

# Valley Center Municipal Water District

## Comprehensive Annual Financial Report

For the Fiscal Year Ended  
June 30, 2018

Valley Center, California



Front Cover: After completion of the Phase II Expansion, the Woods Valley Water Reclamation Facility received recognition in 2017 as Small Plant of the year from the California Water Environment Association and its San Diego Section and in April 2018 as the Second Place Plant of the Year. Pictures from Top to Bottom: Woods Valley Water Reclamation Facility 1) Disk Filtration System; 2) AeroMod Treatment Unit; 3) Aeration Blower System; 4) Chlorine Contact, Recycled Pumps & Discharge Piping.

# **Comprehensive Annual Financial Report**

## **For The Fiscal Year Ended June 30, 2018**

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## **Valley Center Municipal Water District**



Prepared by:

Valley Center Municipal Water District's Finance Department  
James V. Pugh, Director of Finance  
Vanessa Velasquez, Manager of Accounting

**29300 Valley Center Road ▪ PO Box 67 ▪ Valley Center, CA 92082**

**[www.valleycenterwater.org](http://www.valleycenterwater.org)**

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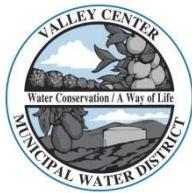
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# Introductory Section







# VALLEY CENTER MUNICIPAL WATER DISTRICT

A Public Agency Organized July 12, 1954

Board of Directors  
Robert A. Polito  
President  
Randy D. Haskell  
Vice President  
Gary A. Broomell  
Director  
Enrico P. Ferro  
Director  
Daniel E. Holtz  
Director

January 22, 2019

Robert A. Polito, 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, 2018. 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). Management assumes full responsibility for the completeness and reliability of the information contained in this report, which is based upon a comprehensive framework of internal controls that were established for this purpose. Because the costs of internal controls should not exceed the anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements. We believe the data, as presented, is accurate in all material respects and that it is presented in a manner designed to set forth fairly the financial position and results of operations of the District, and that all disclosures necessary to enable readers to gain maximum understanding of the District's financial activity have been included.

The District's policy requires that an independent certified public accounting firm, selected by the Board, audit the basic financial statements on an annual basis. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Leaf & Cole, LLP have issued an unmodified (or clean) opinion on the District's financial statements for the fiscal year ended June 30, 2018. The independent auditor's report is presented as the first component of the Financial Section of this report.

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

## REPORTING ENTITY AND SERVICES

Valley Center Municipal Water District (the “District”) was founded on July 12, 1954 and was formed under the provisions of the California Municipal Water District Law of 1911 (California Water Code sections 71000 et seq.). It is located in northern San Diego County and provides water and wastewater reclamation services to its domestic, agricultural, and commercial customers. The District encompasses a 101 square mile service area and serves a population of approximately 25,700. 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, 2018, there were 61 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.

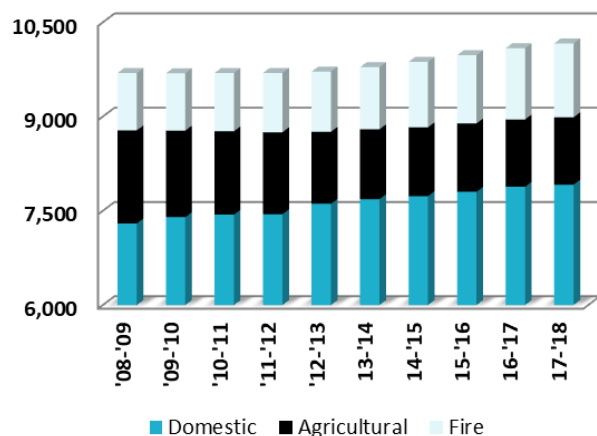
Activity not included as a part of this report is limited to Assessment District No. 96-1, which is described in note 6 of the Notes to the Basic Financial Statements.



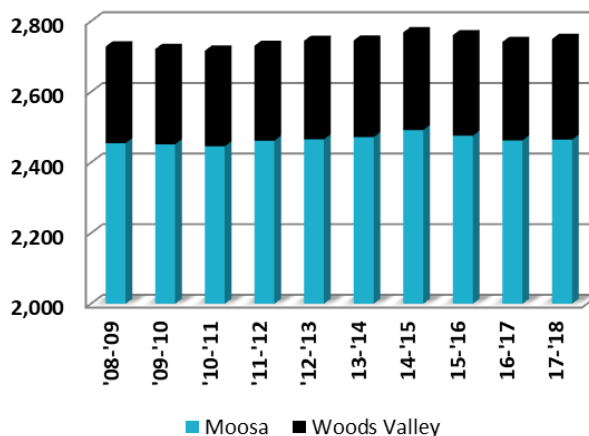
### System Overview

- Active Aqueduct Connections: 7
- Miles of water main: 301
- Enclosed Reservoirs: 43
- Open Reservoirs: 1
- Pump Stations: 29
- Wastewater Treatment Facilities: 2
- Wastewater Connections: 2,750
- Miles of wastewater lines: 57
- 2017-18 Revenue: \$54.2 Million
- 2017-18 Expenses: \$51.9 Million

**Active Water Meters**



**Wastewater Connections**





## FINANCIAL POLICIES

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

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

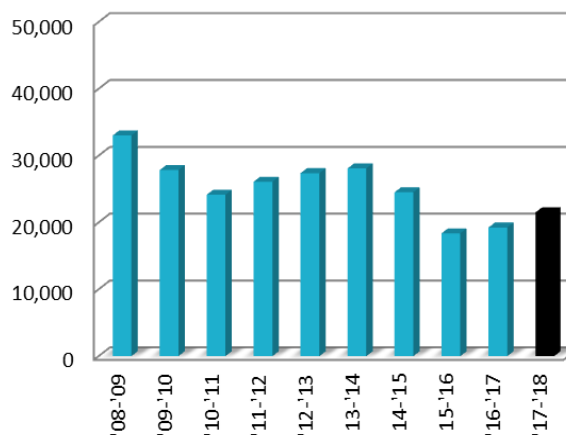
**Investment** – Annually, the Board adopts an investment policy that is in compliance with California Government Code Section 53646(a)(2). The investment of idle funds is delegated to the District Treasurer, who further delated the day to day operations to the Director of Finance and Administration.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

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

## LOCAL ECONOMY AND OUTLOOK

Valley Center has been 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 the decline in agriculture. The decline is due in part to regulatory restrictions, labor costs and shortages, market competition, and the rapid rise in the cost of water over the last nine years. Many growers have abandoned their permanent tree crops (citrus and avocado) farming operations and have shifted to higher value, lower water use crops such as ornamental flowers, nurseries, and wine grapes.

Water Sales in AF



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 21,498 acre feet of water as compared to fiscal year 2007-2008 when the District sold 37,636 acre feet, representing a 43% decline in sales volume.

As of January 1, 2018, the estimated population of the area serviced by the District was 25,727. The median age of the residents was 44.1 years, occupied housing units in the community totaled 8,227, and the median household income, not adjusted for inflation is estimated at \$98,168<sup>1</sup>. At June 30, 2018, unemployment in California was 4.2%, San Diego County was 3.7%, and the local rate in the Valley Center Census Designated Place (CDP) was 3.1%.

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. 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 Water Project. 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.

## 2018 Facts and Figures



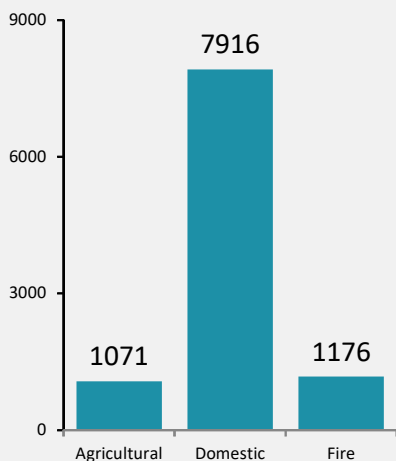
### Population

- 25,727 Valley Center Residents
- 10,163 Active Water Meters

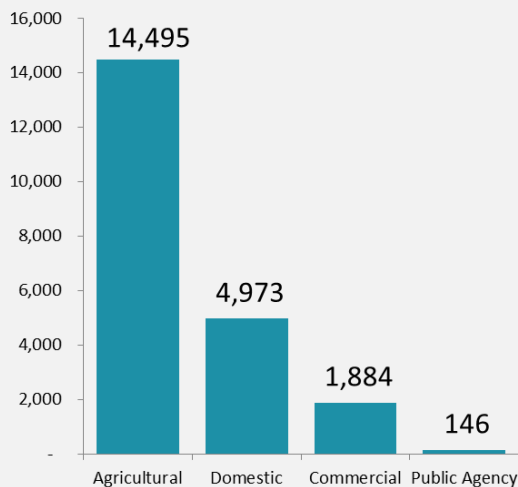
### Rates and Charges

- Total Domestic/Commercial Rate: \$2,115.84 per acre foot
- Total Agricultural Rate: \$1,552.22 per acre foot
- ¾" Water Service Charge: \$39.93 per month

**Active Water Meters**



**Acre Feet Sold**



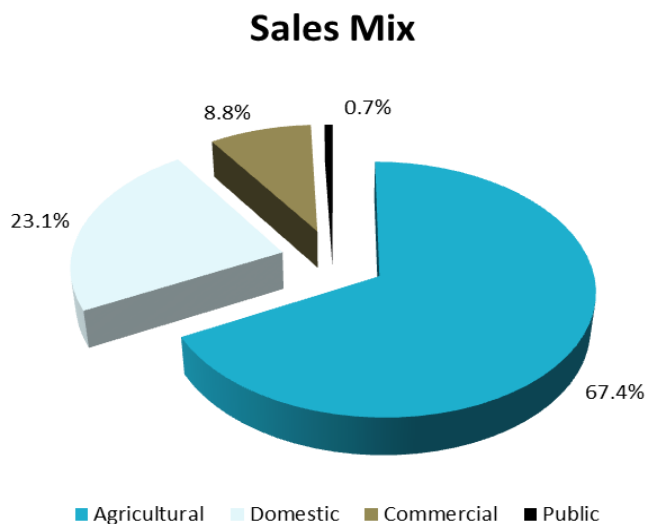
<sup>1</sup> San Diego Association of Governments (SANDAG) as of January 1, 2016, (data not yet available for 2017) in the Valley Center Statistical Reference Area, which encompasses part but not all of the District.

