VALLEY CENTER MUNICIPAL WATER DISTRICT

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDING JUNE 30, 2016

VALLEY CENTER, CALIFORNIA

Cover photo: View of Valley Center from the top of Red Mountain.

Comprehensive Annual Financial Report

For The Fiscal Year Ended

June 30, 2016

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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VALLEY CENTER MUNICIPAL WATER DISTRICT

A Public Agency Organized July 12, 1954

December 19, 2016

Gary A. Broomell, President
Members of the Board of Directors
Valley Center Municipal Water District
29300 Valley Center Road
Valley Center, CA 92082

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) for the Valley Center Municipal Water District (hereinafter referred to as "the District") for the fiscal year ended June 30, 2016. 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 CAFR was prepared by the District's Finance Department in accordance with Generally Accepted Accounting Principles (GAAP). Responsibility for both the accuracy of the data presented, and the completeness and fairness of the presentation, including all disclosures, rests with the District's management. We believe the data, as presented, is accurate in all material respects and that it is presented in a manner 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 goal of the independent audit is to provide reasonable assurance that the financial statements of the District for the fiscal year ended June 30, 2016, are free of material misstatements. 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. Leaf & Cole, LLP have issued an unqualified (or clean) opinion on the District's financial statements for the fiscal year ended June 30, 2016. 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.

James V. Pugh
Director of Finance & Administration

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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 services to its domestic, agricultural, and commercial customers. The District encompasses a 101 square mile service area and serves a population of approximately 25,600. It includes the unincorporated area of Valley Center and unincorporated areas north of Escondido.

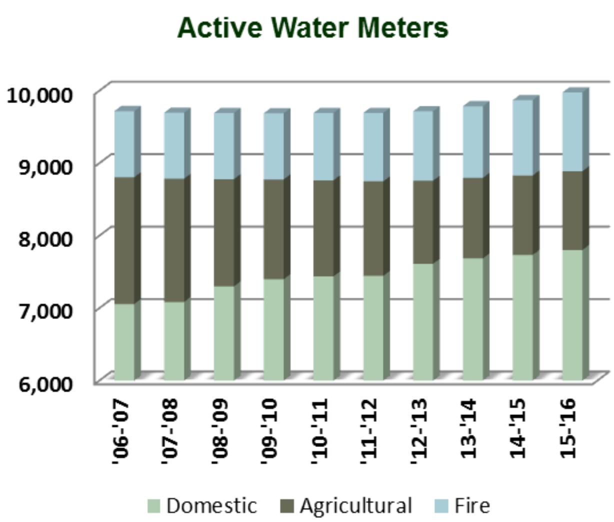
The District is governed by a five-member Board of Directors (the "Board"), elected by geographic division and serving staggered four-year terms. The Board manages the District through an appointed general manager. The District's management team also includes four department heads that oversee the Finance, Engineering, Information Technology, and Operations Departments. At June 30, 2016, there were 63 regular full-time employees working for the District.

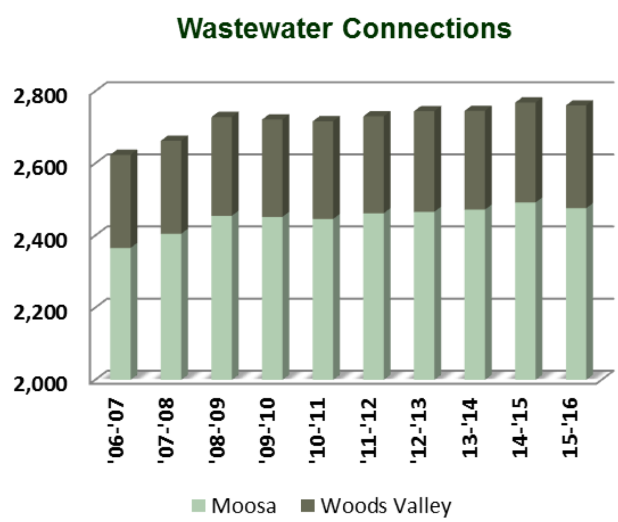
For reporting purposes, the financial statements present a combined report which includes all District activities for which the Board of Directors of Valley Center Municipal Water District is primarily financially accountable. The District has established various self-balancing groups of accounts in 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.

General operations account for all activity related to water operations as well as the general operations of the District. The District's water system includes 7 active aqueduct connections, 43 enclosed reservoirs and 1 open reservoir (Lake Turner), 29 pumping stations and 301 miles of water main. At June 30, 2016, there were a total of 9,976 active meters of which 7,802 were domestic, 1,087 were agricultural, and 1,087 were fire meters. See historical graph below.

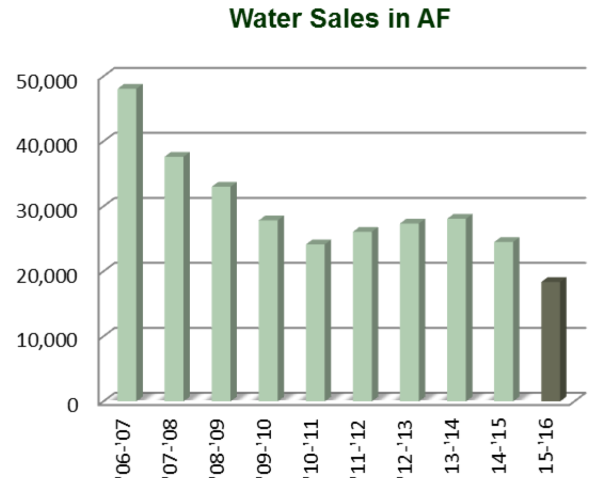
The District also provides wastewater collection, treatment, and disposal services for 2,769 customers through two wastewater treatment facilities, Lower Moosa and Woods Valley Ranch (see historical graph below). These two facilities serve separate and limited areas of the District. In total there are 57 miles of wastewater lines throughout the District.

Activity not included as a part of this report is limited to Assessment District No. 96-1, which is described in note 6 of the Notes to the Basic Financial Statements.





Local Economy and Outlook



Valley Center is in transition from being predominately agricultural to a more rural-suburban setting. This is happening to Valley Center and other surrounding areas, such as Rainbow and Fallbrook, because of negative economic pressures on agriculture. This includes regulatory restrictions, labor costs and shortages, market completion, and a rapid rise in the cost of water over the last eight years. Many growers have been forced to abandon their permanent tree crops (citrus and avocado) farming operations, or shift to higher value, lower water use crops such as ornamental flowers, nurseries, and wine grapes. As a result the District has seen a significant decrease in the volume of water deliveries to its customers. In the current year, the District sold 18,369 acre feet of water as compared to fiscal year 2006-07 when the District sold 48,085 acre feet. This represents a 62% decline in sales volume.

As of June 30, 2016, the estimated population of the area serviced by the District was 25,608. The median age of the residents was 45.1 years, occupied housing units in the community totaled 8,123, and the median household income, not adjusted for inflation is estimated at $81,848[1]. At June 30, 2016, unemployment in California was 5.1%, San Diego County was 5.4%, and the local rate in the Valley Center Census Designated Place (CDP) was 3.6%.

Valley Center Municipal Water District relies on the San Diego County Water Authority (SDCWA or "Authority") as its sole source provider for the treated water that it sells. The Authority imports water through the Metropolitan Water District of Southern California (MWD) system. MWD obtains its water from two sources: the Colorado River Aqueduct and the State Department of Water Resources under a water supply contract. This water has become increasingly unreliable in recent years as deteriorating ecological conditions have led to regulatory restrictions on pumping water supplies from the Bay-Delta. The Bay-Delta is a 1,100 mile 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. In addition, the Authority's water supply portfolio also includes relatively new supplies from the Carlsbad Desalination Plant and the Colorado River. The supplies from the Colorado River 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.

The years ahead will be challenging times for the California water community. Uncertainties concerning the Bay-Delta conveyance, new surface storage, the effects of climate change, court decisions affecting both supply and cost, and public environmental issues 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, are a possibility. These factors have the potential to adversely impact the finances of the District, and staff is working diligently to continue improving operating efficiencies and to cut costs in order to minimize the associated financial impacts.

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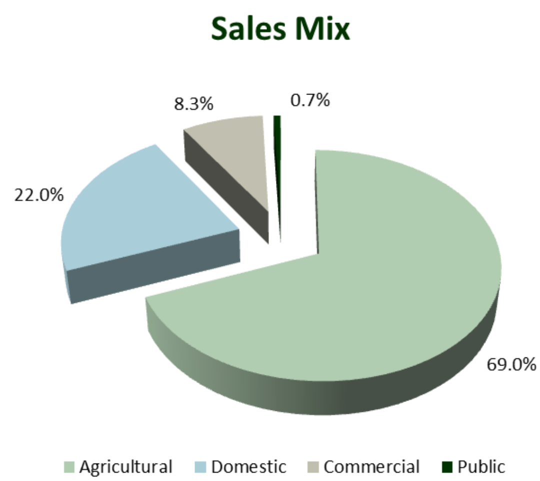
[1] San Diego Association of Governments (SANDAG) as of January 1, 2015, (data not yet available for 2016) in the Valley Center Statistical Reference Area, which encompasses part but not all of the District.

Financial and Economic Trends – Customer meter categories have stayed consistent with seventy-three new meter accounts having been established during 2015-16. This raised the total number of meter connections within the District to 10,836, of which 1,205 are fire meter accounts. Of the total meter accounts 742 water service accounts and 118 fire service accounts are inactive, resulting in 9,976 revenue generating water meters at the close of the fiscal year. This is an increase of 107 active service accounts (47 fire and 60 water service) compared to the close of 2014-15.

Though there was little actual private development construction completed in fiscal year 2015-16, the District continued to process 25 private development projects containing a total of 696 units in various stages of completion, from concept approval to warranty period. Additionally, there are seven projects with 3,754 lots/units that are in the active planning stage and one project that is inactive with 550 units.

Variation in weather conditions and a sustained reduction in water demand from conservation due to the recent cutbacks have a stronger influence on the District's revenue volatility than current economic conditions. This demonstrates the large influence that the agricultural community has on the total water demand within the District.

For the fiscal year ended June 30, 2016, water sales were 18,369 acre feet, down 6,142 acre feet or 25% from sales of 24,511 acre feet in 2014-15. This decrease is due primarily to mandatory reductions imposed on both urban and agricultural users coupled with higher rainfall from the previous year, 12.0 inches versus 10.1 inches in 2014-15. Water deliveries are broken down as follows: 69.0% was for agricultural purposes, 22.0% for domestic, 8.3% for commercial, and 0.7% was for public use. The total cost of water purchased for the fiscal year was $25.3 million, or 66% of the District's total operating expenses.



SDCWA Transitional Special Agricultural Water Rate – The San Diego County Water Authority continued to offer the Transitional Special Agricultural Water Rate (TSAWR) which provides a rebate for qualifying agricultural water users. Agricultural agencies, in concert with representatives of the San Diego Agricultural Community, were able to secure an extension of TSAWR through December 31, 2020. TSAWR customers do not pay for, nor do they benefit from, the emergency storage project. 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 TSAWR customers also do not pay. In exchange for reduced rates, TSAWR customers agree to have their water supply reduced first and at a greater degree during droughts and other emergency situations. For calendar year 2016 the discount that certified agricultural customers received totaled $531 per acre foot, based on water rates effective February 1, 2016. With the extension of the full TSAWR pricing differential, VCMWD participating agricultural customers will pay $1,497.94 per acre foot, compared to the $2,047.93 per acre foot that domestic/commercial customers will pay, a 26.9% reduction or savings of $550 per acre foot in calendar 2017.

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, 2016.

Long-Term Financial Planning – New or expanded facilities are funded by capacity fees collected by the District when new meter services are purchased and from interest earned on existing reserves. Capacity fees are set to fund system improvements identified in the District's Water Master Plan to support additional service connections. Replacement facilities are currently financed from standby fees and capital reserves on a pay as you go cash basis. This reserve is funded annually by a combination of excess operating and non-operating revenues.

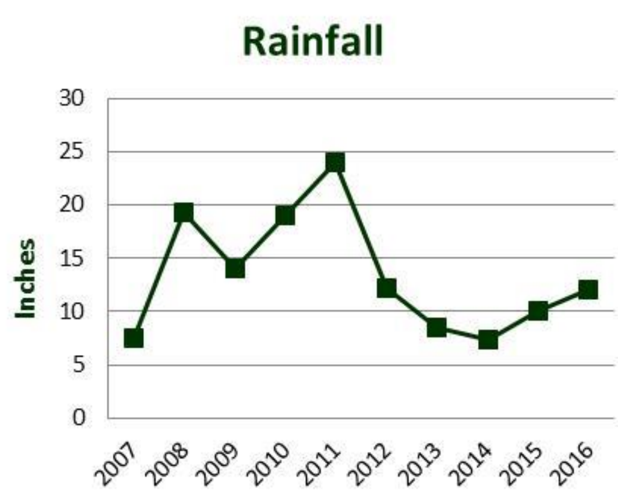
Facilities which are identified and budgeted annually for replacement are not determined solely by the depreciation schedule, but are identified through a process which assesses a combination of factors, including age, condition, and the critical nature of the facility. Also, existing facilities are replaced when the County of San Diego road improvements force relocation or private development projects provide the opportunity to replace an existing facility.

The District entered into a final funding agreement from the state of California for a State Revolving Fund Loan (SRF). The loan is for $30,735,000 and will fund the expansion of the Woods Valley Ranch Water Reclamation Facility located in the southern portion of the District. The loan is repayable over a twenty-year term with interest at 2.2%. There has been a significant increase in the participation of the expansion project. The original project was for an expansion to accommodate 350 equivalent dwelling units (EDUs). The number of EDUs currently is 1,095. The construction consists of four project components. The District entered into three of the final funding agreements for Woods Valley Ranch Phase 2 Expansion, Charlan Road Seasonal Storage and South Village Collection System Project components. The fourth agreement for the North Village Collection System is scheduled for Fiscal Year 2016-17.

Charlan Road Seasonal Storage

Drought Response

California has been dealing with the effects of an unprecedented drought. In April 2015, as a response to the failed attempt for voluntary reductions, the Governor of California issued an Executive Order directing the State Water Resources Control Board (SWRCB) to implement mandatory water reductions in urban areas to reduce potable urban water usage by 25% statewide between June 2015 and February 2016. The local impact was a 36% mandatory cutback to the District's domestic and commercial customers for the majority of the fiscal year. As part of the District's water conservation efforts, IT staff developed and implemented a tracking



database for water conservation incidents by collecting and managing water waste reports from the field. The system allows comprehensive tracking of reports, correspondence, and images, and provides an automated method to generate notification letters.

In May 2016, the SWRCB adopted a modified emergency water conservation regulation that replaces broad state-mandated, specific conservation standards with a locally driven, self-certification approach based on actual local water supply conditions. The new state regulations are in effect through the end of 2016. State mandated water use restrictions imposed beyond that point will depend on rainfall and snow pack in the upcoming winter of 2016-2017 and how well the state continues to do with conservation. While broad mandates are being eliminated, that does not mean conservation is no longer needed. Locally the District is still in a Level 1, Water "Watch" Condition that asks customers to follow some mandatory water conservation provisions as well as voluntary conservation practices.

Under the modified regulation, the District conducted an assessment or "stress test" to analyze water supply reliability based on three additional years of drought. Since the drought of 1987-92, the SDCWA has expanded the San Diego region's water supply mix to include drought resilient water resources such as the Carlsbad Seawater Desalination Plant that produces approximately 50 million gallons per day of locally controlled water and has allowed the SDCWA to pass the state's stringent water reliability stress test. As a result, the District certified a 0% required reduction standard.

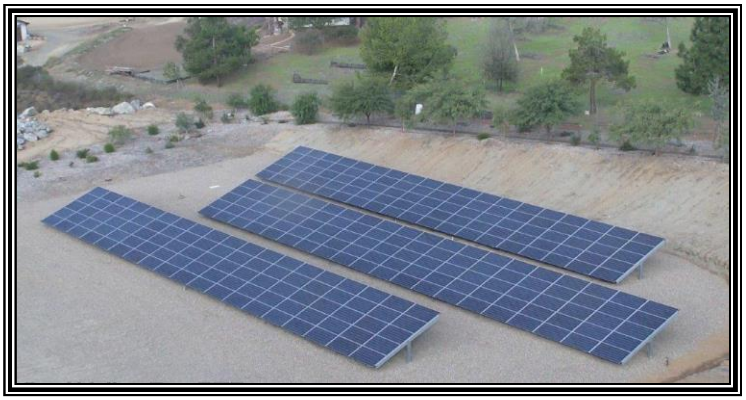
Major Initiatives
Efforts and Accomplishments

Water planning has always been an essential function of the District, but has become even more critical for all water agencies as California contends with ongoing droughts as well as the effects of long-term climate changes. To ensure that local water agencies devote an adequate effort to water planning, the California legislature adopted the Urban Water Management Planning (UWMP) Act. The District prepared the Urban Water Management Plan 2015 Update (adopted June 2016) to satisfy the year 2015 requirements of the UWMP. The 2015 Plan describes the availability of water and discusses water use, reclamation, and water conservation activities. The Plan concludes that the water supplies available to the District's customers are adequate over the next 20-year planning period. Additionally, in response to the SWRCB Emergency Drought Regulations, the District along with 13 other water agencies and the San Diego Farm Bureau developed the 2016 San Diego Regional Agricultural Water Management Plan Update ("Regional Plan").

Water System Operations

Pumps, Motors, and Energy Efficiency – System's Operations continued the pump and motor replacement program and developed energy management strategies and practices to reduce operational pumping costs during semi-peak and peak pumping demand periods. This resulted in continued energy savings and provided funds for additional pump station replacements and/or the construction of future solar projects. For Fiscal Year 2015-16, the District reconditioned the Tyler #1 and Tyler #2 pumps to 100% efficiency. All of the newly rebuilt pumps are now constructed with mechanical seals to eliminate the packing leaks caused by wear and tear in the older pump designs. The District installed two new pumps at the Cool Valley Pump Station for improved pumping efficiencies to the Rincon Reservoir pressure zone. The electrical usage from the new Rincon pumps will be off-set by the 91kW solar array, completed earlier this year.

The District continued to analyze and change pumping schedules assigned to pump stations to take advantage of the most cost effective rate schedule that applies to the District's pumping demands and needs. San Diego Gas and Electric recently implemented changes for the PA rate schedule meter, which now includes a summertime on-peak demand charge and time-of-use rate. To minimize the financial impact of the rate changes implemented by SDG&E, the District has adjusted its pumping strategies and assigned the Demand Response, Critical Peak Pricing component to the PA rate schedule, which eliminates the summertime demand charge.



Cool Valley Reservoir Solar.

Solar – During the fiscal year, the District completed construction of two solar array systems. The first was a 71kW solar array installed at the Miller Pump Station to offset a portion of the electrical usage from the pumping station. A second 91kW solar field was installed at the Cool Valley Reservoir site to offset the electrical usage of the reservoir's circulation pump and the electrical consumption of the new Rincon Pump Station. The two new solar projects where completed in time under the original Net Energy Metering (NEM) Program, which provides enhanced benefits and improved return on investments for the District. With the continued affordability in solar module panel costs and related equipment, the District has identified potential future sites, such as the Main Corporate Facility and the Lower Moosa Canyon Wastewater Reclamation Facility.

By constructing and installing the various solar projects throughout the years, the District has been able to defer raising its pumping charges for the past 10 years. Under the new NEM 2.0 Program, the District will evaluate and weigh the cost benefits and investment return prior to implementing future solar arrays.

Transmission, Distribution, and Storage Facilities Improvements – Capital improvement work completed during the fiscal year included the following: paving contracts for the Tyler Reservoir and the Corporate Facility, completion of the Betsworth Reservoir Coating and Repainting Project, paving contract for the Country Club Reservoir, including Circle R land with funding assistance from the adjacent property owners, the Cool Valley Landscape Project in preparation for the Solar Photovoltaic Project installation by District forces on the same site, Planning, Design and Funding applications for the Cool Valley Cover/Liner Replacement Project. No substantial private development work was in progress or completed during the fiscal year. Other small development activities included awarding concept approval to two small projects, several developer project plan approval renewals, and completion of three small special projects.

Tyler Reservoir after repaint and recoat.

Water Loss and Meter Replacement – The District continued its efforts 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. Meter crews were assigned shift work so a Meter Technician can work a weekend shift in an effort to detect any tampering or interference of water meters. The District was more aggressive in identifying remote blow-off appurtenances and installing security caps to reduce water theft. Crews continue to evaluate and survey cross country water mains and their associated appurtenances, through its leak detection program, for potential cross-connections. Field personnel will continue to aggressively monitor and inspect the distribution system through these various strategies which have steadily reduced unknown water loss acre feet totals. For Fiscal Year 2015-16, unaccounted water loss was the lowest on record representing 4.2% of total water sold.

