principal Employers – County of San Diego (Current Fiscal Year and Nine Years Prior)

Fiscal year ended June 30, 2022 ⁽¹⁾			Fiscal year ended June 30, 2013				
Employer	# of Employees	% of Total Employment	Employer	# of Employees	% of Total Employment		
	Rank			Rank			
Naval Base San Diego	1	41,321	2.71%	U.S. Department of Defense	1	136,664	10.62%
University of California, San Diego	2	37,064	2.43%	Federal Government	2	46,100	3.58%
Sharp Healthcare	3	18,839	1.23%	State of California	3	44,700	3.47%
County of San Diego	4	16,744	1.10%	University of California, San Diego	4	26,000	2.02%
Scripps Health	5	13,787	0.90%	County of San Diego	5	16,011	1.24%
San Diego Unified School District	6	13,559	0.89%	San Diego Unified School District	6	14,438	1.12%
Qualcomm Inc.	7	11,546	0.76%	Sharp Healthcare	7	14,390	1.12%
City of San Diego	8	11,466	0.75%	Scripps Health	8	13,000	1.01%
Kaiser Permanente	9	9,632	0.63%	Qualcomm Inc.	9	11,775	0.92%
Northrop Grumman Corporation	10	6,075	0.40%	City of San Diego	10	10,296	0.80%
Total Top Ten		<u>180,033</u>	11.80%	Total Top Ten		<u>333,374</u>	25.92%
2022 Total Number employed in San Diego County		<u>1,526,300</u>		2013 Total Number employed in San Diego County		<u>1,286,800</u>	

⁽¹⁾Source: Courtesy of San Diego County Water Authority, Fiscal Year 2023 Information not available at time of publication.

Table XVII
Number of Employees (Last Ten Fiscal Years)

	Full-Time-Equivalent Employees Authorized as of June 30,									
	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Pumping	4.85	4.88	5.07	4.15	4.43	3.63	4.20	3.58	2.90	3.16
Water Systems Operations	30.40	29.46	29.36	30.30	29.99	28.94	28.51	28.69	30.46	31.40
Wastewater Collection and Treatment	6.95	6.75	7.18	7.03	7.28	6.66	6.39	5.57	5.59	5.75
Engineering	10.00	9.27	9.27	8.75	8.35	8.80	8.60	8.80	9.83	9.40
General and Administrative	13.35	14.35	13.65	13.00	11.00	10.00	10.00	11.00	11.00	10.00
Capital Outlay ⁽¹⁾	4.24	3.27	3.55	4.05	3.24	3.03	4.32	3.71	3.54	3.46
Developer Projects ⁽²⁾	2.21	2.02	1.92	2.72	1.71	0.94	0.98	0.65	0.68	0.83
Total Employees	72.00	70.00	70.00	70.00	66.00	62.00	63.00	62.00	64.00	64.00
Average Years of Service	11.61	11.97	13.34	13.87	15.00	15.44	15.30	15.90	14.10	14.18

(1) Capitalized into construction in progress.

(2) Charged to work in progress for others.