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.

**Financial and Economic Trends** – Customer meter categories have stayed consistent with one hundred twenty new meter accounts having been established during 2017-18. This raised the total number of meter connections within the District to 11,027, of which 1,302 are fire meter accounts. Of the total meter accounts, 738 water service accounts and 126 fire service accounts are inactive, resulting in 10,163 revenue generating water meters at the close of the fiscal year. This is an increase of 77 active service accounts (43 fire and 34 water service) compared to the close of 2016-17.

Though there was little actual private development construction completed in fiscal year 2017-18, the District continued to process 15 private development projects containing a total of 644 units in various stages of completion, from concept approval to warranty period. Additionally, there are six projects with 3,808 units that are in the active planning stage and ten inactive projects with 73 units.

For the fiscal year ended June 30, 2018, water sales were 21,498 acre feet, up 2,259 acre feet or 11.7% from sales of 19,239 acre feet in 2016-17. This increase is due to a 70% reduction in total rainfall for the year, 6.3 inches versus 21.0 inches in 2016-17. Water deliveries are broken down as follows: 67.4% was for agricultural purposes, 23.1% for domestic, 8.8% for commercial, and 0.7% was for public use. The total cost of water purchased for the fiscal year was \$30.7 million, or 59.8% of the District's total operating expenses.



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.

**SDCWA Transitional Special Agricultural Water Rate** – The San Diego County Water Authority (SDCWA) 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 the full cost, nor do they benefit fully from, the SDCWA Emergency Storage or Carry-Over Storage Projects. In addition, the SDCWA melded rate reflects the costs of the supplemental supplies, such as those from the IID Transfer, the All-American-Coachella Canal Lining, and the Carlsbad Seawater Desalination project which 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 2017 the discount that certified agricultural customers received totaled \$550 per acre foot, based on water rates effective February 1, 2017. With the extension of the full TSAWR pricing differential, VCMWD participating agricultural customers will pay \$1,552.22 per acre foot, compared to the \$2,115.84 per acre foot that domestic/commercial customers will pay, a 26.6% reduction or savings of \$563 per acre foot in calendar 2018.

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, 2018.

**Long-Term Financial Planning** – New capital improvement facilities are categorized as either, Replacement, System Upgrade or Expansion facilities. Replacement and System Upgrade facilities are currently funded from replacement and capital reserves, primarily on a pay as you go cash basis. These reserves are funded annually by a combination of standby fees, capacity fees, water availability charges, and excess operating and non-operating revenues. The District has recently obtained SRF financing for one replacement project and is pursuing additional SRF financing to leverage reserve funds for other replacement projects. Expansion facilities are typically funded by project proponents and dedicated to the District for ownership, operation and maintenance. Capacity fees are based on a buy-in approach to the District's current asset and replacement reserve account values and are used primarily for replacement and system upgrade projects. However, an incremental component to the capacity charge is included when the district invests in expansion facilities for specific benefit areas.

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. In addition, 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 had previously applied and received a funding commitment from the State of California for a CWSRF (Clean Water State Revolving Fund Loan) to finance the Woods Valley Ranch Wastewater Expansion Project located in the central valley area of the District.



*Woods Valley Ranch Water Reclamation Facility Disk Filtration System.*

The project provides wastewater collection, treatment and disposal capacity for an additional 1,095 EDUs (Equivalent Dwelling Units) of capacity. The original loan authorization was for \$30,735,000 and anticipated construction of four separate project components. Annual assessments from the assessment district that was formed over the properties participating in the project will be utilized for repayment of the loan. The loan is repayable over a twenty-year term at an annual interest rate of 2.2%. The District has completed three of the project components, including the Woods Valley Ranch Water Reclamation Facility Phase 2 Expansion, the Charlan Road Seasonal Storage and the South Village Collection System Project components at a total cost of approximately \$27.6M, \$24.6M of which was funded from the CWSRF Loan. A Limited Obligation Improvement Bond in the amount of \$4.035M was issued to fund the fourth project component, the North Village Collection System. The Bond was established be repayable over a twenty-year term at an annual interest rate of 2.2%, to match the CWSRF financing terms.

Staff is preparing a \$6.5M CWSRF application for submittal to the SWRCB (State Water Resources Control Board) for CWSRF financing for the final two project components, the Orchard Run Lift Station and the North Village Lift Station. Approval is anticipated in fiscal year 2018-19.

The District obtained a DWSRF (Drinking Water State Revolving Fund) loan for the Cool Valley Cover Liner Replacement project in the amount of \$4,195,000 at 1.6% interest for a 20-year repayment term. Project completion is also expected in fiscal year 2018-19.

In addition, the San Diego County Water Authority has agreed to fund an estimated \$6 million for improvements to the District's San Gabriel and Lilac-Pala Pump Stations, extension of the 16-inch waterline in Lilac Road, and construction of a flow control facility to provide for an alternative source of water to the District's VC3 Area and the Yuima Municipal Water District during a North County Emergency Storage Event.

## **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.

### **Water System Operations**

**Transmission, Distribution, and Storage Facilities Improvements** – Capital improvement work completed during the fiscal year included the following: paving improvements for the Country Club Reservoir, painting and recoating of the Red Mountain and Betsworth Forebay No. 1 Reservoirs, Wilkes Road Water Line extension to upgrade system redundancy, West Lilac waterline relocations due to County road drainage improvements.



Upgrades to the fire hydrants along Valley Center Road were completed to include the new automatic shutoff check valve which is located below the hydrant. No substantial private development work was in progress or completed during the fiscal year. Planning efforts continued on six major developments; Butterfield Trails Orchard Run, Meadowood, Park Circle, Weston Towne Center and North Village Station.

Other small development activities included the renewal of one developer project plan approval, completion of a water line extension for a seven lot subdivision and retail shopping center, and completion of two special projects.

**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. 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.



*District staff repair fire hydrant.*

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 will be implementing changes to the Time-of-Use time periods next fiscal year. The District has been developing pumping strategies in anticipation of these changes to minimize the financial impact of the new Time-of-Use periods. The District is also evaluating increasing the use of its Natural Gas Engines and purchasing Natural Gas on the open market.

**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



*West Lilac waterline relocation.*

programs provide further field observation of District 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 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 2017-18, unaccounted water loss was 4.9% of total water sold.

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.

### **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.

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.

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 and requested to participate in the South Village Wastewater Expansion Project for half of their ultimate wastewater demand.



*AeroMod Treatment Unit at the Woods Valley Ranch Water Reclamation Facility.*

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 required additional collection facilities and larger treatment and seasonal storage facilities, the project cost per EDU was reduced.

The project was divided among 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. An assessment district was formed over the participating properties to fund the project and the District received a SWRCB Clean Water State Revolving Fund (SRF) loan for the first three project components and completed the Woods Valley Ranch Water Reclamation Facility Phase 2 Expansion Project, Charlan Road Seasonal Storage Facility and the South Village Collection system in fiscal year 2016-17. The remaining project, the North Village Collection system, was further split into three projects, the North Village Low Pressure Sewer Collection System, the Orchard Run Lift Station and the North Village Lift Station. SRF funding was not available for the North Village LPS Collection System component and a Limited Obligation Improvement Bond was issued to fund the project. Design of the North Village LPS Collection System was completed in fiscal year 2017-18 with construction scheduled for fiscal year 2018-19. SRF funding for the lift station projects will be pursued in fiscal year 2018-19 with construction planned for the following fiscal year.

**Lower Moosa Canyon Water Reclamation Facility** – The District received a Bureau of Reclamation Grant to prepare a feasibility study to evaluate reclamation options for the effluent generated Moosa Facility, include a regional brine line. Approved feasible options would be eligible for application of a Bureau of Reclamation 25% construction grant funding. Completion of the Feasibility Study is schedule for fiscal year 2018-19.