Leak repair at Old Castle.

The District's agreement with the CAL Fire Puerta La Cruz Conservation Camp for weed and brush removal continued to provide beneficial evaluations of the remote and challenging areas of the distribution system. With their assistance, the District was able to detect leaks in some very remote and cross-country mainlines and appurtenances. Some of the cleared areas have not been surveyed or cleared in years. The CAL Fire agreement has provided a significant cost savings measure and has provided a more thorough inspection and survey assessment of the District's service area.

Water Quality – With the continued reduction of water demands into the Valley Center service area, the District has experienced increased water quality challenges and concerns. To address this issue, use of operational storage capacity has been significantly reduced to provide greater movement within the reservoirs and to lessen overall storage times. The District has also initiated increased reservoir cleaning schedules to reduce the nitrification build-up within the reservoir structure. During 2015-16, cleaning and minor repairs were completed on 8 reservoirs.

With the majority of the reservoirs having only one inlet/outlet feed, the District will continue to evaluate solutions to maintain and improve water quality standards and to reduce exposure to nitrification build-up. Through internal mixing devices or the new construction of separate inlet and outlet ports on the reservoirs, the District is confident in its ability to preserve water quality standards during this period of reduced flows.

Wastewater System Operations

South and North Village Water Reclamation – The South Village area of Valley Center is located along the southern part of Valley Center Road, between Lilac and Woods Valley Roads. Development in this area of the District has long been challenged by high groundwater conditions making private on-site wastewater disposal systems unfeasible for higher density uses. Over the past 30 years, property owners and the District have invested in several proposals for wastewater service only to be abandoned primarily due to high cost and lack of community support.

WVR Wastewater Reclamation Facility Phase 2 Expansion.

In February 2010, through investments by two large property owners in the South Village area, the District and other interested property owners, the District completed a master plan for providing wastewater service to the area, prepared and certified an environmental impact report for the proposed project, and submitted a financial assistance application for an initial $13,497,000 Clean Water State Revolving Fund (SRF) loan for the South Village Wastewater Expansion Project. In May 2012, the State Water Resources Control Board (SWRCB) approved a preliminary funding commitment for the project. The District entered into the initial funding agreement for the project with the SWRCB.

As the planning for the South Village Expansion proceeded, two major property owners in the North Village area, located along Valley Center Road between Miller and Cole Grade Roads had solidified their planning efforts for a residential and commercial development of 800 equivalent dwelling units (EDU's). The North Village developers expressed interest in and requested to participate in the South Village Wastewater Expansion Project for half of their ultimate wastewater demand.

WVRWRF South Village Collection System.

Following this request, the District processed additional property owner wastewater capacity reservation requests, coming from both the South Village and the North Village areas, bringing the total expansion project participation to 1,095 EDUs. While the increase in participation will require additional collection facilities and larger treatment and seasonal storage facilities, the project cost per EDU was reduced. Prior to the end of the fiscal year, the District submitted a request to the SWRCB to increase the project SRF Loan amount to $30,735,000, divided among the four proposed construction project components; the South Village Collection System, Woods Valley Ranch Wastewater Reclamation Facility Phase 2 Expansion, Charlan Road Seasonal Storage Facility, and the North Village Collection System. The District received SWRCB staff approval of the increased loan amount and was instructed to submit the project funding increase with the Final Budget Approval process for each of four project components once a construction contract was awarded. Bids were received for the Woods Valley Ranch Water Reclamation Facility Phase 2 Expansion Project and construction began in June 2015; completion is scheduled for February 2017. Construction of the other Charlan Road Seasonal Storage Facility and the South Village Collection system was initiated in Fiscal Year 2015-16 and will be completed by December 2016. The remaining project, the North Village Collection system is in design and is scheduled for completion in October 2017.

Lower Moosa Canyon Wastewater Reclamation Facility – For the 2015-16 fiscal year, at the Lower Moosa Canyon Wastewater Reclamation Facility, a new collection systems workshop and storage building was constructed. The new building will be used as a workshop to service, rebuild and repair the S.T.E.P. pumps and Lift pumps that are used to convey wastewater within the collection system. The new storage and workshop building will also be used to store a multitude of replacement parts and equipment used within the collection system and treatment facilities.

Shop and storage building at Lower Moosa Canyon Wastewater Reclamation Facility.

Planning and Construction Projects

Development activity was minimal during the fiscal year due to regional economic factors. Primarily developers continued their pursuit of land use entitlements from the County with minimal interactions required of the District. As previously indicated, several projects renewed their plan approvals to maintain their entitlements and ability to start construction at a later date.

Meadowood Development – Pardee Homes' Meadowood Development consists of a 267-acre, 850 unit residential, commercial, and institutional development project in the north east quadrant of I-15 and Highway 76. In March 2012, Pardee Homes and the District entered into an agreement for the District to process the annexation of the property into the Valley Center Municipal Water District, the San Diego County Water Authority (SDCWA), and the Metropolitan Water District. In November 2014, the annexation was complete and certified by the San Diego Local Agency Formation Commission (LAFCO).

In the latter part of fiscal year 2012-13, VCMWD staff began discussion with Rainbow Municipal Water District (RMWD) staff on how best to jointly serve the project. Water Service connection with RMWD is proposed in two locations in order to have a redundant source from both the First and Second SDCWA Aqueducts. Wastewater service options of an on-site treatment facility of wastewater service from the City of Oceanside are being evaluated. Oceanside has indicated that service is available in their San Luis Rey Wastewater Reclamation Facility. Capacity in RMWD's wastewater trunk line along State HWY 76 would be required to transport Meadowood's wastewater flows to the Oceanside facility. VCMWD continued discussions with RMWD and the City of Oceanside to determine projected costs for the various service options.

Lilac Hills Amendment Application – Accretive Investments, Inc., had previously secured from the County a Plan Amendment Authorization (PAA) for their Lilac Hills Ranch project, a 608 acre, 1,750 unit multi-use master planned community development located in the vicinity of West Lilac Road, Rodriquez Road, and Nelson Way. After securing approval of the PPA, the developer submitted an application to amend the County's General Plan for the proposed project and the project Environmental Impact Report (EIR) had been sent out for public review by the end of fiscal year 2012-13. The District entered into a pre-development agreement with Accretive and issued preliminary concept approval of the facility planning for the project. During fiscal year 2013-14, the District continued to work with the developer's engineer in further developing the planning documents for the project, which may provide opportunities for development of a recycled water service area for treated effluent from the Lower Moosa Canyon

Water Reclamation Facility. At the close of Fiscal Year 2014-15 the Development entitlement, EIR, and General Plan Amendment for Accretive's project was scheduled for consideration by the San Diego Planning Commission. In the fall of 2015, the Developer elected to obtain signatures to put the approval of the General Plan amendment on the general election ballot to be held in November 2016. The measure was not approved by the voters in November and, as of the preparation of the CAFR, the developer has not indicated their intentions with the project.

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 on-going operating expenses and maintaining infrastructure in order to sustain operations.

The District began a significant upgrade to the Enterprise Resource Planning software (accounting, utility billing, and financial reporting) system that the District has used for more than 20 years. In addition to upgrading the accounting software, utility billing, and payroll modules, the District also plans to deploy additional work order, service order, asset management, purchase order, and human resources management modules. Better data integration across different software modules will result in many operating efficiencies by eliminating the need for multiple separate systems, simplifying bank reconciliation and payment processing activities, and providing enhanced financial reporting capabilities.

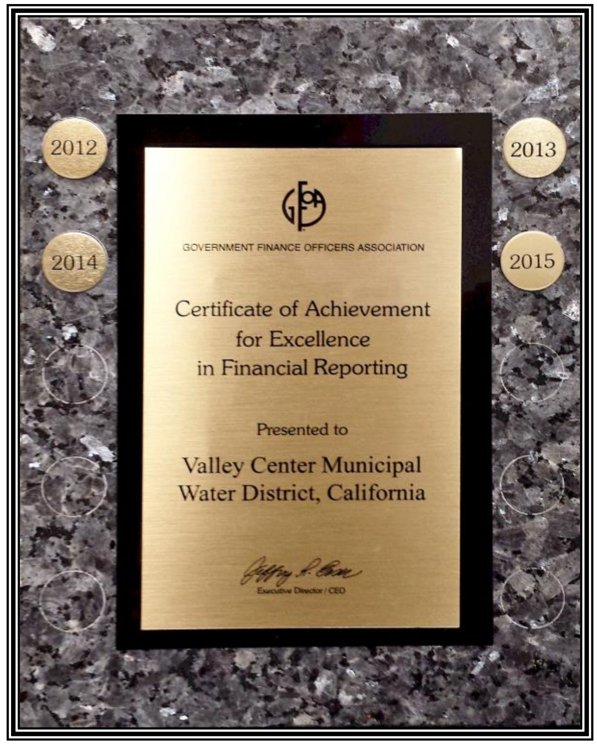
Internal Controls

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 comprehensive annual financial report for the fiscal year ended June 30, 2015. 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 comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. 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.

Acknowledgments

We would like to express our appreciation to all members of the District 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, 2015

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 expectations 100.0% of the time.

2. UNKNOWN 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 2015 amounted to 1,075.6 acre feet, 5.1% of total water sold, representing $1.1 million dollars.

3. DISCRETIONARY RESERVES – *Unrestricted or uncommitted reserves not anticipated to be used in the current fiscal year shall endeavor to maintain a minimum three and maximum six months operating and maintenance expenses (excluding wholesale water and power purchases).*

At fiscal year-end, June 30, 2016, our Discretionary Reserves, Operating, Rate, and Pump Rate Stabilization, represent 6 months operating and maintenance expenses.

4. DISTRICT SHARE OF TOTAL WATER COMMODITY 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 13% of total water commodity cost for Municipal and Industrial and 16% for Certified Agricultural.*

The District's component of the water rate for operating costs was 10.5% of the Municipal and Industrial and 13.7% of Certified Agricultural total commodity costs.

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

Our pump efficiency was 103.7% of the design criteria.

6. PROJECT ACTUAL COST - ± *10% of Engineer's estimate.*

One project was completed in calendar year 2015 at 7.4% below the Engineer's estimate.

7. 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.*

Reliability was 99.999%.

8. COMPLIANCE WITH ALL STATE & FEDERAL REGULATIONS.

100%.

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

The District lost time accidents were 0.0023% of a total of 112,525 hours worked.

10. 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 was 0.876%, while the 12-month rolling average for U.S. Treasury Bonds was 0.328%.

District Officials

Board of Directors:

Title	Name	Service	Term Expires
President	Gary A. Broomell	47 years	January 2019
Vice-President	Robert A. Polito	28 years	January 2021
Director	Merle J. Aleshire	20 years	January 2019
Director	Randy D. Haskell	16 years	January 2019
Director	Enrico P. Ferro	1 year	January 2021

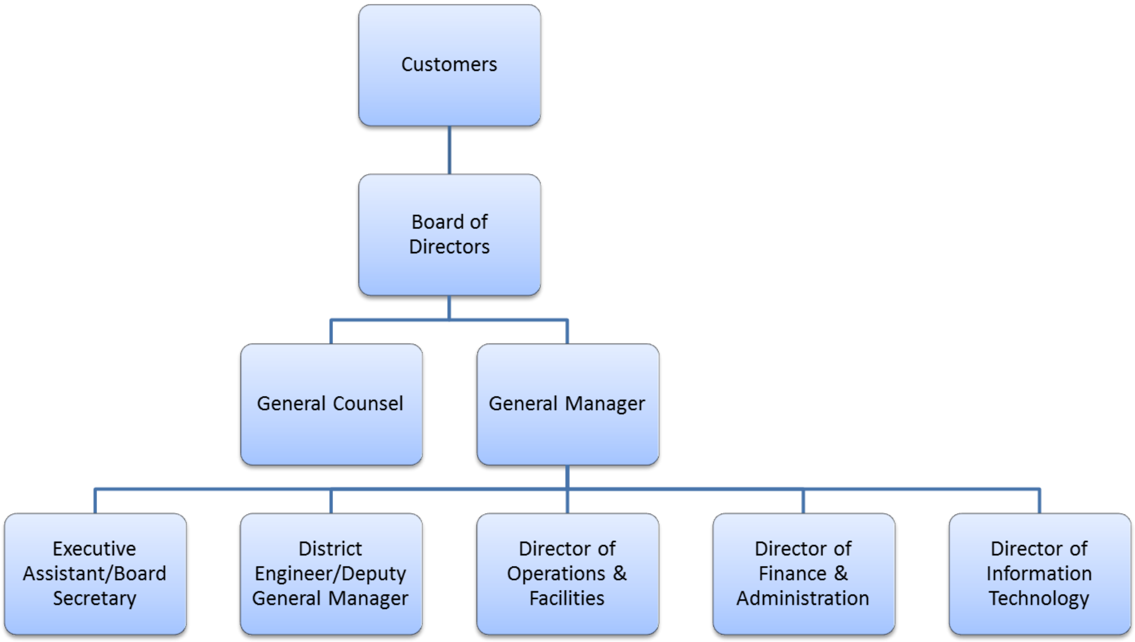
Executive Management:

Title	Name	Service
General Manager	Gary T. Arant	27 years
District Engineer/Deputy GM	Wally T. Grabbe	24 years
Director of Operations/Facilities	Albert G. Hoyle	25 years
Director of Finance & Administration	James V. Pugh	13 years
Director of Information Technology	Ando Pilve	8 years
Executive Assistant/Board Secretary	Christine M. Johnson	26 years

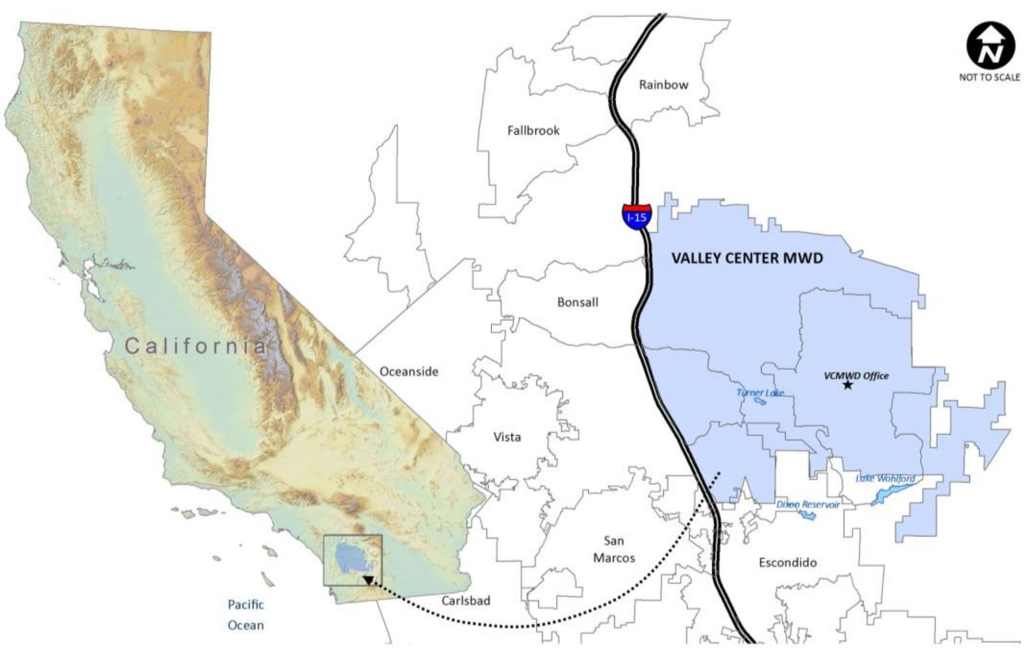
General Counsel:

Best, Best & Krieger, LLP	Paula De Sousa	6 years

District Organization Chart



District Service Area



Financial Section

VALLEY CENTER

Water Conservation / A Way of Life

MUNICIPAL WATER DISTRICT

Leaf & Cole, LLP
Certified Public Accountants
A Partnership of Professional Corporations

Independent Auditor's Report

To the Board of Directors
Valley Center Municipal Water District
29300 Valley Center Road
Valley Center, California 92082

Report on Financial Statements

We have audited the accompanying financial statements of Valley Center Municipal Water District, which comprise the statement of net position as of June 30, 2016, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Valley Center Municipal Water District, as of June 30, 2016, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, the schedules of Plan's proportionate share of the net pension liability, and the schedules of Plan contributions as identified in the accompanying table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the 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 on inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of Valley Center Municipal Water District. The introductory section, the combining schedule of net position 2016, the combining schedule of revenues, expenses, and changes in net position 2016, and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements.

The combining schedule of net position 2016, the combining schedule of revenues, expenses, and changes in net position 2016 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 schedule of net position 2016, and the combining schedule of revenues, expenses, and changes in net position 2016 are fairly stated, in all material respects, in relation to the financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

We also have previously audited, in accordance with auditing standards generally accepted in the United States of America, the District's financial statements for the year ended June 30, 2015, which are not presented with the accompanying financial statements and we expressed an unmodified opinion on the District's financial statements. That audit was conducted for the purpose of forming an opinion on the financial statements that comprise the District's financial statements as a whole. The combining schedule of net position 2015, and the combining schedule of revenues, expenses, and changes in net position 2015 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2015 financial statements. The information has been subjected to the auditing procedures applied in the audit of those financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 schedule of net position 2015, and the combining schedule of revenues, expenses, and changes in net position 2015 are fairly stated in all material respects in relation to the financial statements from which they have been derived.

Leaf & Cole LLP

San Diego, California
December 19, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Valley Center Municipal Water District's Comprehensive Annual Financial Report, Management's Discussion and Analysis (MD&A), is presented to provide highlights of the District's financial activities for the fiscal year ended June 30, 2016. 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 our domestic, agricultural, and commercial customers; along with the collection, treatment, and disposal of wastewater in a service area that encompasses approximately 101 square miles.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis provides an introduction and a brief description of the District's basic financial statements, including the relationship of the statements to each other and the significant differences in the information that they provide. The District's financial statements include four components:

Statement of Net Position provides the basis for evaluating the capital structure of the District and assessing its liquidity and financial flexibility. It presents information on all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the net difference reported as net position displayed in three categories:

- Net Investment in Capital Assets
- Restricted
- Unrestricted

Statement of Revenues, Expenses and Changes in Net Position presents information that shows how the District's net position changed during the fiscal year. All of the current year's revenues and expenses are recorded when the underlying transaction occurs, regardless of the timing of the related cash flows. The Statement of Revenues, Expenses and Changes in Net Position measures the success of the District's operations and determines whether the District has recovered its costs through user fees and other charges.

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.

This statement differs from the Statement of Revenues, Expenses and Changes in Net Position by only accounting for transactions that result in cash receipts or cash disbursements.

Notes to the Basic Financial Statements 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.

FINANCIAL HIGHLIGHTS

During the year ended June 30, 2016, net position increased by $2,450,146. Total revenues were $43,899,065, which included operating revenues of $39,047,075, non-operating revenues of $3,208,678, and capital contributions of $1,643,312. Total revenues were down $7,053,403 from June 30, 2015. Total expenses of $41,448,919 decreased $6,311,144 over the prior year. For the year ended June 30, 2016, operating expenses exceeded operating revenues by $2,354,572 compared to $2,196,779 for the previous year. Non-operating revenues of $3,208,678 exceeded non-operating expenses of $47,272. Non-operating revenues consist primarily of property taxes and assessments, lease revenue, and investment income. See breakdown of Sources of Revenues and Expenses in the charts below.

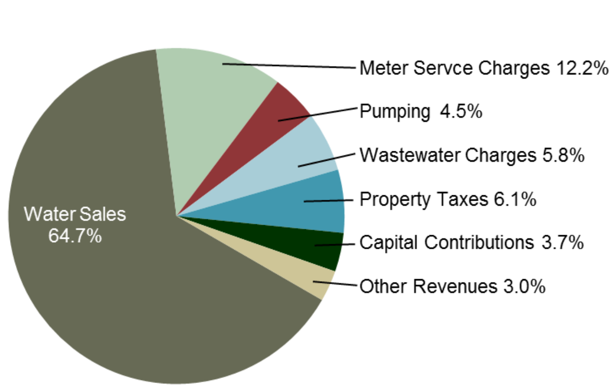
FINANCIAL ANALYSIS OF THE DISTRICT

Net Position – Total net position increased by $2,450,146 or 2.9% compared to the previous year. Net investment in capital assets increased $5,071,649 or 6.4%. Restricted net position increased $128,494 or 13.6%, and unrestricted net position decreased $2,749,997 or 90.9%.