Source: Valley Center Municipal Water District

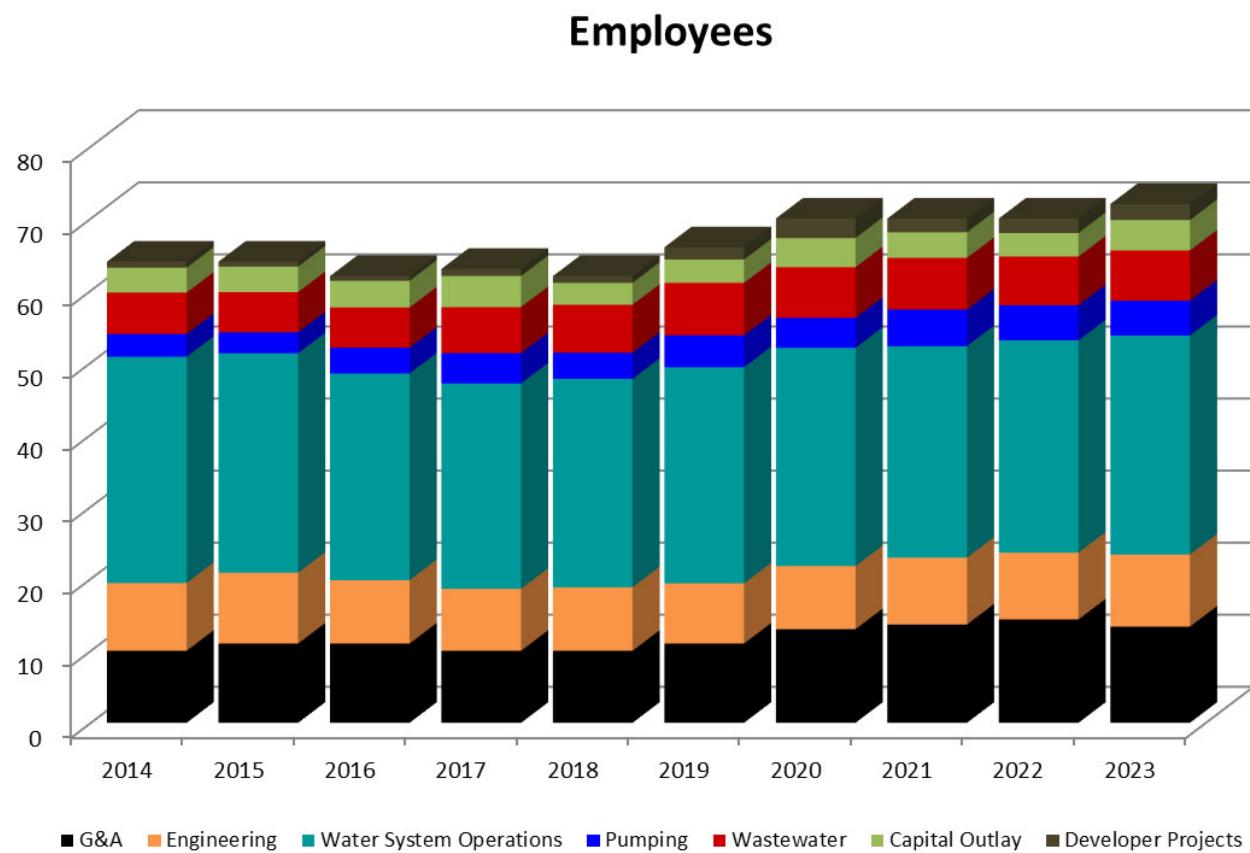


Table XVIII
Operating and Capital Indicators (Last Ten Fiscal Years)

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Water:										
Service area (acres)	64,293	64,293	64,293	64,559	64,557	64,540	64,540	64,540	64,540	64,253
Miles of water main (8 inches and larger) ⁽¹⁾	341	339	335	333	333	332	332	301	301	298
Number of enclosed reservoirs	40	40	40	41	41	42	43	43	43	42
Capacity of enclosed reservoirs (AF)	431	431	431	428	433	433	433	421	421	421
Number of open reservoirs (emergency water only)	1	1	1	1	1	1	1	1	1	1
Capacity of open reservoirs (AF)	1,612	1,612	1,612	1,612	1,612	1,612	1,612	1,612	1,612	1,612
Number of pump stations	29	29	29	29	29	29	29	29	29	27
Number of pumps	105	105	105	105	105	105	105	106	106	110
Total pump capacity (horsepower)	19,960	19,960	19,960	19,960	19,960	19,960	19,960	20,310	20,160	20,185
Number of service connections	12,555	12,002	11,401	11,212	11,081	11,027	10,907	10,836	10,761	10,675
Number of meters in service	11,656	11,116	10,503	10,309	10,222	10,163	10,086	9,976	9,869	9,785
Production peak (m.g.d.)	35.20	44.50	34.74	37.73	42.58	41.48	39.90	42.00	50.00	55.84
Average production (m.g.d.)	12.20	14.46	17.10	14.13	15.32	20.11	18.06	17.57	22.83	26.43
Total rainfall (inches)	25.15	10.35	7.67	22.25	20.39	6.29	21.32	11.98	10.10	7.29
Average daily temperature (F.)	62.67	63.50	62.75	62.25	61.80	63.25	61.83	62.75	63.80	63.50
Electricity purchased (1,000 kWh)	7,518	7,147	6,416	5,636	6,414	9,608	6,997	7,344	15,582	16,894
Natural gas purchased (1,000 therms)	398	523	760	637	660	729	786	591	234	365
Mainline repairs	20	15	21	23	21	23	21	22	11	15
Wastewater:										
Miles of sewer lines ⁽¹⁾	48	47	42	41	38	38	37	57	57	57
Number of treatment plants	2	2	2	2	2	2	2	2	2	2
Maximum capacity of treatment plants (m.g.d.)	0.77	0.77	0.77	0.77	0.77	0.77	0.57	0.57	0.57	0.57
Average dry weather flow (m.g.d.)	0.36	0.37	0.37	0.37	0.39	0.37	0.36	0.33	0.36	0.37
Number of sewer connections	3,414	3,165	2,888	2,799	2,762	2,750	2,742	2,761	2,769	2,746