### **Development 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.



During Fiscal Year 2016-17, the provision of water service from VCMWD's VC3 Area was explored as well as obtaining wastewater service from the VCMWD's Lower Moosa Canyon Water Reclamation Facility. Preliminary cost estimates indicate that these alternative sources of water and wastewater service are feasible and the environmental impacts are being evaluated.

**Lilac Hills Amendment** – 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, Rodriguez Road, and Nelson Way. After securing approval of the PAA, the developer submitted an application to amend the County's General Plan for the proposed project. 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 this time the District continued to work with the developer's engineer in further developing the planning documents for the project, which included opportunities for development of a recycled water service area for treated effluent from the Lower Moosa Canyon Water Reclamation Facility. In early 2016, the developers petitioned the Board of Supervisors to place the General Plan Amendment initiative on the November 2016 General Ballot Election. While the ballot measure failed to pass, the Developer's indicated that they plan to continue their efforts to obtain the General Plan Amendment in fiscal year 2018-19.

**Village Areas** – With completion of the Woods Valley Ranch Wastewater Expansion Project, several developments in the District North and South Village Areas are planned to move forward in the upcoming fiscal year. Touchstone Communities has 3 projects in the South Village Area; Orchard Run, Park Circle and Shady Oak. Orchard Run is a 300 unit residential subdivision that has completed its development entitlements for the project. Park Circle is a mixed use development of 332 residential units, 4.2 acres of commercial area and 5 acres of parks and recreational facilities.

Shady Oak is a 47 unit residential subdivision. Valley C LLC has obtained the Weston Towne Center project and intends to move forward with its 600 unit mixed use development in the North Village area as will Valley Center View properties with its 200 unit mixed use residential, office/professional development.

### **Information Technology**

**Supervisory Control and Data Acquisition (SCADA) System** – The water SCADA system has now been completed. All remote sites in the original master plan have now been changed from the old telemetry-based system to a modern IP network using redundant wireless connections, Programmable Logic Controllers (PLCs), and computer-based control of all devices on the network. Our wireless network now has 149 radios installed, and the entire network has over 600 network devices connected. The project gave us seamless communication capabilities to all District facilities, including remote video surveillance, remote office connectivity, Wi-Fi connections, and more. This was a District-wide effort that took coordinated work from multiple departments and divisions spanning more than a decade. It will be an ongoing effort to maintain and upgrade this system in the coming years.

The SCADA System for the Woods Valley Treatment Plant is now operational. New software was installed that replaced the old Wonderware system as part of the treatment plant expansion project.

**Advanced Metering Infrastructure (AMI)** – The system is now integrated with the Springbrook database. The AMI system automatically reads meters every 15 minutes via a wireless system and maintains a database of all meter readings. Our customer records have been integrated with the Sensus AMI system, which prepares the automated meter readings that are then imported back into our system. The AMI system has been partially deployed in select portions of the District’s service area.

**Virtualization and Storage** – Installation of 3 new host servers, including one in the SCADA network, and two in the business network was completed. These host servers contain virtual servers that serve SCADA and most of our business systems, which includes hosting an upgraded GIS and future asset management systems.

## ACCOUNTING SYSTEMS

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

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

## INTERNAL CONTROLS

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

## BUDGETARY CONTROLS

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

## CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Valley Center Municipal Water District for its comprehensive annual financial report for the fiscal year ended June 30, 2017. 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.

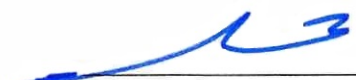
A Certificate of Achievement is valid for a period of one year only. Valley Center Municipal Water District has received a Certificate of Achievement each year since 1992. We believe our current report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to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

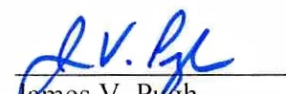


## ACKNOWLEDGMENTS

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

Respectfully Submitted:

  
Gary T. Arant  
General Manager

  
James V. Pugh  
Director of Finance  
& Administration

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

## STRATEGIC PLAN PERFORMANCE MEASUREMENT STANDARDS RESULTS FOR CALENDAR YEAR ENDED DECEMBER 31, 2017

**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% 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 calendar 2017 amounted to 716.7 acre feet, 3.4% of total water sold, representing \$810,000 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, 2018, 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 10.8% of the Municipal and Industrial and 14.8% 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 106.0% of the design criteria.

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

One project was completed in calendar year 2017 at 5.1% under 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 99.998%.

**8. COMPLIANCE WITH ALL STATE & FEDERAL REGULATIONS.**

100%.

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

The District had no lost time accidents in calendar year 2017.

**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 1.348%, while the 12-month rolling average for U.S. Treasury Bonds was 1.215%.

## DISTRICT OFFICIALS

### **Board of Directors:**

<u>Title</u>	<u>Name</u>	<u>Service</u>	<u>Term Expires</u>
President	Robert A. Polito	30 years	January 2021
Vice-President	Randy D. Haskell	18 years	January 2019
Director	Gary A. Broomell	49 years	January 2019
Director	Enrico P. Ferro	2 year	January 2021
Director	Daniel Holtz	< 1 year	January 2019

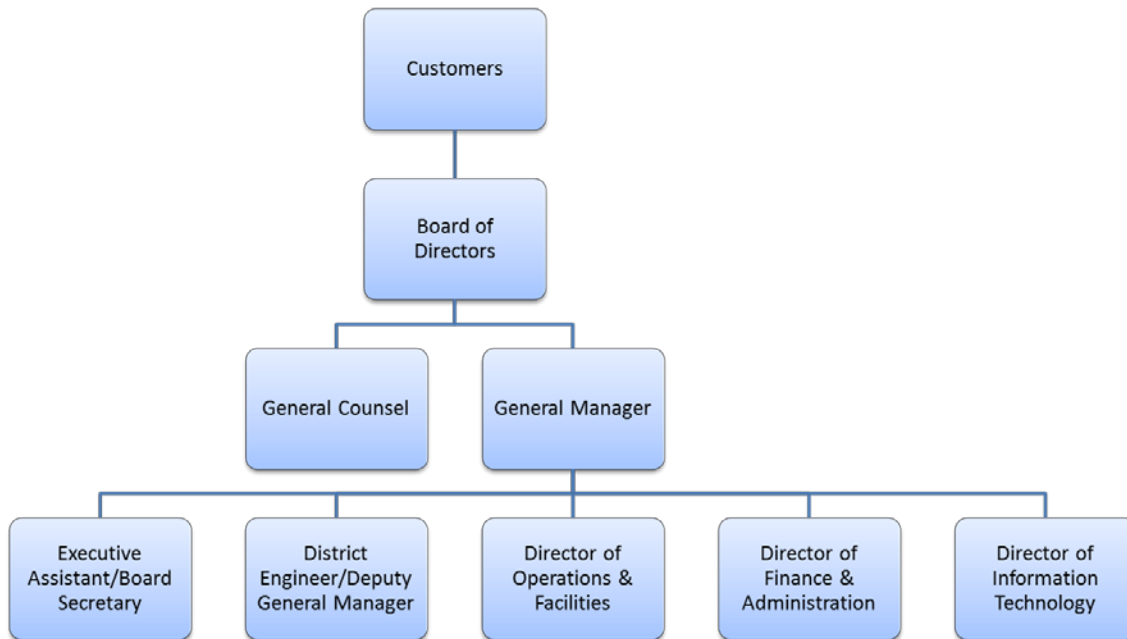
### **Executive Management:**

<u>Title</u>	<u>Name</u>	<u>Service</u>
General Manager	Gary T. Arant	29 years
District Engineer/Deputy GM	Wally T. Grabbe	26 years
Director of Operations/Facilities	Albert G. Hoyle	27 years
Director of Finance & Administration	James V. Pugh	15 years
Director of Information Technology	Ando Pilve	10 years
Executive Assistant/Board Secretary	Christine M. Johnson	28 years

### **General Counsel:**

Best, Best & Krieger, LLP	Paula C. P. de Sousa Mills	8 years
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## DISTRICT ORGANIZATION CHART

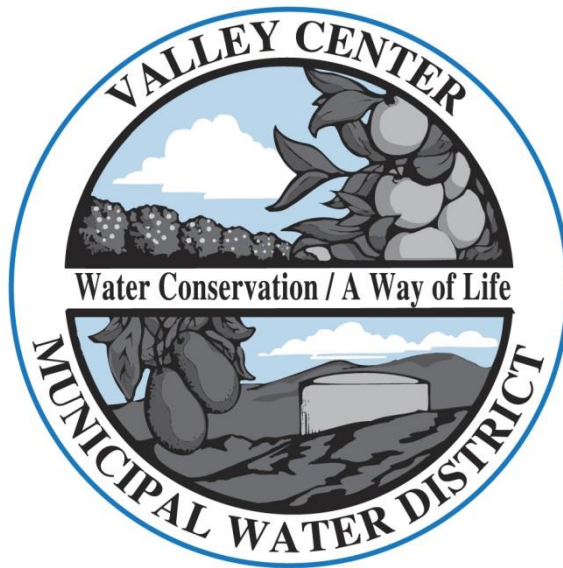


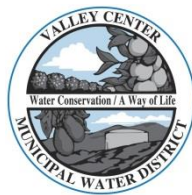
## DISTRICT SERVICE AREA





# Financial Section









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, 2018, 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

### ***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, 2018, 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***

#### **Change in Accounting Principle**

As described in Note 14 to the financial statements, the District changed its method of accounting and financial reporting for postemployment benefits other than pensions in order to conform with “Governmental Accounting Standards Board Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions”. Our report is not modified with respect to this matter.

#### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that management’s discussion and analysis and the required supplementary information on pages 45 to 49 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 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 of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the 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, the combining schedule of revenues, expenses, and changes in net position, 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 and the combining schedule of revenues, expenses, and changes in net position are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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 and the combining schedule of revenues, expenses, and changes in net position are fairly stated, in all material respects, in relation to the financial statements as a whole.

To the Board of Directors  
Valley Center Municipal Water District

Page 3

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.

Leaf & Cole LLP

San Diego, California  
January 22, 2019

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The intent of the Management's Discussion and Analysis (MD&A) is to provide highlights of the financial activities for the fiscal year ended June 30, 2018, of the Valley Center Municipal Water District (the "District"). Readers are encouraged to read this section in conjunction with the Letter of Transmittal located in the front of this report and the accompanying basic financial statements.

### DISTRICT OPERATIONS – AN OVERVIEW

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

### OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of the following three sections: Management's Discussion and Analysis, the Financial Statements, and Supplementary Information. The Financial Statements include Notes to the Financial Statements, that provide additional information that is essential to a full understanding of the information provided in the basic statements and are an integral part of the financial statements.

### REQUIRED FINANCIAL STATEMENTS

The Financial Statements of the District report information utilizing the full accrual basis of accounting. The Financial statements conform to accounting principles, which are generally accepted in the United States of America and consist of three interrelated statements designed to provide the reader with relevant, understandable data on the District's financial condition and operating results. They are the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows.

The **Statement of Net Position** includes information on the District's assets, deferred outflows, liabilities, and deferred inflows of resources, which provide information about the nature and amount of investments in resources (assets), the obligation to District creditors (liabilities), and is a way to measure financial position. Over time, increases or decreases in the District's net position may serve as a useful indicator of whether its financial position is improving or deteriorating. Other factors, such as economic conditions, population growth, and new or changing government legislation should also be taken into consideration.

The **Statement of Revenues, Expenses and Changes in Net Position** identifies the District's revenues and expenses for the fiscal year ended June 30, 2018. It provides information on operations over the past fiscal year and can be used to determine whether the District has recovered its actual and projected costs through user fees and other charges.

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

**Notes to the Basic Financial Statements** 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

The District's financial operations remained sound during Fiscal Year 2017-18. Sources of revenues were sufficient to cover combined operating and non-operating costs. The Statement of Net Position remains strong.

### Water System Operations

The District added 120 new water services this year, which represents a 1.1% increase in the number of accounts it serves, compared to the prior year's increase of 71 accounts, representing a 0.7% increase. Total water services now equal 11,027 accounts, of which 10,163 are active and 864 inactive. During the fiscal year ended June 30, 2018, water sales totaled 21,498 acre feet (AF) increasing 11.7%, or 2,259 AF from the previous year.

The District's demand is largely influenced by temperature and rainfall. The annual rainfall during the fiscal year was 6.3 inches compared to the prior year of 21.3 inches, a 70% decrease. Additionally, the average temperature was 63.3 degrees compared to 61.8 degrees during fiscal year 2016-17.

The Cost of Water Sold is the District's highest single water operating expense. In January 2018, wholesale treated water rates from the San Diego County Water Authority increased 3.1% for domestic customers and 3.4% for our agricultural customers. The total Cost of Water Sold during Fiscal Year 2017-18 was \$30,744,890, or 14.2% higher than the previous year. The total amount of water purchased during the year was 22,526 AF compared to 20,220 AF in the previous year.

### Wastewater System Operations

Construction of the Woods Valley Ranch Water Reclamation Facility Phase 2 Expansion Project began in June 2015 and was broken down into several components; the Charlan Road Seasonal Storage Facility, the South Village Collection System, and the Treatment Plant that were completed in fiscal year 2016-17. The remaining project, the North Village Collection system, is scheduled for completion in fiscal year 2018-19.

### Sources of Revenue

Combined revenues (excluding capital contributions) for the fiscal year totaled \$53,782,338, an increase of \$7,150,343 or 15.3% from the previous year. Details of this increase in revenues are as follows:

- Water sales and pumping revenue increased by 20.6% or \$6,655,038, from the prior year. Effective January 1, 2017, water rate increases were 6.9% for domestic and 8.3% for the San Diego County Water Authority Transitional Special Agricultural Water Rate (TSAWR). In addition, rates went up again on January 1, 2018 by 3.3% for domestic and 3.6% for TSAWR. These increases are due to increases in wholesale costs from the District's supplier, the San Diego County Water Authority. Pumping charges were up 29.6%, or \$633,697, due to the increase in the volume of water sold and an increase in pumping rates on January 1, 2017, and January 1, 2018, of 10% each year.

- Meter service charges were \$333,692 or 5.7% higher at \$6,208,303 in 2017-18 compared to \$5,874,611 in 2016-17. Monthly meter service charges increased 10.0% on January 1, 2017. In addition, the number of active meters at year end increased by 77 bringing the 2017-18 count to 10,163 as compared to 10,086 in the prior year.
- Meter installation fees for the year were up 13.5% or \$26,433 from the prior year due to an increase in the amount of new water meters and backflow devices purchased and installed.
- Property taxes and assessments increased slightly by 3.7%, or \$101,577, from 2016-17 to 2017-18. 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 104.5%, or \$176,628, from the prior year. Yields on investments were higher than the prior fiscal year along with higher cash balances.
- Wastewater charges are down 4.3% or \$182,580 due to the fees associated with Assessment District 2012-1. This is a result of a reclassification of fees attributable to offset long-term receivables associated with the buy in to Phase 1 of the Woods Valley Ranch Treatment Plant.

The following table presents a comparison of revenues for each of the consecutive fiscal years.

### Combined Revenues by Category

	Fiscal Year 2018	Fiscal Year 2017	Increase/ (Decrease)	% Change
<b><u>Revenues by Category:</u></b>				
Water sales and pumping charges	\$39,010,351	\$32,355,313	\$6,655,038	20.6%
Meter service charges	\$6,208,303	\$5,874,611	333,692	5.7%
Meter installation fees	222,587	196,154	26,433	13.5%
Other water operating revenues	610,544	645,435	(34,891)	-5.4%
Wastewater charges	4,056,779	4,239,359	(182,580)	-4.3%
Property taxes and assessments	\$2,878,959	\$2,777,382	\$101,577	3.7%
Investment income	345,698	169,070	176,628	104.5%
Other nonoperating revenues	325,571	350,924	(25,353)	-7.2%
Gain (Loss) on disposal of capital assets	123,546	23,747	99,799	420.3%
Total Revenues	\$53,782,338	\$46,631,995	\$7,150,343	15.3%
Capital contributions	396,898	205,285	191,613	93.3%
Total Revenues & Capital Contributions	\$54,179,236	\$46,837,280	\$7,341,956	15.7%

### Functional Expenses

- Cost of water sold increased 14.2% over the prior year. Water purchases were up 2,306 acre feet, or 11.4%, from the prior year, along with higher wholesale water prices. In 2016-17, the District purchased 20,220 acre feet of water at an average price of \$1,332 per acre foot. In the current year, the District purchased 22,526 acre feet of water at an average price of \$1,365 per acre foot, an increase of 2.5% or \$33 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.

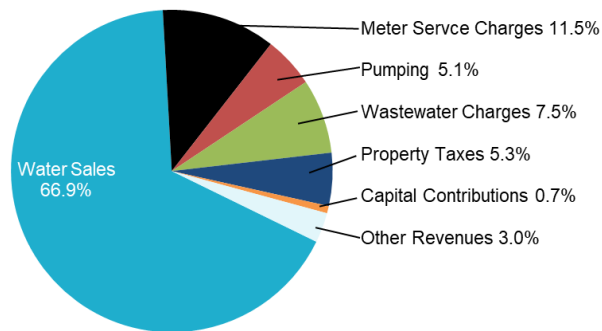
- Agricultural discounts passed through from the SDCWA on their melded water rate during the year were \$2,817,755. This cost reduction for agricultural water is passed through to the District's qualified agricultural customers and is included in the Cost of water sold.
- Energy and pumping costs during 2017-18 were 9.7%, or \$256,111 higher than 2016-17. This is a result of higher utility costs that were offset by lower labor, outside professional services, and maintenance expenses.
- Water systems operations increased \$585,758, or 11.0%, over 2016-17. The increase is due to higher labor and benefits along with increases in maintenance expenses.
- Engineering expenses for 2017-18 were 14.2%, or \$240,710, lower than 2016-17. This is a result of expenses associated with the waste discharge report that were written off last year along with reductions in labor and benefits as more time was devoted to capital projects during the year.
- General and administrative expenses increased 124.6% or \$3,149,791 due to a combination of factors, the largest being a pension expense charge of \$2,443,785 compared to a credit of \$1,070,660 last year. This is associated with Government Accounting Standards Board Statement 68 (GASB 68) "Accounting and Financial Reporting for Pensions". In addition there was an Other Post Employment Benefit expense of \$426,164 which is a new requirement under Government Accounting Standards Board Statement 75 (GASB 75) "Accounting and Financial Reporting for Postemployment Benefits other than Pensions." These increases were offset by lower write-off of uncollectible customer accounts, maintenance and insurance costs.
- Depreciation expense in 2017-18 increased by 2.9%, or \$95,770 from the prior year.
- Combined Wastewater collection and treatment costs for Moosa and Woods Valley Ranch were \$50,142 or 3.9% more than the prior year. The increase is a result of increased labor and chemical costs, increased general administrative costs due to higher overhead, and increased regulatory permits and fees, which were offset by lower outside professional services.
- Interest expense was \$301,102 higher than the previous year. This is due to higher interest expenses associated with the state revolving fund loans.