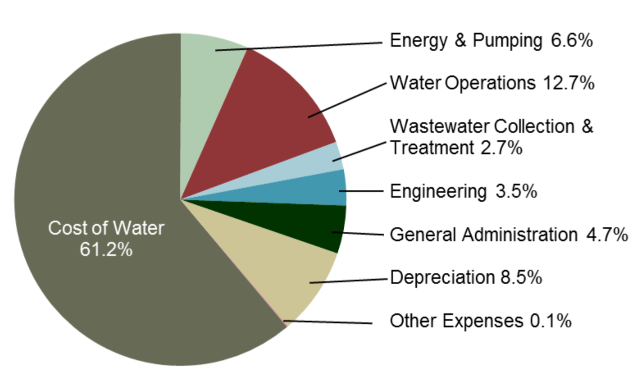
CONDENSED STATEMENT OF NET POSITION

	2016	2015	Increase/ (Decrease)	% Change
Current Assets	$28,436,526	$31,059,299	($2,622,773)	-8.4%
Restricted Assets	1,075,636	947,142	128,494	13.6%
Capital Assets	92,362,584	79,423,330	12,939,254	16.3%
Total Assets	$121,874,746	$111,429,771	$10,444,975	9.4%
Deferred Outflows of Resources	$4,886,603	$1,764,663	$3,121,940	176.9%
Current Liabilities	$11,033,945	$8,910,995	$2,122,950	23.8%
Noncurrent Liabilities	28,304,544	19,503,221	8,801,323	45.1%
Total Liabilities	$39,338,489	$28,414,216	$10,924,273	38.4%
Deferred Inflows of Resources	$1,575,498	$1,383,002	$192,496	13.9%
Net Position:				
Net investment in capital assets	$84,494,979	$79,423,330	$5,071,649	6.4%
Restricted for facility expansion	1,075,636	947,142	128,494	13.6%
Unrestricted	276,747	3,026,744	(2,749,997)	-90.9%
Total Net Position	$85,847,362	$83,397,216	$2,450,146	2.9%

Source Of Revenues Fiscal Year Ended June 30, 2016



Source Of Expenses Fiscal Year Ended June 30, 2016



CHANGE IN NET POSITION

	2016	2015	Increase/ (Decrease)	% Change
Operating Revenues:				
Water sales and pumping charges	$30,394,923	$37,470,908	($7,075,985)	-18.9%
Meter service charges	$5,369,023	$5,024,241	344,782	6.9%
Wastewater charges	2,521,787	2,090,109	431,678	20.7%
Meter installation fees	215,995	233,939	(17,944)	-7.7%
Other water operating revenues	545,347	565,452	(20,105)	-3.6%
Total operating revenues	$39,047,075	$45,384,649	($6,337,574)	-14.0%
Operating Expenses:				
Cost of water sold	$25,358,738	$30,583,409	($5,224,671)	-17.1%
Energy and pumping costs	2,733,376	3,019,017	(285,641)	-9.5%
Water systems operations	5,267,718	5,047,286	220,432	4.4%
Wastewater collection and treatment	1,121,601	1,104,544	17,057	1.5%
Engineering	1,450,071	1,313,336	136,735	10.4%
General and administrative	1,944,488	3,048,293	(1,103,805)	-36.2%
Depreciation	3,525,655	3,465,543	60,112	1.7%
Total operating expenses	$41,401,647	$47,581,428	($6,179,781)	-13.0%
Operating (Loss)	($2,354,572)	($2,196,779)	($157,793)	7.2%
Nonoperating Revenues and (Expenses):				
Property taxes and assessments	$2,665,133	$2,558,443	$106,690	4.2%
Investment income	201,138	157,024	44,114	28.1%
Other nonoperating revenues	328,923	341,794	(12,871)	-3.8%
Interest expense	(47,272)	(15,030)	(32,242)	214.5%
Gain (Loss) on disposal of capital assets	13,484	(163,605)	177,089	-108.2%
Total Nonoperating Revenues and (Expenses)	$3,161,406	$2,878,626	$282,780	9.8%
Income Before Contributions	806,834	681,847	124,987	18.3%
Capital contributions	1,643,312	2,510,558	(867,246)	-34.5%
Change in Net Position	$2,450,146	$3,192,405	($742,259)	-23.3%
Net Position at Beginning of Year	$83,397,216	$80,204,811	$3,192,405	4.0%
NET POSITION AT END OF YEAR	$85,847,362	$83,397,216	$2,450,146	2.9%

Change in Net Position - The District's operating revenues decreased $6,337,574, or 14.0%, to $39,047,075 from $45,384,649 in the previous year due to reduced water sales.

Operating expenses for the District decreased $6,179,781 or 13.0% to $41,401,647 due mainly to decreased water purchases. The cost of water sold went down $5,224,671, or 17.1%, from the previous year. Energy and pumping costs decreased $285,641 or 9.5% due to the reduced volume of water purchased which was offset by electric rate increases of 39.6% when compared to 2014-15. General and administrative expenses decreased $1,103,805 or 36.2% compared to 2014-15. These decreases are offset by higher engineering, water system operations, wastewater collection and treatment, and depreciation expenses, when combined, were $434,336 higher than last year.

Investment income for the District increased $44,114 as yields on investments were up slightly. Property taxes and assessments were up $106,690, or 4.2%, to $2,665,133.

Interest expense was $32,242 more than the previous year due to higher interest associated with the state revolving fund loan.

ANALYSIS OF OPERATIONS

Water Operations

WATER OPERATIONS CHANGE IN NET POSITION

	2016	2015	Increase/ (Decrease)	% Change
Revenues:				
Water sales	$28,416,279	$34,768,303	($6,352,024)	-18.3%
Meter service charges	5,369,023	5,024,241	344,782	6.9%
Pumping and energy charges	1,978,644	2,702,605	(723,961)	-26.8%
Meter installation fees	215,995	233,939	(17,944)	-7.7%
Other water operating revenues	545,347	565,452	(20,105)	-3.6%
Property taxes and assessments	2,665,133	2,558,443	106,690	4.2%
Investment income	164,386	118,473	45,913	38.8%
Other nonoperating revenues	328,923	341,794	(12,871)	-3.8%
Gain (Loss) on disposal of capital assets	13,484	(151,091)	164,575	-108.9%
Capital contributions	149,604	482,740	(333,136)	-69.0%
Total revenues	$39,846,818	$46,644,899	($6,798,081)	-14.6%
Expenses:				
Cost of water sold	$25,358,738	$30,583,409	($5,224,671)	-17.1%
Energy and pumping costs	2,613,787	2,890,919	(277,132)	-9.6%
Water systems operations	5,267,718	5,047,286	220,432	4.4%
Engineering	1,450,071	1,313,336	136,735	10.4%
General and administrative	1,646,223	2,804,662	(1,158,439)	-41.3%
Depreciation	2,892,067	2,850,602	41,465	1.5%
Total expenses	$39,228,604	$45,490,214	($6,261,610)	-13.8%
Change in Net Position	$618,214	$1,154,685	($536,471)	-46.5%

Water revenues for the year ended June 30, 2016, totaled $39,846,818, which is a decrease of $6,798,081, or 14.6% from the prior year. Details of this decrease in revenues are as follows:

- Water sales revenue decreased by 18.3% or $6,352,024, from the prior year. In April 2015, the Governor of California issued a mandate for a 25% reduction in California urban water usage, which resulted in a required 36% reduction of urban water usage for the District. In addition a mandatory 15% reduction in agricultural water usage was put into place by the San Diego County Water Authority. Water sales for fiscal year 2015-16 were 18,369 acre feet compared to 24,511 for fiscal year 2014-15, a reduction of 25.1%. Effective January 1, 2015, water rate increases were 4.6% for domestic and 1.63% for the San Diego County Water Authority Transitional Special Agricultural Water Rate (TSAWR). In addition, rates went up again on January 1, 2016 by 10.0% for domestic and 3.7% for TSAWR. These increases are due to increases in wholesale costs from the District's supplier.

- Meter service charges were $344,782 or 6.9% higher at $5,369,023 in 2015-16 compared to $5,024,241 in 2014-15. Monthly meter service charges increased 10.0% on January 1, 2016. In addition, the number of active meters at year end increased by 107 bringing the 2015-16 count to 9,976 as compared to 9,869 in the prior year.

- Pumping and energy charges were down 26.8%, or $723,961, due to the decrease in the volume of water sold.

- Meter installation fees for the year were down 7.7% or $17,944 from the prior year due to a decrease in the amount of water meters and backflow devices purchased and installed.

- Property taxes and assessments increased slightly by 4.2%, or $106,690, from 2014-15 to 2015-16. The District has adopted San Diego County's 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 38.8%, or $45,913, from the prior year. The increase is a result of higher yields earned during the year.

- Capital contributions, which vary based on developer projects, decreased by $333,136 or 69.0% from the prior year.

Expenses for the year ended June 30, 2016, totaled $39,228,604, a decrease of 13.8% or $6,261,610. Certain significant expenses are as follows:

- Cost of water sold decreased 17.1% over the prior year. Water purchases were down significantly from the prior year, which were offset by higher wholesale water prices. In 2014-15, the District purchased 25,598 acre feet of water at an average price of $1,195 per acre foot. In the current year, the District purchased 19,657 acre feet of water at an average price of $1,290 per acre foot, an increase of 7.9% or $95 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 water sales. These fixed components include a capacity reservation charge by MWD and customer service, emergency storage program, and supply reliability charges by the SDCWA.

- Agricultural discounts from the SDCWA on their melded water rate during the year were $2,380,175. This cost reduction for agricultural water is passed through to the District's qualified agricultural customers and is included in the Cost of water sold.

- Energy and pumping costs associated with the distribution of water for the District were down $277,132 or 9.6% when compared to last year. The District purchased 5,941 acre feet of water less in 2015-16 than in 2014-15. Although sales volume decreased, electric rates continue to increase. Over the last ten years energy costs have increased 42%.

- Water systems operations expenses showed an increase of $220,432 or 4.4% from last year, due to increased labor and outside services.

- Engineering expenses for 2015-16 were 10.4%, or $136,735, higher than 2014-15. This is a result of increases in labor expense and special department expenses associated with aerial imaging of the District.

- General and administrative expenses decreased 41.3% or $1,158,439 due to a combination of factors, the largest being a pension expense credit of $1,303,456 associated with Government Accounting Standards Board Statement 68 (GASB 68) "Accounting and Financial Reporting for Pensions". This credit was offset by higher labor and insurance costs. In fiscal year 2014-15 we received an insurance refund of $105,491.

- Depreciation expense in 2015-16 increased slightly by 1.5%, or $41,465, from the prior year.

Wastewater Treatment Operations

Lower Moosa Canyon Water Reclamation Facility serves 2,476 customers in a limited geographic area on the west side of the District. Total revenues were $1,613,389, a slight increase of $27,614 or 1.7% from the prior year. There was a 1.0% increase, $15,360, in service charges along with capital contributions increase of $6,294 and investment income increase of $5,960.

LOWER MOOSA CHANGE IN NET POSITION

	2016	2015	Increase/ (Decrease)	% Change
Revenues:				
Wastewater service charges	$1,567,026	$1,551,666	$15,360	1.0%
Investment income	21,058	14,764	6,294	42.6%
Capital contributions	25,305	19,345	5,960	30.8%
Total revenues	$1,613,389	$1,585,775	$27,614	1.7%
Expenses:				
Energy	$72,999	$85,359	($12,360)	-14.5%
Wastewater collection and treatment	876,850	886,928	(10,078)	-1.1%
General and administrative	217,494	172,474	45,020	26.1%
Depreciation	345,746	334,105	11,641	3.5%
Other nonoperating expenses	0	12,514	(12,514)	-100.0%
Total expenses	$1,513,089	$1,491,380	$21,709	1.5%
Change in Net Position	$100,300	$94,395	$5,905	6.3%

Expenses for the year ended June 30, 2016, totaled $1,513,089, an increase of 1.5% or $21,709. Certain significant expenses are as follows:

- Energy costs were lower than the prior year by $12,360 due to increased operating efficiencies implemented with the purchase of new sensors that provide real-time data.
- General and administrative expenses had an increase of $45,020 or 26.1% which is the result of higher administrative overhead offset by lower maintenance and outside services.
- Depreciation expense in 2015-16 increased 3.5%, or $11,641, from the prior year.
- Other nonoperating expenses of $12,514 in 2014-15 are attributable to disposal costs of asset write-offs of which there were none in 2015-16.

Assessment District No. 96-1 issued bonds in February 1997 under the Improvement Act of 1915 to fund part of the expansion of the Moosa facility to serve the Treasures Development. These bonds are not a general obligation of the District and not presented in this report. More detailed information about Assessment District 96-1 is presented in Note 6 to the financial statements.

Woods Valley Ranch Water Reclamation Facility is located in the South Village General Service Area of the District. Service charges, and standby fees for those properties not yet connected to the wastewater system, are collected as a fixed charge special assessment on the property tax roll.

WOODS VALLEY RANCH CHANGE IN NET POSITION

	2016	2015	Increase/ (Decrease)	% Change
Revenues:				
Wastewater service charges	$954,761	$538,443	$416,318	77.3%
Investment income	15,694	23,787	(8,093)	-34.0%
Capital contributions	1,468,403	2,008,473	(540,070)	-26.9%
Total revenues	$2,438,858	$2,570,703	($131,845)	-5.1%
Expenses:				
Energy	$46,590	$42,739	$3,851	9.0%
Wastewater collection and treatment	244,751	217,616	27,135	12.5%
General and administrative	80,771	71,157	9,614	13.5%
Depreciation	287,842	280,836	7,006	2.5%
Interest expense	47,272	15,030	32,242	214.5%
Total expenses	$707,226	$627,378	$79,848	12.7%
Change in Net Position	$1,731,632	$1,943,325	($211,693)	-10.9%

- Total revenues were $131,845 lower than the previous year due to capital contributions being down $540,070. Wastewater service charges are up 77.3% or $416,318 due to the increase in equivalent dwelling units being assessed, 1,095 in 2015-16 compared to 350 in the prior year.

- Total expenses were $79,848 higher than the previous year. This is due to higher interest expense of $47,272 associated with the state revolving fund loan and higher wastewater collection and treatment expenses which were up $27,135 due to higher labor and outside service.

CAPITAL ASSETS

Capital assets include land, transmission and distribution system, general plant, and construction-in-progress. At June 30, 2016, the District had $174,354,653 in capital assets with $81,992,069 of accumulated depreciation. This represents a net increase (additions less deductions) of $12,939,254 or 16.3% over the prior year. Annual depreciation usually approximates the amount transferred to reserves and in turn is reinvested in the capital plant.

Significant additions to general plant and transmission and distribution include the Lilac Reservoir cover replacement, Tyler and Betsworth reservoirs repainting/coating, SCADA system improvements, and a new storage/shop building at the Moosa Wastewater Facility. Significant additions to construction in progress include Pipeline Analysis, Cool Valley Reservoir Cover/Liner Replacement, Cool Valley Solar, Administrative Facility Improvements, the Urban Water Management Plan 2015 Update, and the Woods Valley Wastewater Reclamation Facility Expansion.

CAPITAL ASSETS

	2016	2015	Increase/ (Decrease)	% Change
Land	$5,304,282	$5,304,282	$0	0.0%
Construction in progress	21,483,892	7,552,970	13,930,922	184.4%
Transmission and distribution system	131,582,277	130,239,725	1,342,552	1.0%
General plant	15,984,202	15,480,516	503,686	3.3%
Total capital assets	$174,354,653	$158,577,493	$15,777,160	9.9%

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

LONG-TERM DEBT

The District entered into a final funding agreement from the state of California for a State Revolving Fund Loan (SRF). The loan is for $30,735,000 and will fund the expansion of the Woods Valley Ranch Water Reclamation Facility located in the southern portion of the District. The loan is repayable over a twenty-year term with interest at 2.2%. There has been a significant increase in the participation of the expansion project. The original project was for an expansion to accommodate 350 equivalent dwelling units (EDUs). The number of EDUs currently is 1,095. The construction consists of four project components. The District entered into three of the final funding agreements for Woods Valley Ranch Phase 2 Expansion, Charlan Road Seasonal Storage and South Village Collection System Project components. The fourth agreement for the North Village Collection System is scheduled for Fiscal Year 2016-17.

The District had no general obligation bonded debt at June 30, 2016. As the District has issued no bonded debt for public placement since 1968, it is not rated by any investment rating service.

More detailed information regarding long-term debt activity is presented in Note 5 to the financial statements.

ECONOMIC FACTORS

The District sets its rates annually based upon anticipated consumption. A significant reduction in consumption could have an adverse effect on the District's financial position. 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, 2016, the District had designated $5,422,691 of its unrestricted net assets as a water operating reserve to mitigate the potential of these effects. This represents approximately five and a half months operating and maintenance expenses. Including the pumping rate stabilization reserve fund increases this to six 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.

VALLEY CENTER MUNICIPAL WATER DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2016

ASSETS

Current Assets: (Notes 1, 2 and 9)		
Cash and cash equivalents	$	14,204,749
Investments		5,973,185
Accounts receivable - water and wastewater, net		6,666,556
Interest receivable		42,810
Taxes receivable		9,150
Other receivables		18,319
Inventory		568,347
Prepaid expenses and deposits		267,542
Work in progress for others		685,868
Total Current Assets		28,436,526
Noncurrent Assets: (Notes 1, 2, 3 and 4)		
Restricted Assets:		
Cash and cash equivalents		421,834
Investments		653,802
Total Restricted Assets		1,075,636
Capital Assets:		
Nondepreciable capital assets		26,788,174
Depreciable capital assets, net		65,574,410
Total Capital Assets		92,362,584
Total Noncurrent Assets		93,438,220
TOTAL ASSETS		121,874,746
DEFERRED OUTFLOWS OF RESOURCES: (Notes 1 and 8)		
Deferred outflows related to pensions		3,080,181
Deferred outflows related to contributions		1,806,422
Total Deferred Outflows of Resources		4,886,603

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

VALLEY CENTER MUNICIPAL WATER DISTRICT
STATEMENT OF NET POSITION (CONTINUED)
JUNE 30, 2016

LIABILITIES

Current Liabilities: (Notes 1 and 5)		
Accounts payable	$	8,957,866
Accrued payroll		158,665
Accrued compensated absences		725,000
Customer deposits		1,172,821
Current portion of loans payable		19,593
Total Current Liabilities		11,033,945
Noncurrent Liabilities: (Notes 1, 5 and 8)		
Long-Term Debt:		
Loans payable, net of current portion		7,777,961
Interest payable		70,051
Total Long-Term Debt		7,848,012
Other Noncurrent Liabilities:		
Net pension liability		18,860,732
Accrued compensated absences, net of current portion		1,595,800
Total Other Noncurrent Liabilities		20,456,532
Total Noncurrent Liabilities		28,304,544
Total Liabilities		39,338,489
DEFERRED INFLOWS OF RESOURCES: (Notes 1 and 8)		
Deferred inflows related to pensions		1,575,498
Commitments and Contingencies (Notes 8, 9, 10 and 12)		
NET POSITION: (Note 7)		
Net investment in capital assets	$	84,494,979
Restricted for facility expansion		1,075,636
Unrestricted		276,747
Total Net Position	$	85,847,362

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, 2016

Operating Revenues:	
Water sales and pumping charges	$ 30,394,923
Meter service charges	5,369,023
Wastewater charges	2,521,787
Meter installation fees	215,995
Other water operating revenues	545,347
Total Operating Revenues	39,047,075
Operating Expenses:	
Cost of water sold	25,358,738
Energy and pumping costs	2,733,376
Water systems operations	5,267,718
Wastewater collection and treatment	1,121,601
Engineering	1,450,071
General and administrative	1,944,488
Depreciation	3,525,655
Total Operating Expenses	41,401,647
Operating Loss	(2,354,572)
Nonoperating Revenues (Expenses):	
Property taxes and assessments	2,665,133
Investment income	201,138
Other nonoperating revenues	328,923
Interest expense	(47,272)
Gain on disposal of capital assets	13,484
Total Nonoperating Revenues (Expenses)	3,161,406
Income Before Contributions	806,834
Capital Contributions	1,643,312
Change in Net Position	2,450,146
Net Position at Beginning of Year	83,397,216
NET POSITION AT END OF YEAR	$ 85,847,362

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, 2016

Cash Flow From Operating Activities:	
Receipts from customers	$ 37,727,119
Payments to suppliers for goods and services	(26,978,277)
Payments to employees for services	(11,774,899)
Change in work in progress for others	(110,459)
Customer deposits	(1,292,760)
Other nonoperating revenue	328,923
Net Cash Used in Operating Activities	(2,100,353)
Cash Flow From Noncapital Financing Activities:	
Property taxes and assessments received	2,660,114
Net Cash Provided by Noncapital Financing Activities	2,660,114
Cash Flows From Capital and Related Financing Activities:	
Acquisition and construction of capital assets	(13,303,350)
Proceeds from sale of capital assets	16,934
Proceeds from loans payable	7,003,520
Principal paid on loans payable	(19,594)
Capital contributions	1,591,232
Net Cash Used in Capital and Related Financing Activities	(4,711,258)
Cash Flows From Investing Activities:	
Proceeds from investments reaching maturity	(1,013,347)
Investment income received	195,786
Net Cash Used in Investing Activities	(817,561)
Net Decrease in Cash and Cash Equivalents	(4,969,058)
Cash and Cash Equivalents at Beginning of Year	19,595,641
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 14,626,583

(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, 2016

Reconciliation of Operating Loss to Net Cash Used in Operating Activities:	
Operating loss	$ (2,354,572)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	3,525,655
Other nonoperating revenues	328,923
Change in assets and liabilities:	
Accounts receivable - water and wastewater, net	(1,335,890)
Other receivables	15,934
Inventory	16,086
Prepaid expenses and deposits	(36,732)
Work in progress for others	(110,459)
Deferred outflows related to pensions	(41,759)
Deferred outflows related to contributions	(3,080,181)
Accounts payable	404,610
Accrued payroll	(139,017)
Accrued compensated absences	181,325
Customer deposits	(1,292,760)
Net pension liability	1,625,988
Deferred inflows related to pensions	192,496
Net Cash Used in Operating Activities	$ (2,100,353)
Cash and Cash Equivalents: Financial Statement Classification	
Cash and cash equivalents	$ 14,204,749
Restricted cash and cash equivalents	421,834
Total Cash and Cash Equivalents	$ 14,626,583
Noncash Investing, Capital and Financing Activities	
Net unrealized (gain) loss on investments	$ (28,925)
Capital assets included in increase in accounts payable	$ (3,112,929)
Capital assets contributed	$ (52,080)

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

Note 1 - 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.