AF - Acre feet

m.g.d. - Million gallons per day

Source: Valley Center Municipal Water District

(1) The methodology for estimating the Miles of water main and Miles of sewer lines was changed during Fiscal Year Ended June 30, 2017, when the District began using Esri's ArcGIS mapping software.

VALLEY CENTER MUNICIPAL WATER DISTRICT EMPLOYEES
2022-23

PAUL ADRIAN	DOMINGO GONZALEZ	THANG PHAM
JULIAN ALVAREZ	MATTHEW GOSWICK	ANDO PILVE
GARY ARANT	WALLY GRABBE	MICHAEL POWERS
ALEJANDRA BARRETO VALENZUELA	BRADLEY GUEVARA	JAMES PUGH
RICHARD BEATH	CLARENCE LEE HICKS	CLIFFORD REEH
GARRETT BRANDENBURG	DEREK HUBBARD	RYAN REEH
LEONARD BROWN	ANDREW HUERTA	ROY RUTHERFORD
RONALD BURKE	RYAN HUGHES	ALBERTO SANDOVAL
FERNANDO CARRILLO	TONY JACQUEZ	JULEE SCOTT
DANIELLE CATTANEO	CHRISTOPHER KRATZ	JAMES SEDILLO
MARIO CORTES	MASON LAUFFER	YVETTE SERRATO
JOSIAH CRESPO	BRIAN LOVELADY	DANIEL SHUBIN
RON DARLAND	JESSICA LOVELADY	MOSES SHUBIN
CORT DAY	NIKOLAY LYUBER	PAUL STEHLY
RAMIRO DE ALBA-JIMENEZ	RYAN MADSON	JARED THOMAS
EDUARDO DE ALBA	JOHN MARCHETTA	BLAKE TOTH
MARIO DE ALBA	JOHN MARTINEAU	ROBERT TRUESDALE
GABRIEL DE LA CRUZ	JAMIE MARTINEZ	ASHLYN VAN HOUTEN
DANIEL DE LA ROSA	MARLENE MARTINEZ	VANESSA VELASQUEZ
ROMAN DE MANRIQUEZ	WILLIAM MORRIS	ANNELISE VILLALOBOS
BRANDON DENDY	ISMAEL NAVARRO	JACOB VILLALOBOS
MICHAEL FARMER	JAMES NICHOLS	MICHELLE WICK
GREG FEIK	MICHAEL NICHOLS	CORAL WILLIAMS
EDWARD FERRARA	JESON NIKRASCH	DUSTIN WINGROVE
RODOLFO GARCIA	GABRIELA OLSON	SHAUN WOODS
BEATRIZ GARNICA	KIRSTEN PERAINO	GRETCHEN YOUNG
ERIK GONZALEZ	TAYLOR PETERS	MICHAEL YOUNG

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www.valleycenterwater.org

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