The following table presents a comparison of expenses for each of the consecutive fiscal years.

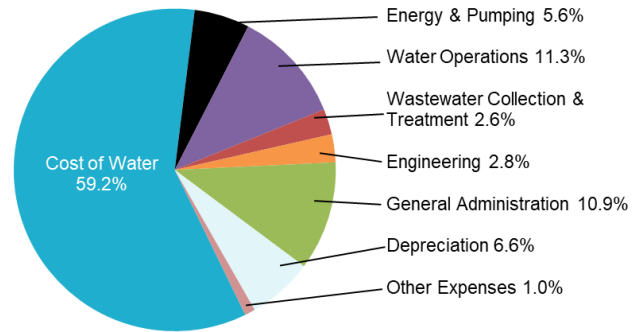
### Combined Expenses by Category

	Fiscal Year 2018	Fiscal Year 2017	Increase/ (Decrease)	% Change
<b><u>Expenses by Category:</u></b>				
Cost of water sold	\$30,744,890	\$26,930,842	\$3,814,048	14.2%
Energy and pumping costs	2,888,038	2,631,927	256,111	9.7%
Water systems operations	5,890,653	5,304,895	585,758	11.0%
Wastewater collection and treatment	1,333,425	1,283,283	50,142	3.9%
Engineering	1,455,201	1,695,911	(240,710)	-14.2%
General and administrative	5,677,591	2,527,800	3,149,791	124.6%
Depreciation	3,402,608	3,306,838	95,770	2.9%
Interest expense	540,037	238,935	301,102	126.0%
Total expenses	<u>\$51,932,443</u>	<u>\$43,920,431</u>	<u>\$8,012,012</u>	<u>18.2%</u>

Source Of Revenues Fiscal Year Ended June 30, 2018



Source Of Expenses Fiscal Year Ended June 30, 2018



### Net Position

The District's Net Position current year results reported an increase in Net Position of \$2,246,793 or 2.8% compared to the previous year. Total assets increased \$8,261,032, or 6.0% over the previous year, mainly due to increased cash and investments that were offset by reduced long-term receivables and a decrease in capital assets due to the Woods Valley Ranch Expansion Project. Total Liabilities are up \$5,730,980, or 9.2%. The increase in liabilities is due to increases in long-term debt associated with the State Revolving Fund Loans for Woods Valley Ranch Expansion and the Cool Valley Ranch Cover/Liner Replacement projects and increases in the Net Pension and OPEB Liabilities. More detailed information concerning the Deferred Outflows and Inflows of Resources can be found in Note 8 of the Notes to the Financial Statements.

### Condensed Statement of Net Position

	Fiscal Year 2018	Fiscal Year 2017	Increase/ (Decrease)	% Change
Current Assets	\$41,910,310	\$32,770,562	\$9,139,748	27.9%
Restricted Assets	1,359,327	1,177,622	181,705	15.4%
Long-term Receivables	3,148,892	3,589,720	(440,828)	-12.3%
Capital Assets	98,516,282	99,135,875	(619,593)	-0.6%
<b>Total Assets</b>	<b>\$144,934,811</b>	<b>\$136,673,779</b>	<b>\$8,261,032</b>	<b>6.0%</b>
Deferred Outflows of Resources	\$7,190,490	\$7,754,801	(\$564,311)	-7.3%
Current Liabilities	\$13,692,454	\$13,416,215	\$276,239	2.1%
Long-term Debt	\$25,649,394	\$22,018,885	\$3,630,509	16.5%
Other Noncurrent Liabilities	\$28,568,061	\$26,743,829	\$1,824,232	6.8%
<b>Total Liabilities</b>	<b>\$67,909,909</b>	<b>\$62,178,929</b>	<b>\$5,730,980</b>	<b>9.2%</b>
Deferred Inflows of Resources	\$334,425	\$615,476	(\$281,051)	-45.7%
Net Position:				
Net investment in capital assets	\$71,684,014	\$72,382,729	(\$698,715)	-1.0%
Restricted for facility expansion	1,359,327	1,177,622	181,705	15.4%
Unrestricted	10,837,626	8,073,823	2,763,803	34.2%
<b>Total Net Position, as Restated</b>	<b>\$83,880,967</b>	<b>\$81,634,174</b>	<b>\$2,246,793</b>	<b>2.8%</b>



## Statement of Revenues, Expenses and Changes In Net Position

	Fiscal Year 2018	Fiscal Year 2017	Increase/ (Decrease)	% Change
<b><u>Operating Revenues:</u></b>				
Water sales and pumping charges	\$39,010,351	\$32,355,313	\$6,655,038	20.6%
Meter service charges	\$6,208,303	\$5,874,611	333,692	5.7%
Wastewater charges	4,056,779	4,239,359	(182,580)	-4.3%
Meter installation fees	222,587	196,154	26,433	13.5%
Other water operating revenues	610,544	645,435	(34,891)	-5.4%
Total operating revenues	<u>\$50,108,564</u>	<u>\$43,310,872</u>	<u>\$6,797,692</u>	<u>15.7%</u>
<b><u>Operating Expenses:</u></b>				
Cost of water sold	\$30,744,890	\$26,930,842	\$3,814,048	14.2%
Energy and pumping costs	2,888,038	2,631,927	256,111	9.7%
Water systems operations	5,890,653	5,304,895	585,758	11.0%
Wastewater collection and treatment	1,333,425	1,283,283	50,142	3.9%
Engineering	1,455,201	1,695,911	(240,710)	-14.2%
General and administrative	5,677,591	2,527,800	3,149,791	124.6%
Depreciation	3,402,608	3,306,838	95,770	2.9%
Total operating expenses	<u>\$51,392,406</u>	<u>\$43,681,496</u>	<u>\$7,710,910</u>	<u>17.7%</u>
Operating (Loss)	<u>(\$1,283,842)</u>	<u>(\$370,624)</u>	<u>(\$913,218)</u>	<u>246.4%</u>
<b><u>Nonoperating Revenues and (Expenses):</u></b>				
Property taxes and assessments	\$2,878,959	\$2,777,382	\$101,577	3.7%
Investment income	345,698	169,070	176,628	104.5%
Other nonoperating revenues	325,571	350,924	(25,353)	-7.2%
Interest expense	(540,037)	(238,935)	(301,102)	126.0%
Gain (Loss) on disposal of capital assets	123,546	23,747	99,799	420.3%
Total Nonoperating Revenues and (Expenses)	<u>\$3,133,737</u>	<u>\$3,082,188</u>	<u>\$51,549</u>	<u>1.7%</u>
Income Before Contributions	1,849,895	2,711,564	(861,669)	-31.8%
Capital contributions	<u>396,898</u>	<u>205,285</u>	<u>191,613</u>	<u>93.3%</u>
Change in Net Position	<u>\$2,246,793</u>	<u>\$2,916,849</u>	<u>(\$670,056)</u>	<u>-23.0%</u>
Net Position at Beginning of Year, as Restated	<u>\$81,634,174</u>	<u>\$85,847,362</u>	<u>(\$4,213,188)</u>	<u>-4.9%</u>
Restatement <sup>(1)</sup>	<u>\$0</u>	<u>(\$7,130,037)</u>	<u>\$7,130,037</u>	<u>-100.0%</u>
<b>NET POSITION AT END OF YEAR, as Restated</b>	<u><u>\$83,880,967</u></u>	<u><u>\$81,634,174</u></u>	<u><u>\$2,246,793</u></u>	<u><u>2.8%</u></u>

(1) Restatement of 2017 Net Position at End of Year per GASB Statement 75 for Postemployment Benefits Other Than Pensions and the reclassification of expended customer deposits Woods Valley Ranch, see footnote 14 to the financial statements.

## CAPITAL ASSETS

Capital assets include land, transmission and distribution system, general plant, and construction-in-progress. At June 30, 2018, the District had \$186,904,574 in capital assets with \$88,388,292 of accumulated depreciation. This represents a net decrease (additions less deductions) of \$4,209,314 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 Turner Culvert Repair Project, Rincon Reservoir Recoating, Administrative Facility Improvements, and the Woods Valley Ranch Water Reclamation Facility Expansion. Significant additions to construction in progress include the Red Mountain Reservoir and Betsworth Forebay Number 1 Painting and Recoating, the Integrated Water Resources Management Plan, and the Cool Valley Reservoir Cover-Liner Replacement.