In addition, the District has established the Assessment District No. 96-1 Lower Moosa Canyon (AD 96-1) to account for the special assessment bonds described in Note 6. The financial position and results of operations of AD 96-1 are excluded from these financial statements.

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) Basis of Accounting

The District utilizes accounting principles appropriate for an enterprise fund to record its activities. Accordingly, the statement of net position and the statement of revenues, expenses and changes in net position have been prepared using the economic resources measurement focus and the accrual basis of accounting.

The District has not elected to apply the option allowed in GASB Cod. Sec. P80.103 "Proprietary Fund Accounting and Financial Reporting" and as a consequence will continue to apply GASB Statements and Interpretations.

(c) Use of 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.

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

(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. The District first utilizes restricted resources to finance qualifying activities.

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.

(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, 2016, 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.

(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.

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

(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.

(h) Accounts Receivable - Water and Wastewater

Bad debts are recognized on the allowance method based on historical experience, and management's evaluation of outstanding receivables. Water and wastewater accounts receivable of $6,666,556 have been reduced by an allowance for estimated uncollectible accounts in the amount of $18,393 at June 30, 2016.

(i) Inventory

Inventory consists primarily of materials used in the construction and maintenance of capital assets and is valued at the lower of current average cost or market. Water inventory is valued at cost.

At June 30, 2016, inventory consists of the following:

Water inventory	$ 70,237
Materials inventory	498,110
	$ 568,347

(j) Capital Assets

Capital assets purchased or acquired with a cost exceeding $2,000 and an estimated useful life of more than two years are reported at historical costs. Contributed assets are recorded at their fair market value as of the date received. 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. Depreciation is calculated on the straight-line method over the following estimated useful lives:

	Useful Life
Transmission and distribution system	10 - 40 years
General plant	2 - 40 years

Depreciation totaled $3,525,655 for the year ended June 30, 2016.

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

(k) Compensated Absences

Accumulated unpaid vacation and sick leave totaling $2,320,800 is accrued when incurred and included in noncurrent liabilities at June 30, 2016.

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

Deferred outflows of resources and deferred inflows of resources are defined as a consumption of net assets by the government that is applicable to a future period and an acquisition of net assets by the government that is applicable to a future reporting period respectively. Deferred outflows of resources include a deferred amount on refunding. Deferred outflows of resources and deferred inflows of resources related to pensions are more fully described in Note 8.

(m) Interest

Interest costs, less interest earned on related tax-exempt borrowings, are capitalized during the period of major capital asset additions. The capitalized interest is recorded as part of the asset to which it is related and is depreciated over the estimated useful life of the related asset. No interest was capitalized during the year.

(n) Classification of Liabilities

Certain liabilities which are currently payable have been classified as noncurrent because they will be funded from restricted assets.

(o) 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 CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. CalPERS audited financial statements are publicly available reports that can be obtained at CalPERS website under Forms and Publications.

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

Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Measurement Period	June 30, 2014 to June 30, 2015

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

(p) Fair Value Measurements

Fair value accounting standards define fair value, establish a framework for measuring fair value, outline a fair value hierarchy based on inputs used to measure fair value and enhance disclosure requirements for fair value measurements. The fair value hierarchy distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Level 1 or 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

- Level 1 inputs are quoted prices in active markets for identical investments that the investment manager has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the investment, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the investment.

The District's statement of net position includes the following financial instruments that are required to be measured at fair value on a recurring basis:

- Investments in the California Local Agency Investment Fund (LAIF) are considered Level 2 assets and are reported at the fair value of the underlying assets as provided LAIF.
- Investments in the San Diego County Treasurer's Pooled Money Fund are considered Level 2 assets and are reported at the fair value of the underlying assets as provided by San Diego County.
- United States Government Sponsored Enterprises and Certificates of Deposit are considered Level 2 assets and are reported at the fair value reported by the counter-party.

(q) Unrestricted Net Position

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.

(r) Subsequent Events

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through December 19, 2016, the date the financial statements were available to be issued.

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

(s) Reclassification

The District has reclassified certain prior year information to conform with the current year presentation.

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; 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, 2016:

		Investment Maturities (In Years)	
	Fair Value	Less Than 1 Year	1 - 5
Cash on hand	$ 1,200	$ 1,200	$ -
California Local Agency Investment Fund (LAIF)	320,814	320,814	-
San Diego County Treasurer's Pooled Money Fund	14,029,463	14,029,463	-
Demand deposits	275,106	275,106	-
Investments:			
United States Government Sponsored Enterprises	1,254,552	-	1,254,552
Certificates of Deposit	5,372,435	1,686,714	3,685,721
Total Cash and Investments	$ 21,253,570	$ 16,313,297	$ 4,940,273

Financial Statement Classification:	
Cash and Cash Equivalents	$ 14,204,749
Investments	5,973,185
Cash and cash equivalents - Restricted	421,834
Investments - Restricted	653,802
Total	$ 21,253,570

Note 2 - Cash and Investments: (Continued)

(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 percent of its portfolio. State law limits investment in money market funds by 20% of the total portfolio, and investments in any one fund to 10%. At June 30, 2016, no investments represented more than 5% of the District's investment portfolio.

(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, the District's investments were rated by Standard & Poor's and by Moody's Investors Service as follows:

	Standard & Poor's	Moody's
California Local Agency Investment Fund	Not rated	Not rated
San Diego County Treasurer's Pooled Money Fund	AAAf	Not rated
United States Government Sponsored Enterprises:		
Federal Home Loan Bank	AA+	Aaa
Federal National Mortgage Association	AA+	Aaa
Federal Home Loan Mortgage Corporation	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, 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.

Note 2 - Cash and Investments: (Continued)

(f) Foreign Currency Risk

The District is not exposed to foreign currency risk.

Note 3 - Restricted Assets:

Restricted assets were provided by, and are to be used for, the following at June 30, 2016:

Funding Source	Use	
Capacity fees	Facility expansion	$ 1,075,636

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:

	Balance at June 30, 2015	Additions	Deletions	Balance at June 30, 2016
Capital Assets Not Being Depreciated:				
Land	$ 5,304,282	$ -	$ -	$ 5,304,282
Construction in progress	7,552,970	16,247,217	(2,316,295)	21,483,892
	12,857,252	16,247,217	(2,316,295)	26,788,174
Capital Assets Being Depreciated:				
Transmission and distribution system	130,239,725	1,972,585	(630,033)	131,582,277
General plant	15,480,516	564,852	(61,166)	15,984,202
	145,720,241	2,537,437	(691,199)	147,566,479
Less Accumulated Depreciation:				
Transmission and distribution system	(66,189,449)	(2,988,581)	626,583	(68,551,447)
General Plant	(12,964,714)	(537,074)	61,166	(13,440,622)
	(79,154,163)	(3,525,655)	687,749	(81,992,069)
Net Capital Assets Being Depreciated	66,566,078	(988,218)	(3,450)	65,574,410
Net Capital Assets	$ 79,423,330	$ 15,258,999	$ (2,319,745)	$ 92,362,584

Depreciation totaled $3,525,655 for the year ended June 30, 2016.

Note 5 - Noncurrent Liabilities:

Noncurrent liabilities consist of the following at June 30, 2016:

	Balance at June 30, 2015	Additions	Deletions	Balance at June 30, 2016	Current Portion
Long-Term Debt:					
Installment sales agreements	$ 676,310	$ 7,003,520	$ -	$ 7,679,830	$ -
Financing loan agreement	137,318	-	(19,594)	117,724	19,593
Interest payable	22,779	47,272	-	70,051	-
Total Long-Term Debt	836,407	7,050,792	(19,594)	7,867,605	19,593
Other Noncurrent Liabilities:					
Net pension liability	17,234,744	1,625,988	-	18,860,732	-
Accrued compensated absences	2,139,475	628,226	(446,901)	2,320,800	725,000
Total Other Noncurrent Liabilities	19,374,219	2,254,214	(446,901)	21,181,532	725,000
Total Noncurrent Liabilities	$ 20,210,626	$ 9,305,006	$ (466,495)	$ 29,049,137	$ 744,593

(a) Long-Term Debt

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 $1,701,000 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 $16,888 beginning in August 2017. 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 $7,894 at June 30, 2016.	$ 263,000
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 $9,464,500 for the expansion of the Woods Valley Ranch Reclamation Facility of which $7,104,513 has been expended. The loan accrues interest at 2.2% with annual payments of principal and interest in the amount of $446,130 beginning in December 2017. 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 $51,497 at June 30, 2016.	7,104,513

Note 5 - Noncurrent Liabilities: (Continued)

(a) Long-Term Debt (Continued)

Installment Sales Agreements (Continued)

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 $2,331,500 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 $20,135 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 $10,660 at June 30, 2016.	$	312,317
Total Installment Sales Agreements	$	7,679,830

Financing Loan Agreement

San Diego Gas & Electric (SDG&E), On Bill Financing Loan Agreement - The District entered into unsecured and non-interest bearing loan agreements with SDG&E totaling $147,670 to retrofit the West Pump Station and Cool Valley Circulation Pumps. Principal payments of $1,633 are included in the monthly invoice from SDG&E. The loan matures in September 2023.	$	117,724
Total Financing Loan Agreement	$	117,724

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

Years Ended	Installment Sales Agreements		Financing Loan Agreements		Total	
June 30	Principal	Interest	Principal	Interest	Principal	Interest
2017	$ -	-	$ 19,593	$ -	$ 19,593	$ -
2018	312,657	170,497	19,593	-	332,250	170,497
2019	319,535	163,619	19,593	-	339,128	163,619
2020	326,565	156,589	19,593	-	346,158	156,589
2021	333,749	149,405	17,915	-	351,664	149,405
2022 - 2026	1,782,168	633,602	21,437	-	1,803,605	633,602
2027 - 2031	1,987,024	428,746	-	-	1,987,024	428,746
2032 - 2036	2,215,428	200,342	-	-	2,215,428	200,342
2037	402,704	10,401	-	-	402,704	10,401
	$ 7,679,830	$ 1,913,201	$ 117,724	$ -	$ 7,797,554	1,913,201

Note 6 - Special Assessment Bonds:

On February 5, 1997, Valley Center Water District Assessment District No. 96-1 (AD 96-1) issued $1,743,654 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 96-1 bonds and the District does not intend in any manner to assume responsibility for the repayment of such debt. The bonds proceeds were used to establish reserve funds, pay bond issuance costs, refund to certain AD 96-1 property owners previous costs advanced, and expand the Lower Moosa Canyon water reclamation facility. AD 96-1 bonds payable at June 30, 2016, totaled $270,000.

The bonds and interest are paid from annual special assessments on property within AD 96-1. The annual assessments are billed to and collected from the AD 96-1 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 AD 96-1 trustee (a commercial trust company) for eventual payment to the bondholders.

Note 7 - Unrestricted Net Position:

Unrestricted net position has been designated by the board of directors for the following purposes at June 30, 2016:

Capital improvements	$ 6,729,609
Operating reserve	6,677,758
Wastewater capital replacement reserves	2,168,194
Pumping rate stabilization	250,813
Net pension liability	(15,549,627)
Unrestricted Net Position	$ 276,747

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, (All 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.

Note 8 - Defined Benefit Pension Plan: (Continued)

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

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. The Plan's provisions and benefits in effect at June 30, 2016, are summarized as follows:

	Miscellaneous	
	Prior to January 1, 2013	On or After January 1, 2013
Benefit formula	2.7% @ 55	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	Monthly for life	Monthly for life
Retirement age	50	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%	1.0% to 2.5%
Required employee contribution rates	8.00%	6.50%
Required employer contribution rates	11.47%	6.46%

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 Plans actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by employees during the year and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ended June 30, 2015 (measurement date), the active employee contribution rate for employees hired prior to January 1, 2013 is 8.0% of annual payroll and the employer's contribution rate is 11.47% of annual payroll. The active employee contribution rate for those employees hired on or after January 1, 2013 is 6.50% of annual pay, and the employer contribution rate is 6.46% of annual payroll. Employer contribution rates may change if plan contracts are amended. It is the responsibility of the employer to make necessary accounting adjustments to reflect the impact due to any employer paid member contributions or situations where members are paying a portion of the employer contribution.

The District's contribution to the Plan for the year ended June 30, 2016 were as follows:

Contributions - Employer	$ 1,806,422
Contributions - Employee (Paid by Employer)	$ -

Note 8 - Defined Benefit Pension Plan: (Continued)

(b) Actuarial Methods and Assumptions Used to Determine Total Pension Liability

For the measurement period ending June 30, 2015 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2014 total pension liability determined in the June 30, 2014 actuarial valuation. The June 30, 2015 total pension liability was based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table	Derived using CalPERS' membership data for all funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

All other actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the fiscal years 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

(c) Change of Assumptions

GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate was changed from 7.50% (net of administrative expense in 2014) to 7.65% as of the June 30, 2015 measurement date to correct the adjustment which previously reduced the discount rate for administrative expense.

(d) Discount Rate

The discount rate used to measure the total pension liability was 7.65%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the plans, the test revealed that the assets would not run out. Therefore, the current 7.65% discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.65% is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained on CalPERS' website under the GASB 68 section.

Note 8 - Defined Benefit Pension Plan: (Continued)

(d) Discount Rate (Continued)

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

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

The table below reflects long-term expected real rate of return by asset class.

Asset Class	Current Target Allocation	Real Return Years 1 - 10[1]	Real Return Years 11 +[2]
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	19.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	10.0	6.83	6.95
Real Estate	10.0	4.50	5.13
Infrastructure and Forestland	2.0	4.50	5.09
Liquidity	2.0	(0.55)	(1.05)

[1] An expected inflation of 2.5% used for this period.
[2] An expected inflation of 3.0% used for this period.

Note 8 - Defined Benefit Pension Plan: (Continued)

(e) Allocation of Net Pension Liability and Pension Expense to Individual Employers

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

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Pension (b)	Net Pension Liability (c) = (a) - (b)
Balance at June 30, 2014	$ 45,039,788	$ 27,805,044	$ 17,234,744
Balance at June 20, 2015	48,342,900	29,482,168	18,860,732
Net Changes During 2014 - 2015	$ 3,303,112	$ 1,677,124	$ 1,625,988

The net pension liability of the plan is measured as of June 30, 2015, and the total pension liability for the plan used to calculate the net pension liabilities was determined by an actuarial valuation of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. The proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for the plan as of June 30, 2014 and 2015 was as follows:

	Miscellaneous
Proportion - June 30, 2014	0.697343 %
Proportion - June 30, 2015	0.354433 %
Change - Increase (Decrease)	(0.342910 %)

(f) Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Plan as of the Measurement Date, calculated using the discount rate of 7.65%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.65%) or 1 percentage-point higher (8.65%) than the current rate:

	Discount Rate -1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate +1% (8.65%)
Plan's Net Pension Liability	$ 25,444,391	$ 18,860,732	$ 13,425,157

Note 8 - Defined Benefit Pension Plan: (Continued)

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

Under GASB 68, actuarial 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 inflows and deferred outflows 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 earnings on pension plan investment	5 year straight-line amortization
All other amounts	Straight-line amortization over the expected remaining service lifetime (EARSL) of all members that are provided with pensions (active, inactive, and retired) as of the beginning of the measurement period

The Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments is amortized over a five-year period on a straight-line basis. One-fifth is recognized in pension expense during the measurement period, and the remaining Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments at the measurement date is to be amortized over the remaining four-year period. The Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments in the schedule of Collective Pension Amounts represents the unamortized balance relating to the current measurement period and the prior measurement period on a net basis.

Deferred outflows of resources and deferred inflows of resources relating to Differences Between Expected and Actual Experience, Changes of Assumptions and employer-specific amounts should be amortized over the EARSL of members provided with pensions through the Plan. The EARSL for the Plan for the June 30, 2015 measurement date is 3.8 years, which was obtained by dividing the total service years by the total number of participants (active, inactive, and retired) in the Plan. Inactive employees and retirees have remaining service lifetimes equal to 0. Total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

Note 8 - Defined Benefit Pension Plan: (Continued)

(h) Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2016, the District recognized a pension expense of $502,966 for the Plan. As of June 30, 2016, the District reports deferred outflows of resources and deferred inflows of resources related to pensions as follows:

	Deferred Outflow of Resources	Deferred Inflows of Resources
Pension contributions subsequent to the measurement date	$ 1,806,422	$ -
Differences between actual contributions made and proportionate share of contributions	999,252	-
Differences between expected and actual experience	110,921	-
Changes of assumptions	-	1,049,414
Net difference between projected and actual earnings on pension plan investments	-	526,084
Adjustment due to difference in proportions	1,970,008	-
Total	$ 4,886,603	$ 1,575,498

The $1,806,422 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows and deferred inflows of resources in the previous chart will be recognized in future pension expense as follows:

Measurement Period Ended June 30	Deferred Outflows/(Inflows) of Resources
2016	$ 593,753
2017	593,753
2018	448,698
2019	(131,521)
Total	$ 1,504,683

Note 9 - Post Employment Benefits:

The District's employees participate in one of two retiree health benefit plans depending on their date of hire. Employees hired before July 1, 2008, participate in a defined benefit plan, while those hired after June 30, 2008, participate in a defined contribution plan.

(a) Defined Benefits 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.

In May 2009, the District established an irrevocable trust fund through the California Employers' Retiree Benefits Trust (CERBT), an agent multiple-employer postemployment healthcare trust administered by CalPERS.

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.

CalPERS issues a publicly available financial report that includes financial statements and required supplementary information for CERBT. That report may be obtained from CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

Note 9 - Post Employment Benefits: (Continued)

(a) Defined Benefits Plan: (Continued)

Funding Policy and Annual OPEB Costs

The contribution requirements of the District are established and may be amended annually by the Board of Directors. The District's annual other post employment benefit (OPEB) cost (expense) for the Plan is calculated based on the annual required contribution of the District (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The District's Board of Directors has established a policy of fully funding the ARC. The current ARC rate is 7.9% of annual covered payroll. The following table shows the components of the District's annual OPEB cost for the current year, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation for the year ended June 30, 2016.

Annual required contribution	$ 424,201
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	424,201
Contributions (including benefits paid)	(426,038)
Decrease in net OPEB obligation	(1,837)
Net OPEB obligation (Asset) - beginning of year	(210)
Net OPEB obligation (Asset) - end of year	$ (2,047)

The OPEB asset is included in prepaid expenses and deposits.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2016 and the five preceding years were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of ARC Contributed	Net Pension Obligation
June 30, 2011	$ 446,180	98.9%	$ (3,709)
June 30, 2012	459,521	99.2%	(200)
June 30, 2013	443,119	100%	(1,624)
June 30, 2014	457,228	100%	-
June 30, 2015	410,824	100%	(210)
June 30, 2016	424,201	100%	(2,047)

Note 9 - Post Employment Benefits: (Continued)

(a) Defined Benefits Plan: (Continued)

Funding Policy and Annual OPEB Costs (Continued)

The District's actuarial accrued liability for benefits at June 30, 2015, was $6,552,310 and the covered payroll (annual payroll of active employees covered by the Plan) was $5,063,000, with a ratio of the Unfunded Accrued Actuarial Liability (UAAL) to the covered payroll of 69.98%.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability Project Unit Credit	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(A)	(B)	(B-A)	(A/B)	(C)	[(B-A)/C]
June 30, 2010	$ 815,238	$ 3,913,916	$ 3,098,678	20.8%	$ 5,301,000	58.45%
June 30, 2011	1,328,611	4,008,303	2,679,692	33.1%	5,394,000	49.68%
June 30, 2013	2,119,846	4,496,388	2,376,542	47.0%	5,041,000	47.14%
June 30, 2015	3,009,135	6,552,310	3,543,175	45.9%	5,063,000	69.98%

Funding Status and Funding Progress

In June 2016, the District sent $237,491 to the CERBT trust account and made benefit payments of $188,547 for a total contribution of $426,038.