### Capital Assets

	Fiscal Year 2018	Fiscal Year 2017	Increase/ (Decrease)	% Change
Land	\$7,928,708	\$5,304,282	\$2,624,426	49.5%
Construction in progress	8,217,377	33,339,314	(25,121,937)	-75.4%
Transmission and distribution system	153,814,650	133,086,339	20,728,311	15.6%
General plant	16,943,839	16,225,721	718,118	4.4%
Total assets	<u>\$186,904,574</u>	<u>\$187,955,656</u>	<u>(\$1,051,082)</u>	<u>-0.6%</u>

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

### LONG TERM DEBT

The District previously applied and received a funding commitment from the State of California for a Clean Water State Revolving Fund Loan to finance the Woods Valley Ranch Wastewater Expansion Project located in the central valley area of the District. The project provides wastewater collection, treatment and disposal capacity for an additional 1095 Equivalent Dwelling Units of capacity. The original loan authorization was for \$30,735,000 and anticipated construction of six separate project components. Annual assessments from the assessment district that was formed over the properties participating in the project will be utilized for repayment of the loan. The loan is payable over a twenty-year term at an annual interest rate of 2.2%. The District has completed three of the project components, including the Woods Valley Ranch Water Reclamation Facility Phase 2 Expansion, the Charlan Road Seasonal Storage and the South Village Collection System Project components at a total cost of approximately \$27.6M, \$24.6M of which was funded from the CWSRF Loan. A Limited Obligation Improvement Bond in the amount of \$4.035M was issued to fund the fourth project component, the North Village Collection System. The Bond was established and is repayable over a twenty-year term at an annual interest rate of 2.2%, to match the CWSRF financing terms. Staff is preparing a \$6.5M CWSRF application for submittal to the SWRCB (State Water Resources Control Board) for CWSRF financing for the final two project components, the Orchard Run Lift Station and the North Village Lift Station. Approval is anticipated in Fiscal Year 2018-19.

The District also has an SRF Loan used for the Cool Valley Reservoir Cover-Liner replacement. This loan for \$2,915,212 is payable over a twenty-year term with interest at 1.6%.

The District had no general obligation bonded debt at June 30, 2018. 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.

**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.

## **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, 2018, the District had designated \$6,245,205 of its unrestricted net assets as a water operating reserve to mitigate the potential of these effects. This represents approximately six months 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, 2018**

**ASSETS**

**Current Assets:** (Notes 1 and 2)

Cash and cash equivalents	\$ 24,634,604
Investments	8,746,709
Accounts receivable - Water and wastewater, net	6,595,384
WVR Phase 1 Buy-In receivable	148,000
Interest receivable	143,177
Taxes receivable	10,906
Other receivables	6,213
Inventory	586,485
Prepaid expenses and deposits	251,338
Work in progress for others	787,494
Total Current Assets	<u>41,910,310</u>

**Noncurrent Assets:** (Notes 1, 2, 3 and 4)

**Restricted Assets:**

Cash and cash equivalents	501,146
Investments	858,181
Total Restricted Assets	<u>1,359,327</u>

**Long-Term Receivables:**

WVR Phase 1 Buy-In receivable, net of current portion	3,148,892
Total Long-term Receivables	<u>3,148,892</u>

**Capital Assets:**

Nondepreciable capital assets	16,146,085
Depreciable capital assets, net	82,370,197
Total Capital Assets	<u>98,516,282</u>

Total Noncurrent Assets	<u>103,024,501</u>
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<b>TOTAL ASSETS</b>	<u>144,934,811</u>
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**DEFERRED OUTFLOWS OF RESOURCES:** (Notes 1, 8 and 9)

Deferred outflows related to pensions	4,407,282
Deferred outflows related to pension contributions	2,061,087
Deferred outflows related to OPEB contributions	722,121
Total Deferred Outflows of Resources	<u>7,190,490</u>

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

**VALLEY CENTER MUNICIPAL WATER DISTRICT**  
**STATEMENT OF NET POSITION (CONTINUED)**  
**JUNE 30, 2018**

**LIABILITIES**

**Current Liabilities:** (Notes 1 and 5)

Accounts payable	\$ 6,529,725
Accrued payroll	126,099
Accrued compensated absences	784,100
Interest payable	309,860
Customer deposits	4,759,796
Current portion of loans payable	1,182,874
Total Current Liabilities	<u>13,692,454</u>

**Noncurrent Liabilities:** (Notes 1, 5, 8 and 9)

**Long-Term Debt:**

Loans payable, net of current portion	<u>25,649,394</u>
Total Long-Term Debt	<u>25,649,394</u>

**Other Noncurrent Liabilities:**

Net pension liability	23,136,342
Net OPEB liability	3,851,166
Accrued compensated absences, net of current portion	1,580,553
Total Other Noncurrent Liabilities	<u>28,568,061</u>

Total Noncurrent Liabilities	<u>54,217,455</u>
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Total Liabilities	<u>67,909,909</u>
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**DEFERRED INFLOWS OF RESOURCES:** (Notes 1, 8 and 9)

Deferred inflows related to pensions	254,779
Deferred inflows related to OPEB	79,646
Total Deferred Inflows of Resources	<u>334,425</u>

**Commitments and Contingencies** (Notes 10 and 12)

**NET POSITION:** (Notes 7 and 14)

Net investment in capital assets	\$ 71,684,014
Restricted for facility expansion	1,359,327
Unrestricted	10,837,626
Total Net Position	<u>\$ 83,880,967</u>

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

**VALLEY CENTER MUNICIPAL WATER DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2018**

**Operating Revenues:**

Water sales and pumping charges	\$ 39,010,351
Meter service charges	6,208,303
Wastewater charges	4,056,779
Meter installation fees	222,587
Other water operating revenues	610,544
Total Operating Revenues	<u>50,108,564</u>

**Operating Expenses:**

Cost of water sold	30,744,890
Energy and pumping costs	2,888,038
Water systems operations	5,890,653
Wastewater collection and treatment	1,333,425
Engineering	1,455,201
General and administrative	5,677,591
Depreciation	3,402,608
Total Operating Expenses	<u>51,392,406</u>

Operating Loss	<u>(1,283,842)</u>
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**Nonoperating Revenues (Expenses):**

Property taxes and assessments	2,878,959
Investment income	345,698
Other nonoperating revenues	325,571
Interest expense	(540,037)
Gain on disposal of capital assets	123,546
Total Nonoperating Revenues (Expenses)	<u>3,133,737</u>

Income Before Contributions	1,849,895
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Capital Contributions	<u>396,898</u>
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Change in Net Position	2,246,793
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Net Position at Beginning of Year, as Restated (Note 14)	<u>81,634,174</u>
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<b>NET POSITION AT END OF YEAR</b>	<b><u>\$ 83,880,967</u></b>
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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, 2018**

**Cash Flow From Operating Activities:**

Receipts from customers	\$ 50,059,734
Payments to suppliers for goods and services	(36,689,625)
Payments to employees for services	(8,605,777)
Change in work in progress for others	(56,273)
Customer deposits	22,676
Other nonoperating revenue	325,571
Net Cash Provided by Operating Activities	<u>5,056,306</u>

**Cash Flow From Noncapital Financing Activities:**

Proceeds from property taxes, general levy	2,875,740
Net Cash Provided by Noncapital Financing Activities	<u>2,875,740</u>

**Cash Flows From Capital and Related Financing Activities:**

Acquisition and construction of capital assets	(3,180,947)
Proceeds from sale of capital assets	192,956
Proceeds from long-term debt	4,881,660
Principal paid on long-term debt	(1,177,257)
Interest paid on long-term debt	(468,422)
Capital contributions	168,598
Net Cash Provided by Capital and Related Financing Activities	<u>416,588</u>

**Cash Flows From Investing Activities:**

Proceeds from investments, net	(3,394,288)
Investment income received	347,212
Net Cash Used in Investing Activities	<u>(3,047,076)</u>

Net Increase in Cash and Cash Equivalents	5,301,558
Cash and Cash Equivalents at Beginning of Year	<u>19,834,192</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>\$ 25,135,750</u></b>

(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, 2018**

**Reconciliation of Operating Loss to Net**

**Cash Provided by Operating Activities:**

Operating loss	\$ (1,283,842)
<b>Adjustments to reconcile operating loss to net cash provided by operating activities:</b>	
Depreciation	3,402,608
Other nonoperating revenues	325,571
<b>Change in assets and liabilities:</b>	
Accounts receivable - Water and wastewater, net	(343,750)
WVR Phase 1 Buy-In receivable	292,828
Other receivables	2,092
Inventory	(49,281)
Prepaid expenses and deposits	(28,691)
Work in progress for others	(56,273)
Deferred outflows related to pensions	711,530
Deferred outflows related to pension contributions	(115,357)
Deferred outflows related to OPEB contributions	(31,862)
Accounts payable	617,497
Accrued payroll	10,879
Accrued compensated absences	(3,836)
Customer deposits	22,676
Net pension liability	2,208,309
Net OPEB liability	(343,741)
Deferred inflows related to pensions	(360,697)
Deferred inflows related to OPEB	79,646
Net Cash Provided by Operating Activities	<u><u>\$ 5,056,306</u></u>

**Cash and Cash Equivalents:**

**Financial Statement Classification**

Cash and cash equivalents	\$ 24,634,604
Restricted cash and cash equivalents	501,146
Total Cash and Cash Equivalents	<u><u>\$ 25,135,750</u></u>

**Noncash Investing, Capital and Financing Activities**

Net unrealized loss on investments	\$ 72,113
Capital assets included in increase in accounts payable	<u><u>\$ 556,822</u></u>
Capital assets contributed	<u><u>\$ 228,300</u></u>

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

**VALLEY CENTER MUNICIPAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**Note 1 - Organization and Summary of Significant Accounting Policies:**

**(a) Description of Reporting Entity**

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

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

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) Method 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) 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.

**VALLEY CENTER MUNICIPAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**Note 1 - Organization and 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, 2018, 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.

**VALLEY CENTER MUNICIPAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**Note 1 - Organization and 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 \$6,595,384 have been reduced by an allowance for estimated uncollectible accounts in the amount of \$31,227 at June 30, 2018.

**(i) WVR Phase 1 Buy-In Receivable**

The Woods Valley Ranch Water Reclamation Facility - Phase 1 project was funded, constructed and dedicated to the District by the developer. Pursuant to the Reimbursement Agreement for Construction of Water Reclamation Facilities (Agreement) the developer was required to oversize certain facilities to serve other areas in addition to the developers property. The District agreed to reimburse the developer for the cost of benefiting future development facilities with funds collected from participants in future expansion phases and submit payment to the Developer. In May 2016, the District refunded to the developer the \$3,589,720 pursuant to the Agreement. The refund was funded with proceeds from the Installment Sales agreement from the State of California Water Resources Control board obtained for the Phase 2 expansion project and will be repaid from annual assessments from the Phase 2 participants over a 20 year period through June 30, 2036.

**(j) Inventory**

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

At June 30, 2018, inventory consists of the following:

Materials inventory	\$ 512,422
Water inventory	<u>74,063</u>
	<u><u>\$ 586,485</u></u>

**VALLEY CENTER MUNICIPAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

**(k) 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 acquisition 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. Donated capital assets, donated works of art and similar items, and capital assets received in service concession agreements are reported at acquisition value. Depreciation is calculated on the straight-line method over the following estimated useful lives:

	<u>Useful Life</u>
Transmission and distribution system	10 - 40 years
General plant	2 - 40 years

Depreciation totaled \$3,402,608 for the year ended June 30, 2018.

**(l) Compensated Absences**

Accumulated unpaid vacation and sick leave totaling \$2,364,653 is accrued when incurred and included in noncurrent liabilities at June 30, 2018.

**(m) 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 and OPEB are more fully described in Notes 8 and 9.

**(n) 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. Interest capitalized totaled to \$7,563 at June 30, 2018.

**(o) Classification of Liabilities**

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



**VALLEY CENTER MUNICIPAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

**(p) 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 time frames. For this report, the following timeframes are used:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Measurement Period	June 30, 2016 to June 30, 2017

**(q) Postemployment Benefits (OPEB)**

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

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

Valuation Date	June 30, 2017
Measurement Date	June 30, 2017
Measurement Period	June 30, 2016 to June 30, 2017

**(r) 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).

**VALLEY CENTER MUNICIPAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

**(r) Fair Value Measurements (Continued)**

- 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 by 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.

**(s) 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.

**(t) Subsequent Events**

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through January \_\_, 2019, the date the financial statements were available to be issued.

**(u) Reclassification**

The District has reclassified \$3,589,720 from construction-in-progress to WVR Phase 1 Buy-In determining that certain costs advanced in the completion of the Woods Valley Ranch Water Reclamation Facility and effluent disposal facilities were reimbursable to the District through a special service connection charge. (See (i) WVR Phase 1 Buy-In Receivable)

**VALLEY CENTER MUNICIPAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**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, 2018:

		<u>Investment Maturities (In Years)</u>	
	<u>Fair Value</u>	<u>Less Than 1 Year</u>	<u>1 - 5</u>
Cash on hand	\$ 1,400	\$ 1,400	\$ -
California Local Agency Investment Fund (LAIF)	325,904	325,904	-
San Diego County Treasurer's Pooled Money Fund	24,477,965	24,477,965	-
Demand deposits	330,481	330,481	-
Investments:			
United States Government Sponsored Enterprises	5,053,432	3,399,121	1,654,311
Certificates of Deposit	4,551,458	2,043,232	2,508,226
Total Cash and Investments	<u>\$ 34,740,640</u>	<u>\$ 30,578,103</u>	<u>\$ 4,162,537</u>
Financial Statement Classification:			
Cash and Cash Equivalents	\$ 24,634,604		
Investments	8,746,709		
Cash and cash equivalents - Restricted	501,146		
Investments - Restricted	858,181		
Total	<u>\$ 34,740,640</u>		

**(b) Concentration of Credit Risk**

The District's policy is that investments should be diversified through limited investment to avoid over-concentration in securities from a specific issuer (excluding U.S. Treasury securities), by varying maturities, and by investing a portion of the portfolio in external investment pools or money market funds to ensure that appropriate liquidity is maintained in order to meet ongoing obligations. The District further limits certificates of deposit to 30 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, 2018, no investments represented more than 5% of the District's investment portfolio.

**VALLEY CENTER MUNICIPAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**Note 2 - Cash and Investments: (Continued)**

**(c) Credit Risk**

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

	<u>Standard &amp; Poor's</u>	<u>Moody's</u>
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 National Mortgage Association	AA+	AAA
Federal Home Loan Mortgage Corporation	AA+	AAA
Federal Farm Credit Bank	AA+	AAA
U.S. Treasury Note and Bonds	Not rated	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.

**(f) Foreign Currency Risk**

The District is not exposed to foreign currency risk.

**VALLEY CENTER MUNICIPAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**Note 2 - Cash and Investments: (Continued)**

**(g) Investment in State Investment Pool**

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

**Note 3 - Restricted Assets:**

Restricted assets were provided by, and are to be used for, the following at June 30, 2018:

<u>Funding Source</u>	<u>Use</u>	
Capacity fees	Facility expansion	\$ <u><u>1,359,327</u></u>

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:

	<u>Balance at June 30, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2018</u>
<b>Capital Assets Not Being Depreciated:</b>				
Land	\$ 5,304,282	\$ 2,627,426	\$ (3,000)	\$ 7,928,708
Construction in progress	<u>29,749,594</u>	<u>2,490,430</u>	<u>(24,022,647)</u>	<u>8,217,377</u>
	<u>35,053,876</u>	<u>5,117,856</u>	<u>(24,025,647)</u>	<u>16,146,085</u>
<b>Capital Assets Being Depreciated:</b>				
Transmission and distribution system	133,086,339	20,920,014	(191,703)	153,814,650
General plant	<u>16,225,721</u>	<u>837,202</u>	<u>(119,084)</u>	<u>16,943,839</u>
	<u>149,312,060</u>	<u>21,757,216</u>	<u>(310,787)</u>	<u>170,758,489</u>
<b>Less Accumulated Depreciation:</b>				
Transmission and distribution system	(71,391,774)	(2,984,729)	125,293	(74,251,210)
General Plant	<u>(13,838,287)</u>	<u>(417,879)</u>	<u>119,084</u>	<u>(14,137,082)</u>
	<u>(85,230,061)</u>	<u>(3,402,608)</u>	<u>244,377</u>	<u>(88,388,292)</u>
<b>Net Capital Assets Being Depreciated</b>	<u>64,081,999</u>	<u>18,354,608</u>	<u>(66,410)</u>	<u>82,370,197</u>
<b>Net Capital Assets</b>	<u>\$ 99,135,875</u>	<u>\$ 23,472,464</u>	<u>\$ (24,092,057)</u>	<u>\$ 98,516,282</u>

Depreciation totaled \$3,402,608 for the year ended June 30, 2018.

**VALLEY CENTER MUNICIPAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**Note 5 - Noncurrent Liabilities:**

Noncurrent liabilities consist of the following at June 30, 2018:

	Balance at June 30, 2017	Additions	Deletions	Balance at June 30, 2018	Current Portion
<b><u>Long-Term Debt:</u></b>					
Installment sales agreements	\$ 23,029,735	\$ 4,881,660	\$ (1,157,664)	\$ 26,753,731	\$ 1,163,281
Financing loan agreement	98,130	-	(19,593)	78,537	19,593
Total Long-Term Debt	23,127,865	4,881,660	(1,177,257)	26,832,268	1,182,874
<b><u>Other Noncurrent Liabilities:</u></b>					
Net pension liability	20,928,033	4,154,039	(1,945,730)	23,136,342	-
Net OPEB liability	4,194,907	690,595	(1,034,336)	3,851,166	-
Accrued compensated absences	2,368,489	712,113	(715,949)	2,364,653	784,100
Total Other Noncurrent Liabilities	27,491,429	5,556,747	(3,696,015)	29,352,161	784,100
<b>Total Noncurrent Liabilities</b>	<b>\$ 50,619,294</b>	<b>\$ 10,438,407</b>	<b>\$ (4,873,272)</b>	<b>\$ 56,184,429</b>	<b>\$ 1,966,974</b>

**(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 \$17,393,705 for the expansion of the Woods Valley Ranch Reclamation Facility of which \$17,393,705 has been expended. The loan accrues interest at 2.2% with annual payments of principal and interest in the amount of \$1,084,260 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 \$195,416 at June 30, 2018.