Actuarial valuations of an ongoing Plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. Through CERBT, the District is required to perform an actuarial valuation every two years.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the formal Plan document and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefits and costs between employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial assets, consistent with the long-term perspective of the calculations.

Note 9 - Post Employment Benefits: (Continued)

(a) Defined Benefits Plan: (Continued)

Actuarial Methods and Assumptions (Continued)

The actuarial cost method used for determining the benefits obligations is the Projected Unit Credit with Service Prorate Method. The actuarial assumptions included a 7.5% investment rate of return, which is the assumed rate of the expected long-term investment returns on Plan assets calculated based on the funded level of the Plan at the valuation date, and an annual healthcare cost trend rate of 9 percent initially, reduced by decrements of .5% per year to an ultimate rate of 5% after the eleventh year. Both rates include a 2.75% inflation assumption. The UAAL is being amortized as a level percentage of projected payroll over a closed amortization period of 24 years. It is assumed the District's payroll will increase 3.0% per year.

(b) 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 ICMA-RC.

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 1% 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, 2016, employee contributions were $5,173 and District contributions were $6,139 for a total of $11,312.

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.

Note 10 - Risk Management: (Continued)

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, 2016, was $172,109. There were no instances in the past three years where a settlement exceeded the District's coverage.

Note 11 - 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 12 - 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, 2016, the total unpaid amount on these contracts is approximately $236,573 for water operations and $8,499,313 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.

Note 13 - New Governmental Accounting Standards:

GASB No. 68

In June 2012, the Governmental Accounting Standards Board issued Statement No. 68, "Accounting and Financial Reporting for Pensions". This pronouncement is effective for periods beginning after June 15, 2014. This pronouncement establishes accounting and financial reporting requirements related to pensions for governments whose employees are provided with pensions through pension plans, as well as for nonemployer governments that have a legal obligation to contribute to those plans. The effects of this pronouncement on the financial statements of the District resulted in a reduction in net assets at June 30, 2014.

Note 13 - New Governmental Accounting Standards: (Continued)

GASB No. 71

In November 2013, The Governmental Accounting Standards Board issue Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68. This pronouncement is effective simultaneously with the implementation of Statement 68. This statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The effects of this pronouncement on the financial statements of the District are included in the explanation of GASB 68 above.

GASB No. 72

In February 2015, The Governmental Accounting Standards Board issued Statement No. 72, "Fair Value Measurement and Application." This pronouncement provides guidance for determining fair value measurement for financial reporting purposes and provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. Governments are required to use valuation techniques that are appropriate under the circumstances and for which sufficient data is available to measure fair value. Required disclosures include the level of fair value hierarchy and valuation techniques and should be organized by type of asset or liability. This pronouncement is effective for financial statements for periods beginning after June 15, 2015. Earlier application is encouraged. This pronouncement did not have a material effect on the financial statements of the District in the year of implementation.

GASB No. 73

In June 2015, The Governmental Accounting Standards Board issued Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68." This pronouncement establishes requirements for defined benefit pension plans that are not with the scope of Statement No. 68, as well as assets accumulated for purposes of providing those pensions. It establishes requirements for defined contribution pension plans that are not within the scope of Statement No. 68 and amends certain provisions of Statement No. 67. The pronouncement extends the approach to accounting and financial reporting established in Statement 68 to all pensions with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement 68 be included in the notes and required supplementary information by all similarly situated employers and nonemployer contributing entities. The requirements of this statement addressing accounting and financial reporting for employers that are not within the scope of GASB 68 are effective for financial statements for fiscal years beginning after June 15, 2016. All other provisions are effective for periods beginning after June 15, 2015. This pronouncement is not anticipated to have a material effect on the financial statements of the District.

Note 13 - New Governmental Accounting Standards: (Continued)

GASB No. 74

In June 2015, the Governmental Accounting Standards Board issued Statement No. 74, "Financial Reporting for Postemployment Benefit Plans Other than Pension Plans." This pronouncement improves the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This pronouncement replaces Statement No. 42 and Statement No. 57. It also includes requirements for defined contributions OPEB plans that replace the requirements for those OPEB plans in Statement No.25, Statement No. 43 and Statement No. 50. This pronouncement establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. This pronouncement is effective for financial statements for fiscal years beginning after June 15, 2016. Earlier application is encouraged. The District has not yet determined the effects of this pronouncement on the financial statements of the District in the year of implementation.

GASB No. 75

In June 2015, the Government Accounting Standards Board issued Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pension". This pronouncement replaces the requirements of Statement No. 45, and Statement No. 57. Statement No 74 establishes new accounting and financial reporting requirements for OPEB plans. This pronouncement addresses accounting and financial report for OPEB that is provided to the employees of state and local governmental employers. It also establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For define benefit OPEB, this pronouncement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. This pronouncement also addresses note disclosure and required supplementary information about defined benefit OPEB. This Statement is effective for financial statements for fiscal years beginning after June 15, 2017. Earlier application is encouraged. The District has not yet determined the effects of this pronouncement on the financial statements of the District in the year of implementation.

GASB No. 76

In June 2015, the Government Accounting Standards Board issued Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments". The objective of this pronouncement is to identify in the context of the current governmental financial reporting environment the hierarchy of generally accepted accounting principles (GAAP). This pronouncement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This pronouncement supersedes Statement No. 55. The requirement of this pronouncement are effective for financial statements for period beginning after June 15, 2015 and should be applied retroactively. This pronouncement did not have a material effect on the financial statements of the District in the year of implementation.

Note 13 - New Governmental Accounting Standards: (Continued)

GASB No. 77

In August 2015, the Governmental Accounting Standards Board issued Statement No. 77, "Tax Abatement Disclosures". This pronouncement requires disclosure of tax abatement information about a reporting government's own tax abatement agreements and those that are entered into by other governments and that reduce the reporting government's tax revenues. This pronouncement requires governments that enter into tax abatement agreements to disclose brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients, the gross dollar amount of taxes abated during period and commitments made by a government, other than to abate taxes, as part of a tax abatement agreement. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015. Earlier application is encouraged. The District has not yet determined the effects of this pronouncement on the financial statements of the District in the year of implementation.

GASB No. 78

In December 2015, the Governmental Accounting Standards Board issued Statement No. 78, "Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plan". This pronouncement amends the scope and applicability of Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that is not a state or local government pension plan, that is used to provide defined benefit pensions both to employees of state or local governmental employers and to employers, and that has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Pronouncement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. The requirements of this Pronouncement are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged. The District has not yet determined the effects of this pronouncement on the financial statements of the District in the year of implementation.

GASB No. 79

In December 2015, the Governmental Accounting Standards Board issued Statement No. 79, "Certain External Investment Pools and Pool Participants". This pronouncement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This pronouncement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. The requirement of this pronouncement are effective for reporting periods beginning after June 15, 2015 except for certain provisions on portfolio quality, custodial credit risk, and shadowing pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged. This pronouncement did not have a material effect on the financial statements of the District in the year of implementation.

Note 13 - New Governmental Accounting Standards: (Continued)

GASB No. 80

In January 2016, the Government Accounting Standards Board issued Statement No. 80, "Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14". This pronouncement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units including in the financial reporting entity pursuant to the provision of Statement No. 39. The requirements of this pronouncement are effective for reporting period beginning after June 15, 2016. Earlier application is encouraged. The District has not yet determined the effects of this pronouncement on the financial statements of the District in the year of implementation.

GASB No. 81

In March 2016, the Governmental Accounting Standards Board issued Statement No. 81, "Irrevocable Split-Interest Agreements". This Pronouncement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Pronouncement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Pronouncement requires that a government recognize revenue when the resources become applicable to the reporting period. The requirements of this Pronouncement are effective for financial statements for period beginning after December 15, 2016, and should be applied retroactively. Earlier application is encouraged. The District has not yet determined the effects of this pronouncement on the financial statements of the District in the year of implementation.

GASB No. 82

In March 2016, the Governmental Accounting Standards Board issued Statement No. 82, "Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73". This Pronouncement addresses issues regarding the presentation of payroll-related measures in required supplementary information, the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Pronouncement amends Statements 67 and 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure. The requirements of this Pronouncement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged. The District has not yet determined the effects of this pronouncement on the financial statements of the District in the year of implementation.

Required Supplementary Information

VALLEY CENTER MUNICIPAL WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2016

SCHEDULES OF PLAN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY LAST TEN YEARS *

	Measurement Date June 30, 2015	Measurement Date June 30, 2014
Proportion of the Collective Net Pension Liability	0.354433%	0.697343%
Proportionate Share of the Collective Net Pension Liability	18,860,732	17,234,744
Covered-Employee Payroll	5,465,453	5,410,242
Proportionate Share of the Collective Net Pension Liability as Percentage of Covered-Employee Payroll	345.09%	318,55%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	60.99%	61.73%

Notes to Schedule:

Benefit Changes - The figures above do not include any liability impact that may have resulted from plan changes which occurred after the June 30, 2014 valuation date. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (aka Golden Handshakes).

Changes in Assumptions - The discount rate was changed from 7.5 percent (net of administrative expense) to 7.65 percent to correct for an adjustment to exclude administrative expense.

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

VALLEY CENTER MUNICIPAL WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2016

SCHEDULES OF PLAN CONTRIBUTIONS
LAST TEN YEARS *

	Fiscal Year 2015 - 2016	Fiscal Year 2014 - 2015
Actuarial Determined Contribution	$ 1,806,422	$ 1,764,663
Contributions in Relation to the Actuarially Determined Contribution	1,806,422	1,764,663
Contribution Deficiency (Excess)	$ -	$ -
Covered Payroll	$ 5,916,822	$ 5,465,453
Contributions as a Percentage of Covered-Employee Payroll	30.53%	32.29%

Notes to Schedule:

Fiscal Year End	June 30, 2016	June 30, 2015
Valuation Date	June 30, 2013	June 30, 2012

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry Age	Entry Age
Amortization Method	Level Percent of Payroll	Level Percent of Payroll
Asset Valuation Method	Market Value	Market Value
Discount Rate	7.65%	7.50%
Projected Salary Increase	3.30% to 14.20% depending on Age, Service, and type of employment	3.30% to 14.20% depending on Age, Service, and type of employment
Inflation	2.75%	2.75%
Payroll Growth	3.00%	3.00%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual production inflation growth of 0.25%	A merit scale varying by duration of employment coupled with an assumed annual production inflation growth of 0.25%

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

Combining Schedules

VALLEY CENTER
Water Conservation / A Way of Life
MUNICIPAL WATER DISTRICT

VALLEY CENTER MUNICIPAL WATER DISTRICT
COMBINING SCHEDULE OF NET POSITION
JUNE 30, 2016

ASSETS

	Total	General	Lower Moosa Wastewater	Woods Valley Ranch Wastewater
Current Assets:				
Cash and cash equivalents	$ 14,204,749	$ 10,741,106	$ 2,167,706	$ 1,295,937
Investments	5,973,185	5,973,185	-	-
Accounts receivable - water and wastewater, net	6,666,556	6,666,556	-	-
Interest receivable	42,810	42,810	-	-
Taxes receivable	9,150	9,150	-	-
Other receivables	18,319	18,319	-	-
Inventory	568,347	568,347	-	-
Prepaid expenses and deposits	267,542	267,542	-	-
Work in progress for others	685,868	685,868	-	-
Due (to)/from other funds	-	3,559,885	-	(3,559,885)
Total Current Assets	28,436,526	28,532,768	2,167,706	(2,263,948)
Noncurrent Assets:				
Restricted Assets:				
Cash and cash equivalents	421,834	-	421,834	-
Investments	653,802	653,802	-	-
Total Restricted Assets	1,075,636	653,802	421,834	-
Capital Assets:				
Nondepreciable capital assets	26,788,174	8,392,637	274,932	18,120,605
Depreciable capital assets, net	65,574,410	50,554,690	6,760,416	8,259,304
Total Capital Assets	92,362,584	58,947,327	7,035,348	26,379,909
Total Noncurrent Assets	93,438,220	59,601,129	7,457,182	26,379,909
TOTAL ASSETS	$ 121,874,746	88,133,897	9,624,888	24,115,961
DEFERRED OUTFLOWS OF RESOURCES:				
Deferred outflows related to pensions	$ 3,080,181	3,080,181	-	-
Deferred outflows related to contributions	1,806,422	1,806,422	-	-
Total Deferred Outflows of Resources	4,886,603	4,886,603	-	-

VALLEY CENTER MUNICIPAL WATER DISTRICT
COMBINING SCHEDULE OF NET POSITION (CONTINUED)
JUNE 30, 2016

LIABILITIES AND NET POSITION

	Total	General	Lower Moosa Wastewater	Woods Valley Ranch Wastewater
Current Liabilities:				
Accounts payable	$ 8,957,866	$ 8,957,866	$ -	$ -
Accrued payroll	158,665	158,665	-	-
Accrued compensated absences	725,000	725,000	-	-
Customer deposits	1,172,821	1,114,625	28,946	29,250
Current portion of loans payable	19,593	19,593	-	-
Total Current Liabilities	11,033,945	10,975,749	28,946	29,250
Noncurrent Liabilities:				
Long-term debt:				
Loans payable, net of current portion	7,777,961	98,131	-	7,679,830
Interest payable	70,051	-	-	70,051
Total Long-Term Debt	7,848,012	98,131	-	7,749,881
Other Noncurrent Liabilities:				
Net pension liability	18,860,732	18,860,732	-	-
Compensated absences, net of current portion	1,595,800	1,595,800	-	-
Total Other Noncurrent Liabilities	20,456,532	20,456,532	-	-
Total Noncurrent Liabilities	28,304,544	20,554,663	-	7,749,881
Total Liabilities	39,338,489	31,530,412	28,946	7,779,131
DEFERRED INFLOWS OF RESOURCES:				
Deferred inflows related to pensions	1,575,498	1,575,498	-	-
Total Deferred Inflows of Resources	1,575,498	1,575,498	-	-
NET POSITION:				
Net investment in capital assets	84,494,979	58,829,603	7,035,348	18,630,028
Restricted for facility expansion	1,075,636	653,802	421,834	-
Unrestricted	276,747	431,185	2,138,760	(2,293,198)
Total Net Position	85,847,362	59,914,590	9,595,942	16,336,830

Schedule 2

VALLEY CENTER MUNICIPAL WATER DISTRICT
COMBINING SCHEDULE OF NET POSITION
JUNE 30, 2015

ASSETS

	Total	General	Lower Moosa Wastewater	Woods Valley Ranch Wastewater
Current Assets:				
Cash and cash equivalents	$ 19,199,112	$ 13,846,846	$ 1,947,314	$ 3,404,952
Investments	5,063,027	5,063,027	-	-
Accounts receivable - water and sewer, net	5,330,666	5,330,666	-	-
Interest receivable	37,458	37,458	-	-
Taxes receivable	4,131	4,131	-	-
Other receivables	34,253	34,253	-	-
Inventory	584,433	584,433	-	-
Prepaid expenses and deposits	230,810	230,810	-	-
Work in progress for others	575,409	575,409	-	-
Total Current Assets	31,059,299	25,707,033	1,947,314	3,404,952
Noncurrent Assets:				
Restricted Assets:				
Cash and cash equivalents	396,529	-	396,529	-
Investments	550,613	550,613	-	-
Total Restricted Assets	947,142	550,613	396,529	-
Capital Assets:				
Nondepreciable capital assets	12,857,252	7,713,803	255,254	4,888,195
Depreciable capital assets, net	66,566,078	51,149,796	6,931,739	8,484,543
Total Capital Assets	79,423,330	58,863,599	7,186,993	13,372,738
Total Noncurrent Assets	80,370,472	59,414,212	7,583,522	13,372,738
TOTAL ASSETS	$ 111,429,771	$ 85,121,245	$ 9,530,836	$ 16,777,690
DEFERRED OUTFLOWS OF RESOURCES:				
Deferred outflows related to contributions	$ 1,764,663	$ 1,764,663	$ -	$ -
Total Deferred Outflows of Resources	1,764,663	1,764,663	-	-

VALLEY CENTER MUNICIPAL WATER DISTRICT
COMBINING SCHEDULE OF NET POSITION (CONTINUED)
JUNE 30, 2015

LIABILITIES AND NET POSITION

	Total	General	Lower Moosa Wastewater	Woods Valley Ranch Wastewater
Current Liabilities:				
Accounts payable	$ 5,440,327	$ 5,440,327	$ -	$ -
Accrued payroll	297,682	297,682	-	-
Accrued compensated absences	685,100	685,100	-	-
Customer deposits	2,465,581	956,984	35,194	1,473,403
Current portion of loans payable	22,305	22,305	-	-
Total Current Liabilities	8,910,995	7,402,398	35,194	1,473,403
Noncurrent Liabilities:				
Long-term debt:				
Loans payable, net of current portion	791,323	78,596	-	712,727
Interest payable	22,779	-	-	22,779
Total Long-Term Debt	814,102	78,596	-	735,506
Other Noncurrent Liabilities:				
Net pension liability	17,234,744	17,234,744	-	-
Compensated absences, net of current portion	1,454,375	1,454,375	-	-
Total Other Noncurrent Liabilities	18,689,119	18,689,119	-	-
Total Noncurrent Liabilities	19,503,221	18,767,715	-	735,506
Total Liabilities	28,414,216	26,170,113	35,194	2,208,909
DEFERRED INFLOWS OF RESOURCES:				
Deferred inflows related to pensions	1,383,002	1,383,002	-	-
Total Deferred Inflows of Resources	1,383,002	1,383,002	-	-
NET POSITION:				
Net investment in capital assets	79,423,330	58,863,599	7,186,993	13,372,738
Restricted for facility expansion	947,142	550,613	396,529	-
Unrestricted	3,026,744	(117,836)	1,912,120	1,232,460
Total Net Position	83,397,216	59,296,376	9,495,642	14,605,198

VALLEY CENTER MUNICIPAL WATER DISTRICT
COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016

	Total	General	Lower Moosa Wastewater	Woods Valley Ranch Wastewater
Operating Revenues:				
Water sales and pumping charges	$ 30,394,923	$ 30,394,923	$ -	$ -
Meter service charges	5,369,023	5,369,023	-	-
Wastewater charges	2,521,787	-	1,567,026	954,761
Meter installation fees	215,995	215,995	-	-
Other water operating revenues	545,347	545,347	-	-
Total Operating Revenues	39,047,075	36,525,288	1,567,026	954,761
Operating Expenses:				
Cost of water sold	25,358,738	25,358,738	-	-
Energy and pumping costs	2,733,376	2,613,787	72,999	46,590
Water systems operations	5,267,718	5,267,718	-	-
Wastewater collection and treatment	1,121,601	-	876,850	244,751
Engineering	1,450,071	1,450,071	-	-
General and administrative	1,944,488	1,646,223	217,494	80,771
Depreciation	3,525,655	2,892,067	345,746	287,842
Total Operating Expenses	41,401,647	39,228,604	1,513,089	659,954
Operating Income (Loss)	(2,354,572)	(2,703,316)	53,937	294,807
Nonoperating Revenues (Expenses):				
Property taxes and assessments	2,665,133	2,665,133	-	-
Other nonoperating revenues	328,923	328,923	-	-
Investment income	201,138	164,386	21,058	15,694
Interest expense	(47,272)	-	-	(47,272)
Gain on disposal of capital assets	13,484	13,484	-	-
Total Nonoperating Revenues (Expenses)	3,161,406	3,171,926	21,058	(31,578)
Income Before Contributions	806,834	468,610	74,995	263,229
Capital Contributions	1,643,312	149,604	25,305	1,468,403
Change in Net Position	2,450,146	618,214	100,300	1,731,632
Net Position at Beginning of Year	83,397,216	59,296,376	9,495,642	14,605,198
NET POSITION AT END OF YEAR	$ 85,847,362	$ 59,914,590	$ 9,595,942	$ 16,336,830

Schedule 4

VALLEY CENTER MUNICIPAL WATER DISTRICT
COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2015

	Total	General	Lower Moosa Wastewater	Woods Valley Ranch Wastewater
Operating Revenues:				
Water sales and pumping charges	$ 37,470,908	$ 37,470,908	$ -	$ -
Meter service charges	5,024,241	5,024,241	-	-
Wastewater charges	2,090,109	-	1,551,666	538,443
Meter installation fees	233,939	233,939	-	-
Other water operating revenues	565,452	565,452	-	-
Total Operating Revenues	45,384,649	43,294,540	1,551,666	538,443
Operating Expenses:				
Cost of water sold	30,583,409	30,583,409	-	-
Energy and pumping costs	3,019,017	2,890,919	85,359	42,739
Water systems operations	5,047,286	5,047,286	-	-
Wastewater collection and treatment	1,104,544	-	886,928	217,616
Engineering	1,313,336	1,313,336	-	-
General and administrative	3,048,293	2,804,662	172,474	71,157
Depreciation	3,465,543	2,850,602	334,105	280,836
Total Operating Expenses	47,581,428	45,490,214	1,478,866	612,348
Operating Income (Loss)	(2,196,779)	(2,195,674)	72,800	(73,905)
Nonoperating Revenues (Expenses):				
Property taxes and assessments	2,558,443	2,558,443	-	-
Investment income	157,024	118,473	14,764	23,787
Other nonoperating revenues	341,794	341,794	-	-
Interest expense	(15,030)	-	-	(15,030)
Other nonoperating expenses	(163,605)	(151,091)	(12,514)	-
Total Nonoperating Revenues (Expenses)	2,878,626	2,867,619	2,250	8,757
Income (Loss) Before Contributions	681,847	671,945	75,050	(65,148)
Capital Contributions	2,510,558	482,740	19,345	2,008,473
Change in Net Position	3,192,405	1,154,685	94,395	1,943,325
Net Position at Beginning of Year	80,204,811	58,141,691	9,401,247	12,661,873
NET POSITION AT END OF YEAR	$ 83,397,216	$ 59,296,376	$ 9,495,642	$ 14,605,198

Statistical Section

STATISTICAL SECTION

This part of the Valley Center Municipal Water District's (the "District") comprehensive annual 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

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

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

	Fiscal year ended				
	2016	2015 (1)	2014	2013	2012
Primary government					
Net investment in capital assets	$ 84,494,979	$ 79,423,330	$ 76,462,875	$ 76,276,487	$ 77,829,804
Restricted for facility expansion	1,075,636	947,142	1,047,564	628,018	302,877
Unrestricted	276,747	3,026,744	20,655,672	17,022,399	14,415,835
Total primary government net position	$ 85,847,362	$ 83,397,216	$ 97,166,111	$ 93,926,904	$ 92,548,516
	2011	2010	2009 (1)	2008	2007
Primary government					
Net investment in capital assets	$ 81,249,809	$ 83,824,468	$ 85,622,542	$ 72,376,226	$ 68,354,318
Restricted for facility expansion	276,993	268,225	503,862	652,253	1,300,411
Unrestricted	12,745,389	14,300,005	15,843,119	15,976,619	16,617,224
Total primary government net position	$ 94,272,191	$ 98,392,698	$101,969,523	$ 89,005,098	$ 86,271,953

(1) As restated (See Table II, Note 4).

Source: Valley Center Municipal Water District

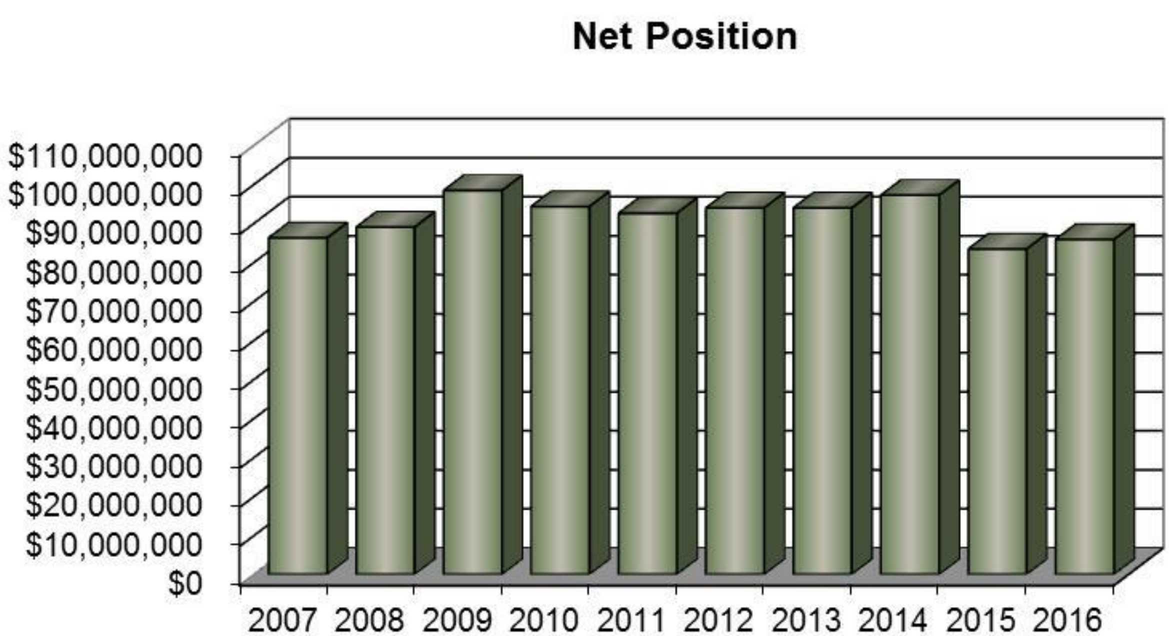


Table II
Changes in Net Position (Last Ten Fiscal Years)

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Operating Revenues:										
Water sales [1]	$33,785,302	$ 39,792,544	$44,114,111	$40,703,792	$35,457,375	$29,258,333	$ 29,772,214	$ 28,987,435	$29,326,068	$33,074,620
Pumping charges	1,978,644	2,702,605	3,124,770	3,039,474	2,940,227	2,726,802	3,187,965	3,838,476	4,489,845	5,668,077
Wastewater charges	2,521,787	2,090,109	2,088,881	1,870,259	1,811,397	1,761,685	1,675,877	1,576,437	1,561,495	1,501,180
Meter installation fees	215,995	233,939	139,563	101,930	88,834	57,748	87,065	155,358	128,342	210,145
Other water operating revenues	545,347	565,452	622,128	532,841	510,083	554,997	798,548	797,534	974,774	502,240
Total operating revenues	$39,047,075	$ 45,384,649	$50,089,453	$46,248,296	$40,807,916	$34,359,565	$ 35,521,669	$ 35,355,240	$36,480,524	$40,956,262
Operating Expenses:										
Cost of water sold	$25,358,738	$ 30,583,409	$33,822,193	$31,113,969	$27,385,538	$23,522,162	$ 23,884,810	$ 21,820,598	$21,146,786	$24,526,923
Energy and pumping costs	2,733,376	3,019,017	2,766,632	2,482,530	2,522,694	2,525,600	2,944,042	4,082,268	4,214,599	5,027,801
Water systems operations	5,267,718	5,047,286	5,123,092	4,810,835	5,008,872	5,091,000	5,133,041	4,821,920	4,695,861	4,477,871
Wastewater collection and treatment	1,121,601	1,104,544	1,086,185	1,058,507	1,019,208	907,388	841,443	866,812	748,447	784,551
Engineering	1,450,071	1,313,336	1,548,003	1,642,298	1,661,797	1,716,551	1,591,578	1,580,009	1,368,868	1,308,093
General and administrative	1,944,488	3,048,293	2,861,803	2,892,713	3,116,844	3,187,920	3,072,738	3,207,975	3,138,119	2,913,737
Depreciation	3,525,655	3,465,543	3,757,012	4,451,395	4,753,297	4,908,607	5,003,462	4,137,915	3,748,039	3,567,080
Total operating expenses	$41,401,647	$ 47,581,428	$50,964,920	$48,452,247	$45,468,250	$41,859,228	$ 42,471,114	$ 40,517,497	$39,060,719	$42,606,056
Operating (Loss)	$ (2,354,572)	$ (2,196,779)	$ (875,467)	$ (2,203,951)	$ (4,660,334)	$ (7,499,663)	$ (6,949,445)	$ (5,162,257)	$ (2,580,195)	$ (1,649,794)
Nonoperating Revenues and (Expenses):										
Property taxes and assessments	$ 2,665,133	$ 2,558,443	$ 2,486,977	$ 2,543,153	$ 2,499,875	$ 2,513,255	$ 2,595,610	$ 2,764,166	$ 2,810,946	$ 2,667,856
Investment income	201,138	157,024	130,887	82,496	127,900	132,978	220,489	476,566	898,899	1,003,835
Other nonoperating revenues [2]	328,923	341,794	323,813	291,832	289,382	315,542	208,413	192,882	256,550	551,289
Interest expense	(47,272)	(15,030)	(7,749)	(15)	(1,709)	(3,883)	(5,929)	(9,470)	(20,289)	(28,791)
Gain on disposal of capital assets [3]	13,484	(163,605)	(2,448)	(37,238)	(8,399)	(22,217)	(51,146)	(31,275)	(66,492)	(1,339)
Total Nonoperating Revenues and (Expenses)	$ 3,161,406	$ 2,878,626	$ 2,931,480	$ 2,880,228	$ 2,907,049	$ 2,935,675	$ 2,967,437	$ 3,392,869	$ 3,879,614	$ 4,192,850
Income (Loss) Before Contributions	$ 806,834	$ 681,847	$ 2,056,013	$ 676,277	$ (1,753,285)	$ (4,563,988)	$ (3,982,008)	$ (1,769,388)	$ 1,299,419	$ 2,543,056
Capital contributions	1,643,312	2,510,558	1,183,194	702,111	29,610	443,481	405,183	12,296,892	1,433,726	2,185,905
Change in Net Assets	$ 2,450,146	$ 3,192,405	$ 3,239,207	$ 1,378,388	$ (1,723,675)	$ (4,120,507)	$ (3,576,825)	$ 10,527,504	$ 2,733,145	$ 4,728,961
Net Position at Beginning of Year	$83,397,216	$ 97,166,111	$93,926,904	$92,548,516	$94,272,191	$98,392,698	$101,969,523	$ 89,005,098	$86,271,953	$81,542,992
Restatement [4]	$ -	$(16,961,300)	$ -	$ -	$ -	$ -	$ -	$ 2,436,921	$ -	$ -
Restated Net Position at Beginning of Year	$83,397,216	$ 80,204,811	$93,926,904	$92,548,516	$94,272,191	$98,392,698	$101,969,523	$ 91,442,019	$86,271,953	$81,542,992
NET POSITION AT END OF YEAR	$85,847,362	$ 83,397,216	$97,166,111	$93,926,904	$92,548,516	$94,272,191	$ 98,392,698	$101,969,523	$89,005,098	$86,271,953

(1) A detailed schedule of water sales is presented in Table III.
(2) Includes energy settlement of $248,270 in 2007.
(3) Net of loss on termination of projects and disposition of assets.
(4) Restatement of prior balance of $2,491,415 in 2009 per GASB 45 for Retirement Health Plan Liability recorded as expense in prior years and $(54,494) per GASB 51 for Feasibility Study recorded as capital asset in prior year. Restatement of $16,961,300 in 2015 per GASB 68 for Pension Liability.

Source: Valley Center Municipal Water District

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

Fiscal Year Ended	Domestic		Commercial		Certified Agricultural [2]		Total		Average Direct Rate [3]
	Value	Acre Feet	Value	Acre Feet	Value	Acre Feet	Value	Acre Feet	
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	$1,839
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	$1,623
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	$1,571
2013	$12,508,073	6,038.3	$4,083,843	2,545.8	$24,111,876	18,786.3	$40,703,792	27,370.4	$1,487
2012	$10,529,179	5,486.0	$3,891,893	2,661.7	$21,036,302	17,942.8	$35,457,375	26,090.5	$1,359
2011	$9,180,184	5,388.9	$3,204,462	2,506.4	$16,873,687	16,247.9	$29,258,333	24,143.2	$1,212
2010	$8,744,895	5,917.6	$2,655,302	2,254.0	$18,372,017	19,665.7	$29,772,214	27,837.3	$1,070
2009	$8,840,040	7,187.3	$2,196,162	2,104.7	$17,951,233	23,722.1	$28,987,435	33,014.1	$878
2008	$8,667,234	7,725.8	$1,570,149	1,653.5	$19,088,685	28,256.7	$29,326,068	37,636.0	$779
2007	$8,452,264	8,088.4	$1,591,979	1,829.0	$23,030,377	38,167.6	$33,074,620	48,085.0	$688

(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

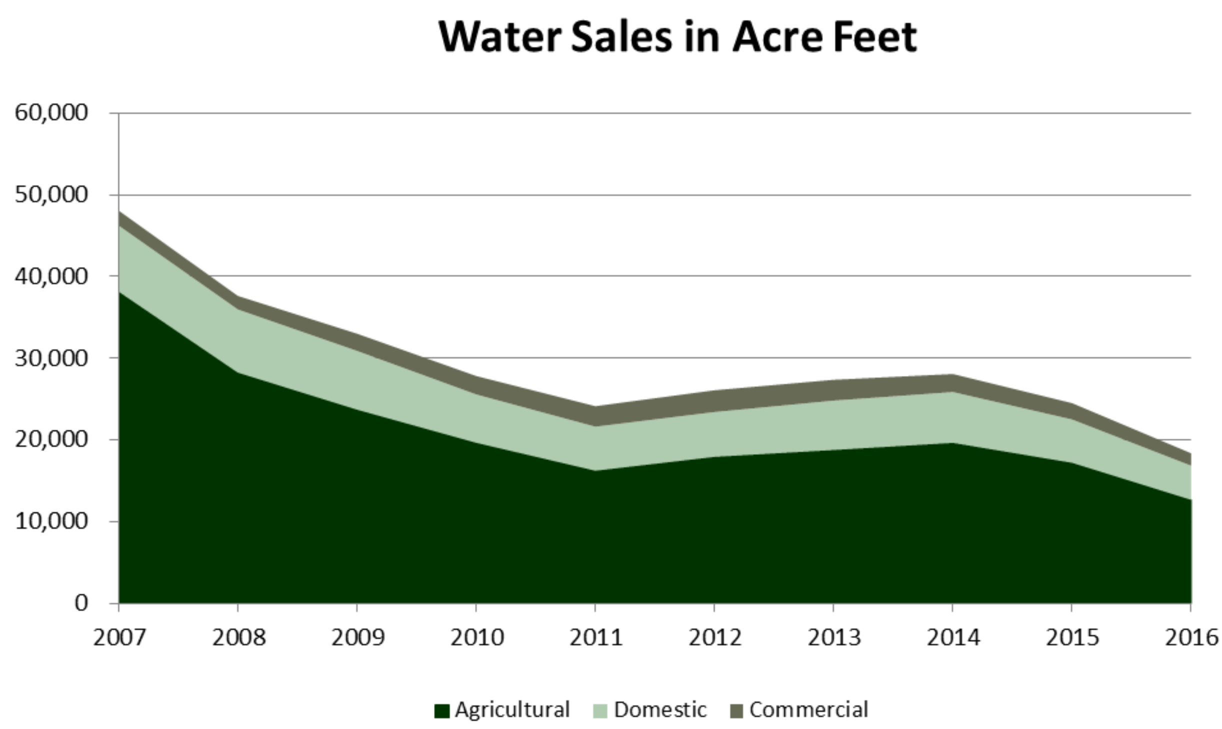


Table IV
Active Water Meters and Wastewater Services (Last Ten Fiscal Years)

Fiscal Year Ended	Domestic	Commercial	Certified Agricultural (1)	Total Active	All Inactive Meters	Total	Wastewater EDUs
2016	8,433	456	1,087	9,976	860	10,836	2,761
2015	8,368	405	1,096	9,869	892	10,761	2,769
2014	8,242	432	1,111	9,785	890	10,675	2,746
2013	8,157	412	1,146	9,715	901	10,616	2,745
2012	7,904	486	1,304	9,694	903	10,597	2,731
2011	7,880	486	1,326	9,692	884	10,576	2,717
2010	7,844	466	1,378	9,688	868	10,556	2,722
2009	7,749	461	1,480	9,690	803	10,493	2,729
2008	7,699	297	1,700	9,696	712	10,408	2,663
2007	7,667	299	1,746	9,712	639	10,351	2,624

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

Source: Valley Center Municipal Water District

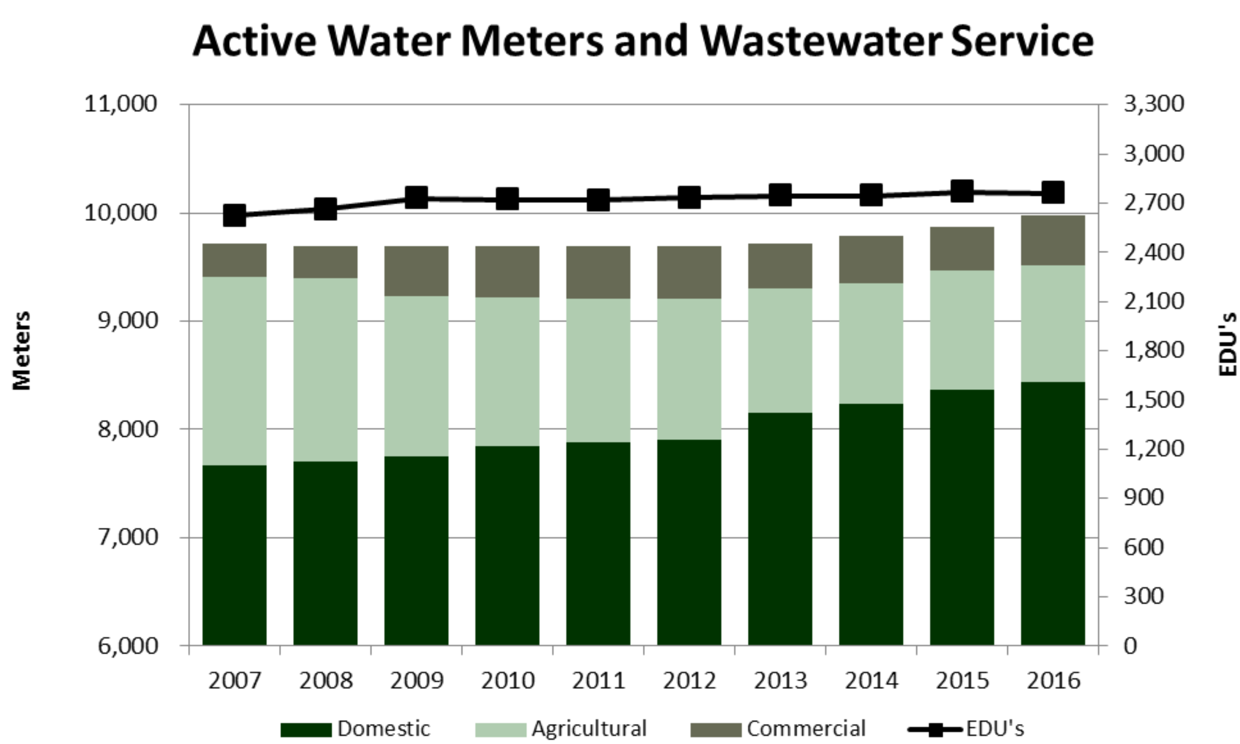


Table V
Assessed Value of Taxable Property (Last Ten Fiscal Years)

	Secured					
Fiscal Year Ended	Real Property	Personal Property	Exemptions	Net Assessed Value	Assessed Unsecured Value	Total Assessed Value
2016	$4,036,249,358	$733,024	$31,225,271	$4,005,757,111	$23,401,366	$4,029,158,477
2015	3,852,112,900	1,215,597	29,635,128	3,823,693,369	20,367,813	3,844,061,182
2014	3,706,577,321	1,376,872	28,443,008	3,679,511,185	20,755,618	3,700,266,803
2013	3,740,016,370	1,265,751	27,317,686	3,713,964,435	20,078,143	3,734,042,578
2012	3,831,030,133	325,570	25,754,739	3,805,600,964	24,459,608	3,830,060,572
2011	3,878,894,450	176,496	24,763,190	3,854,307,756	25,180,931	3,879,488,687
2010	4,008,313,358	297,477	25,760,391	3,982,850,444	27,925,200	4,010,775,644
2009	4,226,310,595	375,035	19,968,104	4,206,717,526	30,378,264	4,237,095,790
2008	4,226,755,026	283,045	24,891,870	4,202,146,201	26,580,918	4,228,727,119
2007	3,910,428,520	325,217	20,317,262	3,890,436,475	23,202,625	3,913,639,100

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

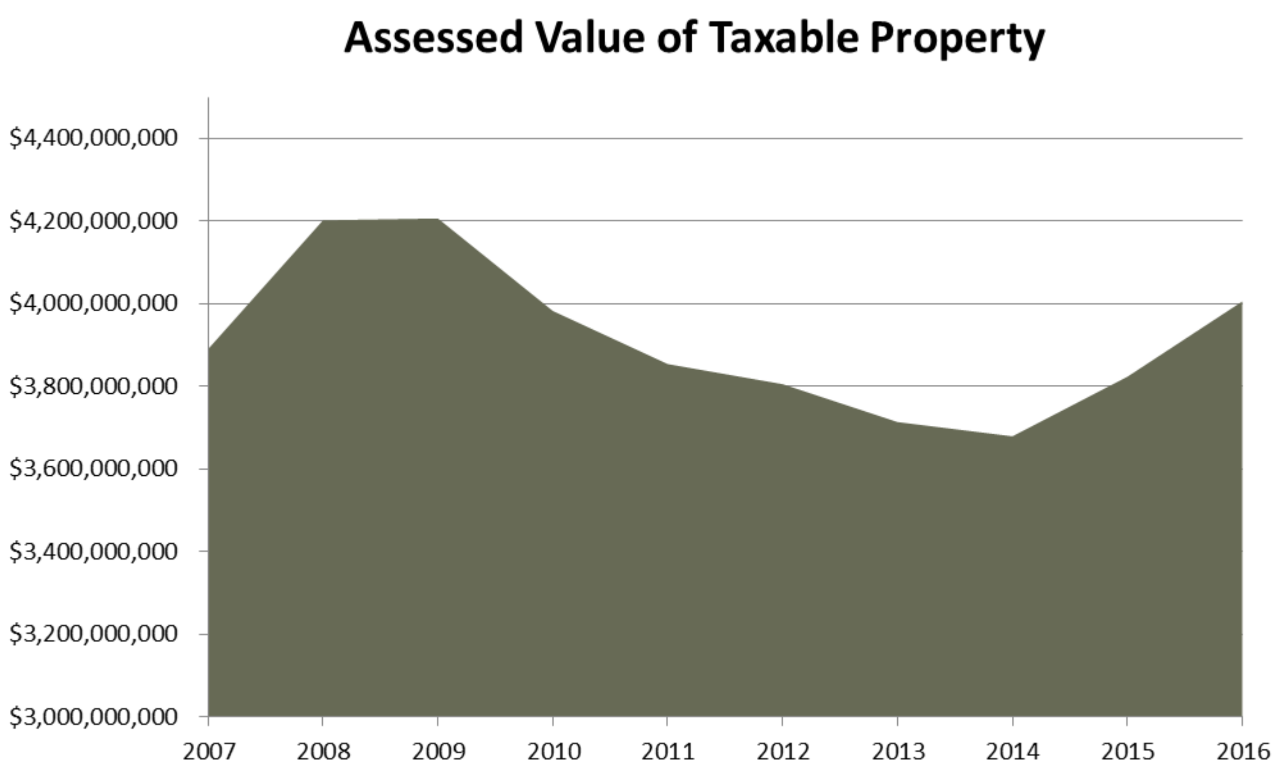


Table VI
Property Taxes and Assessment Levies and Collections [1] (Last Ten Fiscal Years)

Fiscal	Levy					
Year Ended	Property Taxes	Special Assessments [5]	Total Levy	Total Collections [2]	Net Delinquent [3]	Percent Delinquent [4]
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%
2013	$1,983,638	$1,068,855	$3,052,493	$3,025,479	$27,014	0%
2012	$2,003,970	$1,074,342	$3,078,312	$3,051,951	$26,361	0%
2011	$2,031,695	$1,231,558	$3,263,253	$3,235,076	$28,177	0%
2010	$2,098,464	$1,210,270	$3,308,734	$3,276,702	$32,032	0%
2009	$2,240,385	$1,139,600	$3,379,985	$3,353,350	$26,635	0%
2008	$2,293,346	$1,091,130	$3,384,476	$3,344,856	$39,620	0%
2007	$2,154,285	$1,076,625	$3,230,910	$3,195,668	$35,242	0%

(1) Percent delinquencies for assessments and property taxes are the same since they are both collected on one tax bill.
(2) Collections do not include miscellaneous adjustments.
(3) Net Delinquent includes uncollectible portion.
(4) 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 then pursues collection of any remaining delinquencies through the Teeter Plan.
(5) Includes special assessments for limited obligation bonds.

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

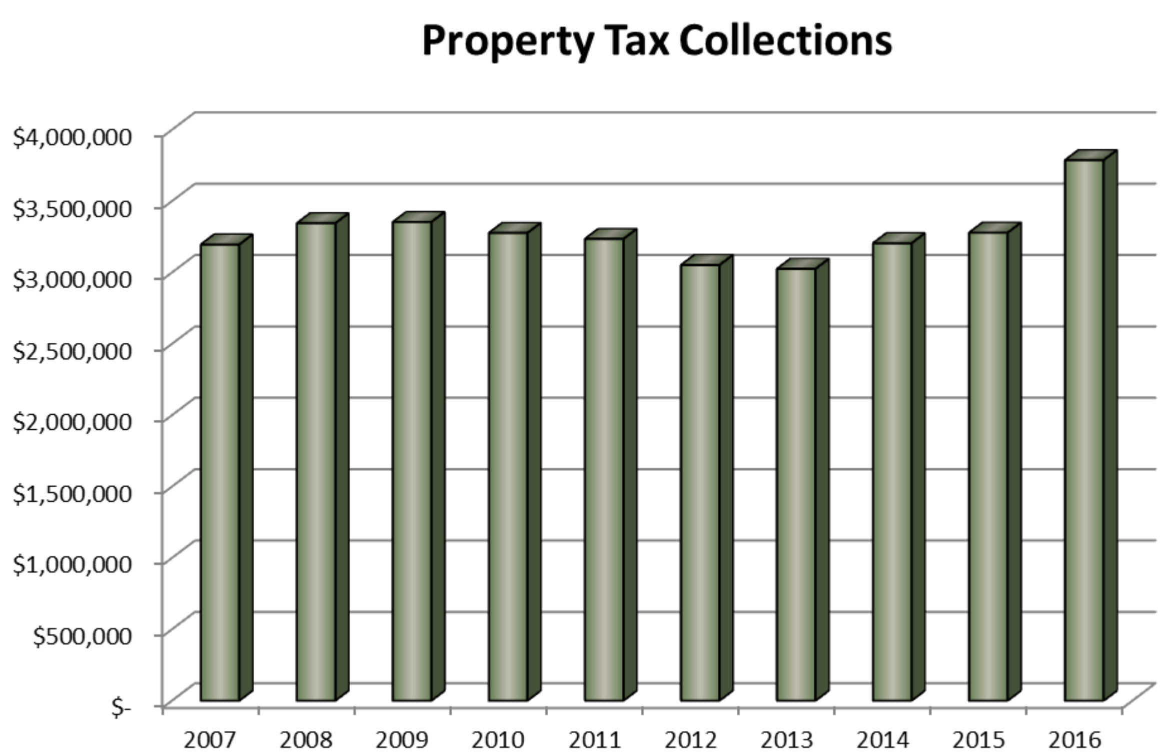


Table VII
Direct and Overlapping Bonded Debt [1] (June 30, 2016)

2015-16 Assessed Valuation: $4,029,158,477

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	Total Debt 6/30/2016	% Applicable[1]	District's Share of Debt 6/30/16
Metropolitan Water District	$92,865,000	0.164%	$152,299
Palomar Pomerado Hospital District	467,510,127	5.521	25,811,234
Palomar Community College District	51,508,251	3.848	19,682,837
Escondido Union High School District	92,592,907	6.185	5,726,871
Fallbrook Union High School District	4,347,358	1.484	64,515
Bonsall Union School District	14,488,853	3.861	559,415
Escondido Union School District	98,129,622	6.404	6,284,221
Valley Center-Pauma Unified School District	604,287	96.766	584,744
Valley Center-Pauma USD Community Facilities District No. 2003-1	8,255,000	100.000	8,255,000
City of Escondido	61,520,000	0.035	21,532
Valley Center Municipal Water District	0	100.000	0
Valley Center Municipal Water District Assessment District No. 96-1	270,000	100.000	270,000
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT			$67,412,668
OVERLAPPING GENERAL FUND DEBT:			
San Diego County General Fund Obligations	$ 307,830,000	0.910%	$2,801,253
San Diego County Pension Obligation Bonds	649,860,000	0.910	5,913,726
San Diego County Superintendent of Schools Certificates of Participation	13,295,000	0.910	120,985
Palomar Community College District Certificates of Participation	3,825,000	3.848	147,186
Escondido Union High School District Certificates of Participation	57,790,000	6.185	3,574,312
Bonsall Union School District Certificates of Participation	8,030,000	3.861	310,038
Escondido Union School District Certificates of Participation	18,400,000	6.404	1,178,336
Escondido Union School District Benefit Obligations	8,525,000	6.404	545,941
City of Escondido Certificates of Participation	4,200,000	0.035	1,470
TOTAL OVERLAPPING GENERAL FUND DEBT			$14,593,247
TOTAL DIRECT DEBT			**$0**
TOTAL OVERLAPPING DEBT			$82,005,915
COMBINED TOTAL DEBT			$82,005,915 [2]

Ratios to Assessed Valuation:	
Direct Debt	**0.00%**
Total Direct and Overlapping Tax and Assessment Debt	1.67%
Combined Total Debt	2.04%

2015-16 TYPICAL TOTAL TAX RATE (TRA 94-075): 1.11019

(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.

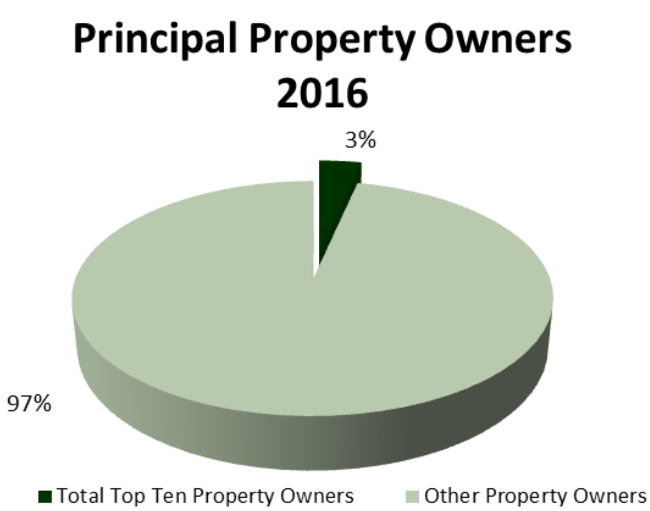
(2) Excludes tax and revenue anticipation notes, enterprise revenue, and non-bonded capital lease obligations.

Source: California Municipal Statistics, Inc.

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

Fiscal Year Ended June 30, 2016			Fiscal Year Ended June 30, 2007		
Property Owner	Cummulative Net Assessed Value	Percent of Total Net Assessed Value	Property Owner	Cummulative Net Assessed Value	Percent of Total Net Assessed Value
Welk Resort Platinum Owners Assoc.	$57,794,221	1.43%	Woodside Aberdeen Inc	$15,602,602	0.40%
Bell Holdings LLC	11,687,121	0.29%	Rimrock 12008 LLC	14,792,940	0.38%
Wel Resort Properties Inc	11,629,544	0.26%	Trimark Pacific-Valley Center LLC	12,889,534	0.33%
Welk Resort Group Inc.	10,355,999	0.29%	Welk Resort Group Inc	12,004,164	0.31%
San Pasqual Band of Mission Indians	9,610,028	0.24%	Woods Valley Development Co LLC	10,957,320	0.28%
Welk Mountain Villas Inc	8,216,619	0.20%	Teleklew Productions Inc	9,124,173	0.23%
Skyline Ranch Country Club LLC	7,917,397	0.20%	Trimark Pacific Sherwood LLC	9,037,497	0.23%
Perricone California Properties	7,519,850	0.19%	NNP Woods Valley Golf LLC	8,375,398	0.21%
ATC Realty Sixteen Inc	6,731,797	0.17%	Live Oak Ranch Development LLC	8,313,000	0.21%
Federal Boulevard Properties LLC	6,535,104	0.16%	Josephine Development LLC	7,490,880	0.19%
Total Top Ten Property Owners	$137,997,680	3.43%	Total Top Ten Property Owners	$108,587,508	2.77%
Other Property Owners	$3,891,160,797	96.57%	Other Property Owners	$3,805,051,592	97.23%
Total Assessed Valuation	$4,029,158,477	100.00%	Total Assessed Valuation	$3,913,639,100	100.00%

Data Source: 2015 Master Property Records from San Diego County Used for 2015-16 Property Taxes.



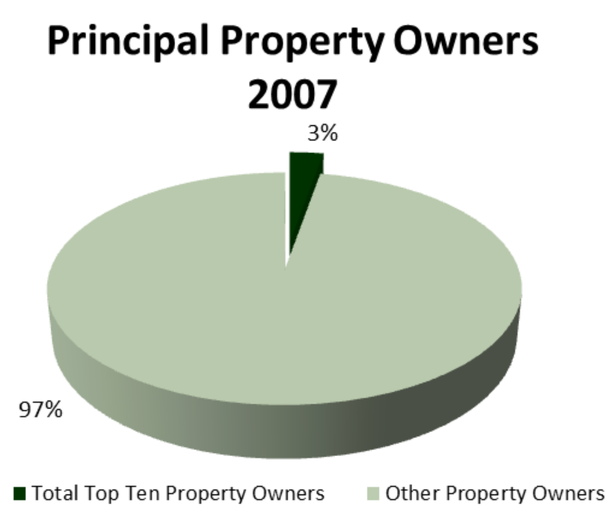


Table IX
Water Rates (Last Ten Fiscal Years)

Fiscal Year Ended(1)	Commodity Charge (2)									Monthly Meter Charge (4)	
	Domestic			IAWP (5)			TSAWR (6)				
	MWD/ SDCWA Wholesale	VCMWD	Total	MWD/ SDCWA Wholesale	VCMWD	Total	MWD/ SDCWA Wholesale	VCMWD	Total	3/4" Meter	1" Meter (3)
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
2013	1,419	166	1,585	-	-	-	1,107	166	1,273	31.55	43.10
2012	1,292	152	1,444	1,018	152	1,170	1,058	152	1,210	28.00	38.25
2011	1,166	137	1,303	899	137	1,036	968	137	1,105	24.50	33.50
2010	1,017	102	1,119	778	102	880	883	102	985	20.50	28.00
2009	872	102	974	621	102	723	752	102	854	20.50	28.00
2008	806	102	908	562	102	664	-	-	-	20.50	28.00
2007	731	102	833	524	102	626	-	-	-	20.50	28.00

(1) Rate as of January 1.
(2) Excludes pumping charges.
(3) Larger meters are multiples of the charge for a 1" meter.
(4) Excludes SDCWA Infrastructure Access Charge.
(5) Interim Agricultural Water Program. Phased out by MWD on December 31, 2012.
(6) Transitional Special Agricultural Water Rate implemented by SDCWA effective January 1, 2009.

Source: Valley Center Municipal Water District

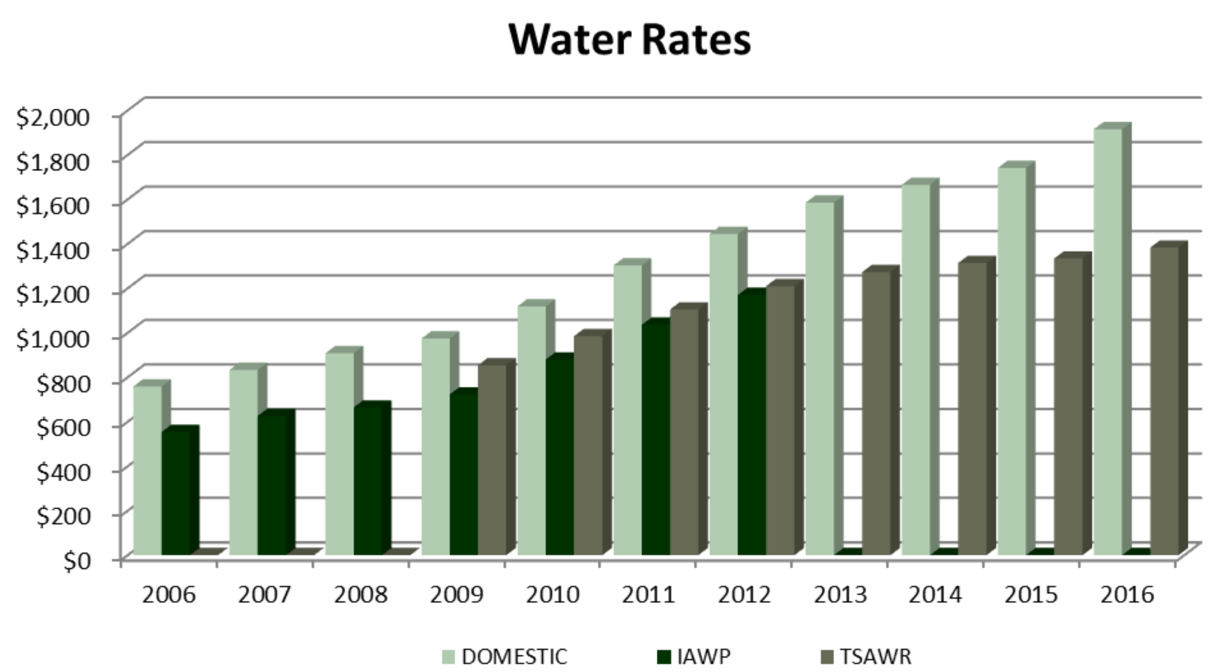


Table X
Wastewater Rates[2] (Last Ten Fiscal Years)

Fiscal Year Ended [1]	Moosa Gravity	Moosa Pressure	Woods Valley Ranch
2016	$51.20	$93.45	$98.60
2015	$51.20	$93.45	$98.60
2014	$51.20	$93.45	$98.60
2013	$51.20	$93.45	$98.60
2012	$48.75	$89.00	$98.60
2011	$46.50	$84.90	$98.60
2010	$44.50	$81.25	$98.60
2009	$40.50	$74.00	$98.60
2008	$40.50	$74.00	$98.60
2007	$40.50	$74.00	$98.60

(1) Rate as of January 1.
(2) Rates per equivalent dwelling unit (EDU).

Source: Valley Center Municipal Water District

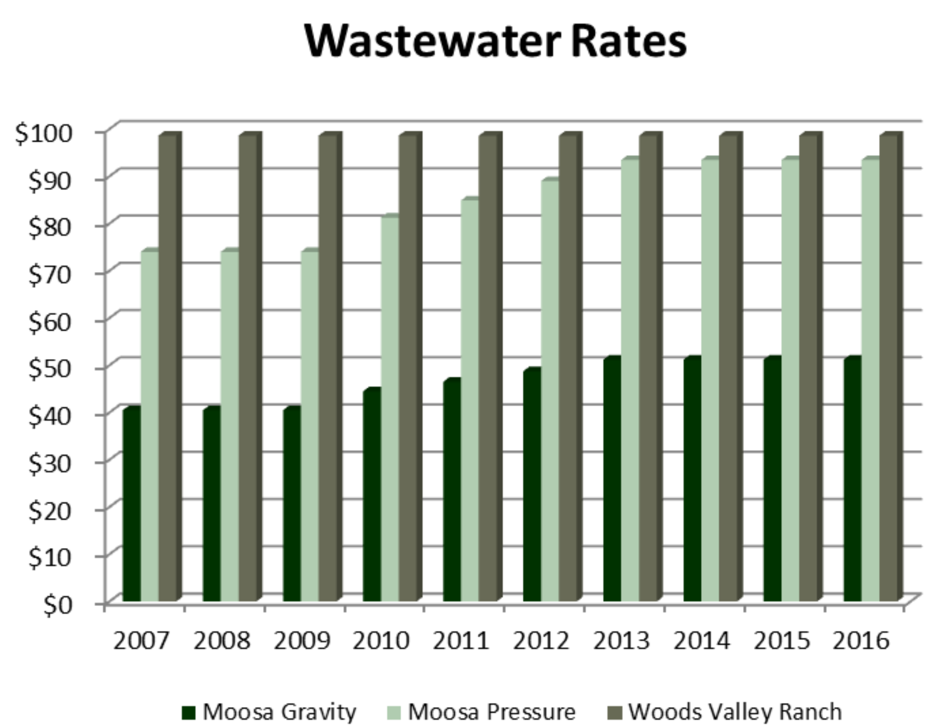


Table XI
Principal Water Customers

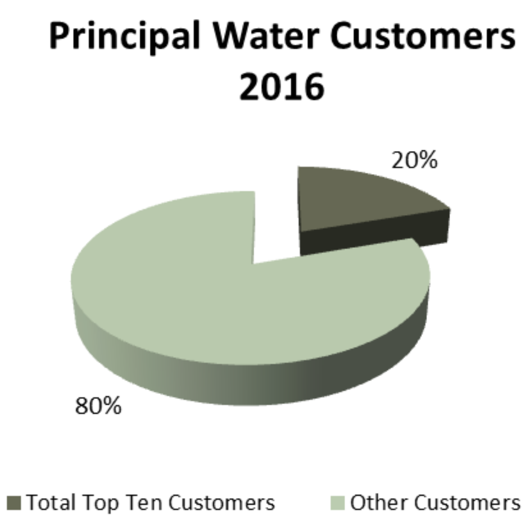
Fiscal year ended June 30, 2016

Customer	Usage in Acre Feet	Percent of Water Sold
Grandon Ranch Corp	617.5	3.36%
Coykendall, H. C. J.	505.7	2.75%
Harlan Beck & Associates	493.7	2.69%
BSTCO	450.2	2.45%
Stehly, N. J. C.	324.8	1.77%
Rancho Erico	274.2	1.49%
Sundance Natural Foods	268.3	1.46%
Ransho Sereno	255.8	1.39%
Golden Park Ranch	224.4	1.22%
Fallbrook Venture One	214.0	1.16%
Total Top Ten Customers	3,628.7	19.74%
Other Customers	14,740.7	80.26%
Total Water Sales	18,369.4	100.00%

Fiscal year ended June 30, 2007

Customer	Usage in Acre Feet	Percent of Water Sold
Stehly, N. J. C.	1,252.2	2.60%
BSTCO	1,049.0	2.18%
Harlan Beck & Associates	832.7	1.73%
Sierra Pacific Farms	782.3	1.63%
Grandon Ranch Corp.	767.2	1.60%
Coykendall, H. C. J.	623.0	1.30%
DeJong, John	585.6	1.22%
Rancho Sereno	536.6	1.12%
Segal, G	511.7	1.06%
Gray Cor Farms	509.8	1.06%
Total Top Ten Customers	7,450.1	15.50%
Other Customers	40,634.9	84.50%
Total Water Sales	48,085.0	100.00%

Source: Valley Center Municipal Water District



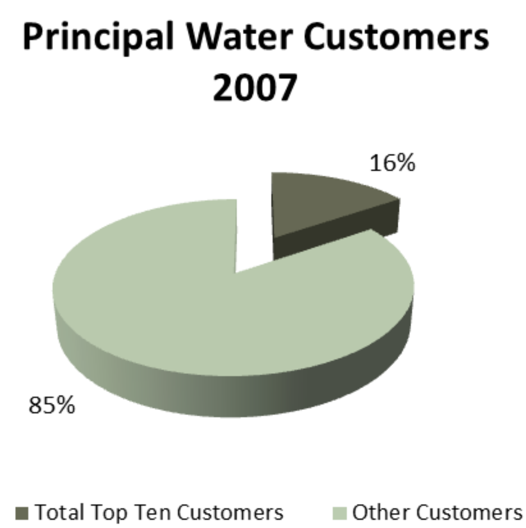


Table XII
Ratios of Outstanding Debt by Type (Last Ten Fiscal Years)

Fiscal Year Ended	General Obligation Bonds (1)	Revenue Bonds	Notes Payable SRF Loan (3)	Financing Loan Agreement (4)	Total	Percentage of Personal Income (2)	Per Capita (2)
2016	-	-	$7,679,830	$117,724	$ 7,797,554	0.81%	304
2015	-	-	$676,310	$137,318	$ 813,628	0.09%	32
2014	-	-	$676,310	$88,123	$764,433	0.08%	30
2013	-	-	-	-	$0	0.00%	0
2012	-	$55,000	-	-	$55,000	0.01%	2
2011	-	$165,000	-	-	$165,000	0.02%	6
2010	-	$265,000	-	-	$265,000	0.03%	10
2009	-	$360,000	-	-	$360,000	0.04%	14
2008	-	$450,000	-	-	$450,000	0.06%	18
2007	-	$535,000	-	-	$535,000	0.07%	21

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

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

(3) State Revolving Fund Loan.

(4) Unsecured and non-interest bearing loan agreement with San Diego Gas & Electric.

Source: Valley Center Municipal Water District

Table XIII
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 Principal	Debt Service Interest	Debt Service Total	Coverage Ratio
2016	$45,384,649	$3,057,261	$48,441,910	$44,115,885	$4,326,025	$19,594	$0	$19,594	220.78
2015	45,384,649	3,057,261	48,441,910	44,115,885	4,326,025	9,527	0	9,527	454.08
2014	50,089,453	2,941,677	53,031,130	47,207,908	5,823,222	0	0	0	0.00
2013	46,248,296	2,917,481	49,165,777	44,000,852	5,164,925	55,000	15	55,015	93.88
2012	40,807,916	2,917,157	43,725,073	40,714,953	3,010,120	110,000	1,709	111,709	26.95
2011	34,359,565	2,961,775	37,321,340	36,950,621	370,719	100,000	3,883	103,883	3.57
2010	35,521,669	3,024,512	38,546,181	37,467,652	1,078,529	95,000	5,929	100,929	10.69
2009	35,355,240	3,433,614	38,788,854	36,379,582	2,409,272	90,000	9,470	99,470	24.22
2008	36,480,524	3,966,395	40,446,919	35,312,680	5,134,239	85,000	20,289	105,289	48.76
2007	40,956,262	4,222,980	45,179,242	39,038,976	6,140,266	80,000	28,564	108,564	56.56

(1) See Table II

(2) Operating expenses excluding depreciation.

Source: Valley Center Municipal Water District

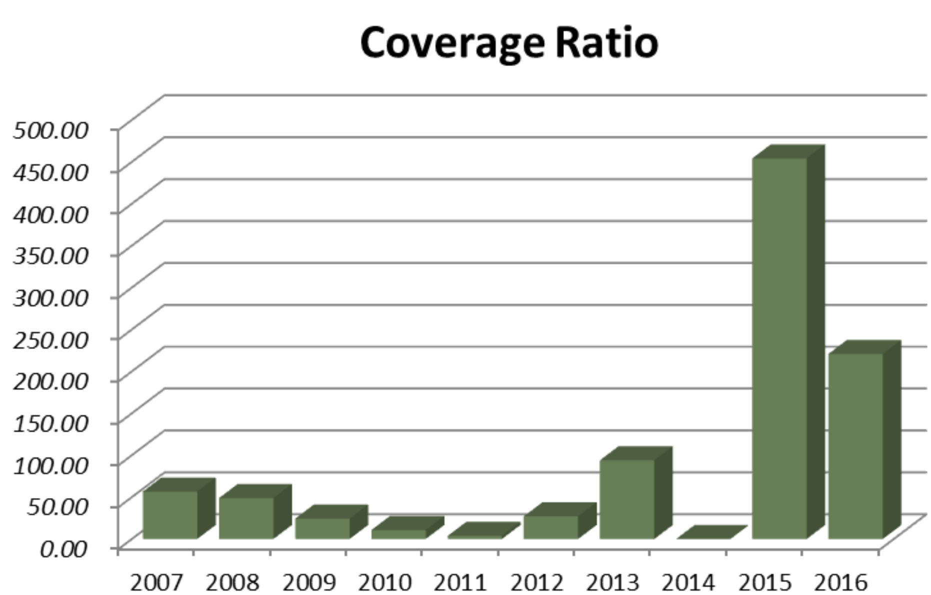


Table XIV
Demographic and Economic Statistics (Last Ten Fiscal Years)

Fiscal Year Ended	Population (1)	Total Personal Income (2)	Per Capita Personal Income (3)	Unemployment Rate (4)
2016	25,608	$ 962,861,000	$ 37,600	3.6%
2015	25,394	937,039,000	36,900	3.5%
2014	25,248	913,978,000	36,200	2.9%
2013	25,286	897,653,000	35,500	3.6%
2012	25,453	885,764,000	34,800	4.5%
2011	25,450	867,845,000	34,100	5.1%
2010	25,378	848,488,000	33,434	5.2%
2009	25,337	838,655,000	33,100	4.7%
2008	25,350	747,825,000	29,500	2.7%
2007	25,337	739,840,000	29,200	2.1%

Other Statistics: (5)

Jobs in area	5,491
Median age	44.8
% High school graduate	86%
% Bachelor's degree or higher	35%

(1) Population at the end of fiscal year 2010 from the San Diego Association of Governments (SanDAG). Other years estimated by VCMWD using average household size estimated by SanDAG.
(2) Calculated using estimated per capita personal income.
(3) Per capita personal income for base year 2010 by U.S. Census Bureau for the Valley Center Census Designated Place (CDP) which is a close approximation of the VCMWD area. Other years estimated using percentage change for San Diego region.
(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.
(5) Source: U.S. Census Bureau, 2010 Census.

Source: Valley Center Municipal Water District except as noted.

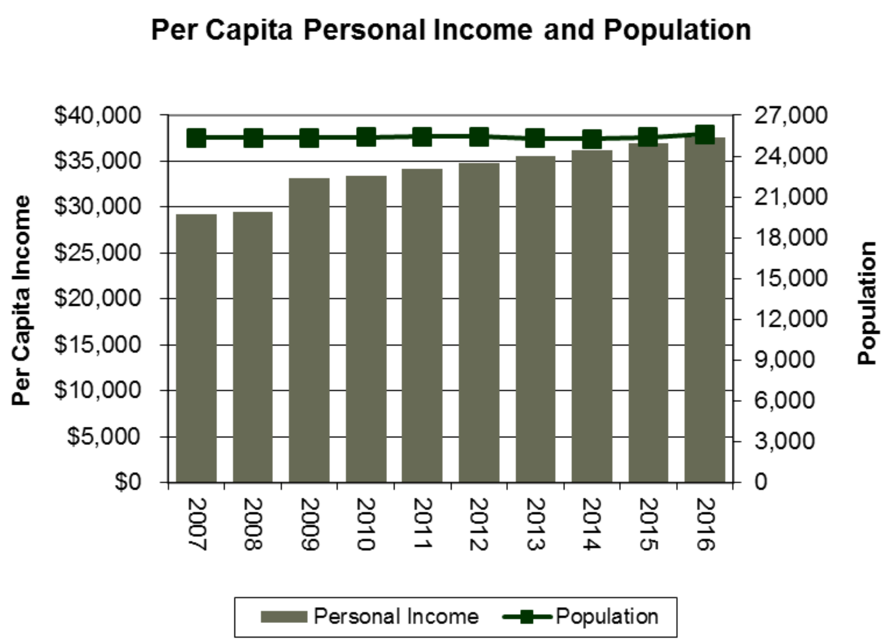


Table XV
Principal Employers – County of San Diego (Current Fiscal Year and Nine Years Prior)

Fiscal year ended June 30, 2016

Employer	Rank	# of Employees	% of Total Employment
University of California at San Diego	1	26,000	1.72%
County of San Diego	2	20,500	1.36%
United States Navy, San Diego	3	20,000	1.32%
City of San Diego	4	19,500	1.29%
San Diego Unified School District	5	15,881	1.05%
Sharp Healthcare	6	14,390	0.95%
Scripps Healthcare	7	12,700	0.84%
Qualcomm	8	9,444	0.62%
Kaiser Foundation Hospital	9	7,608	0.50%
San Diego State University	10	6,939	0.46%
Total Top Ten		152,962	10.12%
2016 Total Number employed in San Diego County		1,511,800	

Fiscal year ended June 30, 2007

Employer	Rank	# of Employees	% of Total Employment
United States Navy	1	42,000	2.87%
Federal Government	2	39,100	2.67%
State of California	3	37,100	2.53%
University of California, San Diego	4	24,790	1.69%
San Diego Unified School District	5	21,073	1.44%
City of San Diego	6	20,700	1.41%
County of San Diego	7	18,900	1.29%
Sharp Healthcare	8	13,872	0.95%
United States Postal Service	9	11,611	0.79%
Scripps Health	10	10,313	0.70%
Total Top Ten		239,459	16.36%
2007 Total Number employed in San Diego County		1,463,900	

Source: Courtesy of San Diego County Water Authority

Table XVI
Number of Employees (Last Ten Fiscal Years)

	Full-Time-Equivalent Employees Authorized as of June 30,									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Pumping	3.60	4.93	4.89	4.79	5.09	4.96	4.58	5.24	5.54	5.59
Water Systems Operations	27.94	28.20	28.49	31.45	31.74	31.70	33.71	36.14	39.14	39.34
Wastewater Collection and Treatment	4.16	4.41	3.36	2.72	3.07	3.27	3.66	6.11	5.91	4.90
Engineering	5.94	6.20	6.30	7.37	7.87	7.62	8.55	11.27	13.52	12.90
General and Administrative	10.25	10.50	10.80	11.05	11.60	12.00	12.95	13.00	15.00	14.00
Capital Outlay (1)	2.77	3.15	2.49	3.00	2.87	3.60	4.86	3.31	6.21	5.42
Developer Projects (2)	1.14	0.62	0.68	0.63	1.26	1.85	1.69	4.93	4.68	3.85
Total Employees (3)	55.80	58.00	57.00	61.00	63.50	65.00	70.00	80.00	90.00	86.00
Average Years of Service	14.90	14.10	14.18	13.20	12.46	11.37	10.37	10.24	9.07	9.37

(1) Capitalized into construction in progress.
(2) Charged to work in progress for others.
(3) Authorized number of budgeted employees by year. For Fiscal Year 2008 and 2009, actual number of employees was 78.

Source: Valley Center Municipal Water District

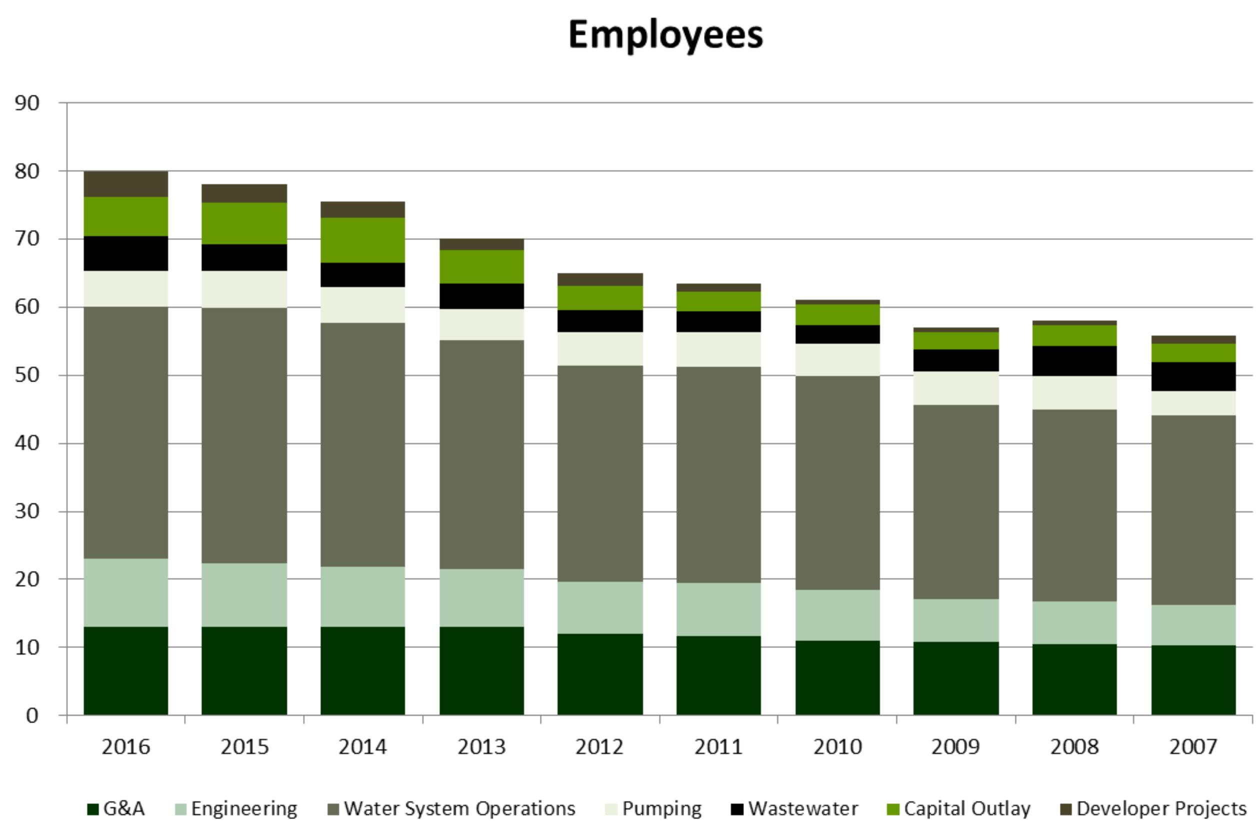


Table XVII
Operating and Capital Indicators (Last Ten Fiscal Years)

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Water:										
Service area (acres)	64,540	64,540	64,253	64,253	64,253	64,253	64,253	64,253	64,253	64,253
Miles of water main (8 inches and larger)	301	301	298	297	297	297	297	297	295	294
Number of enclosed reservoirs	43	43	42	42	42	42	42	42	42	42
Capacity of enclosed reservoirs (AF)	421	421	421	421	421	421	421	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	27	26	26	26	26	26	26	26
Number of pumps	106	106	110	106	100	100	100	96	96	96
Total pump capacity (horsepower)	20,310	20,160	20,185	20,185	20,050	19,785	19,785	19,785	19,940	19,940
Number of service connections	10,834	10,761	10,675	10,616	10,597	10,576	10,556	10,493	10,408	10,392
Number of meters in service	9,973	9,869	9,785	9,715	9,694	9,692	9,688	9,690	9,696	9,745
Production peak (m.g.d.)	42.00	50.00	55.84	55.45	49.87	55.30	65.27	53.96	78.90	84.98
Average production (m.g.d.)	17.57	22.83	26.43	26.13	24.77	22.80	26.35	30.33	35.12	45.04
Total rainfall (inches)	11.98	10.10	7.29	8.51	12.21	23.94	19.01	14.10	19.33	7.56
Average daily temperature (F.)	62.8	63.8	63.5	62.3	61.3	61.1	61.6	62.7	63.3	63.1
Electricity purchased (1,000 kWh)	7,344	15,582	16,894	16,276	15,595	16,984	18,480	25,362	29,839	36,000
Natural gas purchased (1,000 therms)	591	234	365	407	163	99	390	190	209	362
Mainline repairs	22	11	15	18	18	16	11	31	39	37
Wastewater:										
Miles of sewer lines	57	57	57	57	57	57	56	56	56	55
Number of treatment plants	2	2	2	2	2	2	2	2	2	2
Maximum capacity of treatment plants (m.g.d.)	0.57	0.57	0.57	0.57	0.57	0.57	0.57	0.57	0.55	0.55
Average dry weather flow (m.g.d.)	0.33	0.36	0.37	0.37	0.37	0.39	0.37	0.35	0.37	0.34
Number of sewer connections	2,761	2,769	2,746	2,745	2,731	2,717	2,722	2,729	2,663	2689

AF - Acre feet
m.g.d. - Million gallons per day

Source: Valley Center Municipal Water District

VALLEY CENTER MUNICIPAL WATER DISTRICT EMPLOYEES 2015-16

PAUL ADRIAN
GARY ARANT
GERALD BARNETT
RICHARD BEATH
CALVIN BREWER
LEONARD BROWN
RONALD BURKE
JEFFREY BURTON
FERNANDO CARRILLO
DANIELLE CATTANEO
RAMIRO DE ALBA-
ROMAN DE MANRIQUEZ
COREY ELMENDORF
GREG FEIK
PATRICIA GARCIA
TROY GOSWICK
WALLY GRABBE
CLARENCE HICKS
ALBERT HOYLE
RYAN HUGHES
TONY JACQUEZ
CHRISTINE JOHNSON
DOUGLAS JOHNSON
JOSHUA JONES
THAD KLIMAS
CHRISTOPHER KRATZ
ERIC LAVENTURE
ANTHONY LOPRESTI
BRIAN LOVELADY
JESSICA LOVELADY
RYAN MADSON
JOHN MARTINEAU
MARLENE MARTINEZ
JAMIE MARTINEZ
ESTHER MAY
WILLIAM MORRIS
ISMAEL NAVARRO
MICHAEL NICHOLS
JESON NIKRASCH
EDWARD OLSON
GABRIELA OLSON
ROBERT PANEK
TAYLOR PETERS
THANG PHAM
ANDO PILVE
JAMES PUGH
CLIFFORD REEH
ROY RUTHERFORD
JULEE SCOTT
YVETTE SERRATO
DANIEL SHUBIN
MOSES SHUBIN
TIMOTHY SJOBRING
JAMES SULLINS
JARED THOMAS
DEBORAH TILLEY
ROBERT TRUESDALE
GLENDA VALENZUELA
VANESSA VELASQUEZ
PAUL VILLALOBOS
GERARD VILLALPANDO
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