\$ 16,693,528

State of California, Water Resources Control Board - The District entered into a contract with the State of California, Water Resources Control Board, for a loan in an amount up to \$4,752,616 for the expansion of the Woods Valley Ranch Reclamation Facility of which \$4,752,616 has been expended. The loan accrues interest at 2.2% with annual payments of principal and interest in the amount of \$294,679 beginning in October 2017. The loan matures October 20, 2036. The loan is secured by a lien and pledge of the assessments, assessment fund, enterprise funds, net revenues, and any reserve fund specified in the installment sale agreement. Interest payable totaled \$69,171 at June 30, 2018.

4,536,015

**VALLEY CENTER MUNICIPAL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**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 \$3,368,922 for the Cool Valley Reservoir Cover/Liner Replacement of which \$3,138,421 has been expended. The loan accrues interest at 1.6% with annual payments of principal and interest in the amount of \$184,237 beginning in January 2018. The loan matures July 1, 2037. The loan is secured by a lien and pledge of the assessments, assessment fund, enterprise funds, net revenues, and any reserve fund specified in the installment sale agreement.

\$ 3,008,202

State of California, Water Resources Control Board - The District entered into a contract with the State of California, Water Resources Control Board, for a loan in an amount up to \$2,626,653 for the expansion of the Woods Valley Ranch Reclamation Facility of which \$2,626,653 has been expended. The loan accrues interest at 2.2% with annual payments of principal and interest in the amount of \$163,449 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 \$45,273 at June 30, 2018.

Total Installment Sales Agreements

2,515,986  
\$ 26,753,731

**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.

Total Financing Loan Agreement

\$ 78,537  
\$ 26,832,269



**VALLEY CENTER MUNICIPAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**Note 5 - Noncurrent Liabilities: (Continued)**

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

Years Ended June 30	Installment Sales Agreements		Financing Loan Agreements		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 1,163,281	\$ 563,345	\$ 19,593	\$ -	\$ 1,182,874	\$ 563,345
2020	1,181,418	545,207	19,593	-	1,201,011	545,207
2021	1,206,585	520,040	17,915	-	1,224,500	520,040
2022	1,232,292	494,333	9,527	-	1,241,819	494,333
2023	1,258,552	468,073	9,527	-	1,268,079	468,073
2024 - 2028	6,706,827	1,926,300	2,382	-	6,709,209	1,926,300
2029 - 2033	7,453,306	1,179,821	-	-	7,453,306	1,179,821
2034 - 2037	6,551,470	350,403	-	-	6,551,470	350,403
	<u>\$ 26,753,731</u>	<u>\$ 6,047,522</u>	<u>\$ 78,537</u>	<u>\$ -</u>	<u>\$ 26,832,268</u>	<u>\$ 6,047,522</u>

**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 bond 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 were paid in full during the year ended June 30, 2018,

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, 2018:

Capital improvements	\$ 19,318,553
Operating reserve	8,027,697
Debt service	1,740,690
Wastewater capital replacement reserves	1,569,734
Rate stabilization	608,352
Net pension liability	(16,922,752)
Net OPEB liability	(3,504,648)
Unrestricted Net Position	<u>\$ 10,837,626</u>

**VALLEY CENTER MUNICIPAL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**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.

**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, 2018, are summarized as follows:

	Miscellaneous	
	<u>Prior to January 1, 2013</u>	<u>On or After January 1, 2013</u>
Benefit formula	2.7% @ 55	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	Monthly for life	Monthly for life
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	7.95%	6.50%
Required employer contribution rates	12.014%	6.625%

**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, 2017 (measurement date), the active employee contribution rate for employees hired prior to January 1, 2013 is 7.95 % of annual payroll and the employer's contribution rate is 12.014% 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 6.625% 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, 2018 were as follows:

Contributions - Employer	\$ 2,061,087
Contributions - Employee (Paid by Employer)	\$ -

**VALLEY CENTER MUNICIPAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**Noe 8 - Defined Benefit Pension Plan: (Continued)**

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

For the measurement period ending June 30, 2017 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2016 total pension liability determined in the June 30, 2016 actuarial valuation. The June 30, 2017 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	7.15%
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, 2016 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 7.65% to 7.15% as of the June 30, 2017 measurement date.

**(d) Discount Rate**

The discount rate used to measure the total pension liability was 7.15%. 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 7.15% discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.15% 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.

**VALLEY CENTER MUNICIPAL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**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 + 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.

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Real Return Years 1 - 10</u>	<u>Real Return Years 11 +</u>
Global Equity	47.0%	4.90%	5.38%
Fixed Income	19.0	0.80	2.27
Inflation Assets	6.0	0.60	1.39
Private Equity	12.0	6.60	6.63
Real Estate	11.0	2.80	5.21
Infrastructure and Forestland	3.0	3.90	5.36
Liquidity	2.0	(0.40)	(0.90)
	<u>100.0%</u>		

**(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.

	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net Pension Liability (c) = (a) - (b)</u>
Balance at June 30, 2016	\$ 50,821,218	\$ 29,893,185	\$ 20,928,033
Balance at June 20, 2017	56,845,930	33,709,588	23,136,342
Net Changes During 2016 - 2017	<u>\$ 6,024,712</u>	<u>\$ 3,816,403</u>	<u>\$ 2,208,309</u>

**VALLEY CENTER MUNICIPAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**Note 8 - Defined Benefit Pension Plan: (Continued)**

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

The net pension liability of the plan is measured as of June 30, 2017, and the total pension liability for the plan used to calculate the net pension liabilities was determined by an actuarial valuation of June 30, 2016 rolled forward to June 30, 2017 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, 2016 and 2017 was as follows:

	<u>Miscellaneous</u>
Proportion - June 30, 2016	.602440%
Proportion - June 30, 2017	.586912%
Change - Increase (Decrease)	<u>.015528%</u>

**(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:

	<u>Discount Rate</u> <u>-1% (6.15%)</u>	<u>Current Discount</u> <u>Rate (7.15%)</u>	<u>Discount Rate</u> <u>+1% (8.15%)</u>
Plan's Net Pension Liability	\$ <u>30,955,323</u>	\$ <u>23,136,342</u>	\$ <u>16,660,521</u>

**(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.

**VALLEY CENTER MUNICIPAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**Note 8 - Defined Benefit Pension Plan: (Continued)**

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

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 (EARS�) 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 EARS� of members provided with pensions through the Plan. The EARS� for the Plan for the June 30, 2017 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.

**VALLEY CENTER MUNICIPAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**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, 2018, the District recognized a pension expense of \$4,504,872 for the Plan. As of June 30, 2018, the District reports deferred outflows of resources and deferred inflows of resources related to pensions as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to the measurement date	\$ 2,061,087	\$ -
Differences between actual contributions made and proportionate share of contributions	969,209	-
Differences between expected and actual experience	-	254,779
Changes of assumptions	2,191,186	-
Net difference between projected and actual earnings on pension plan investments	536,462	-
Adjustment due to difference in proportions	710,425	-
Total	<u>\$ 6,468,369</u>	<u>\$ 254,779</u>

The \$2,061,087 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, 2019. Other amounts reported as deferred outflows and deferred inflows of resources in the previous chart will be recognized in future pension expense as follows:

<u>Measurement Period Ended June 30</u>	<u>Deferred Outflows/(Inflows) of Resources</u>
2019	\$ 1,661,977
2020	1,716,856
2021	1,092,175
2022	<u>(318,505)</u>
Total	<u>\$ 4,152,503</u>



**VALLEY CENTER MUNICIPAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**Note 9 - Other Postemployment Benefits:**

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

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

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

**Employees Covered** - As of the December 31, 2016 measurement date, the following current and former employees were covered by the benefit terms under the OPEB Plan.:

Active employees	\$ 51
Inactive employees or beneficiaries currently receiving benefit payments	36
Inactive employees entitled to but not yet receiving benefit payments	6
	<u>\$ 93</u>

**Contributions** - 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. For the period from July 1, 2017 to June 30, 2018, the District's cash contributions were \$690,259. The employer contributions include retiree benefits payments inclusive of subsidy not reimbursed from the trust.

**VALLEY CENTER MUNICIPAL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**Note 9 - Other Postemployment Benefits: (Continued)**

**(b) Net OPEB Liability**

The District's net OPEB liability was measured as of December 31, 2016 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated July 1, 2016 that was rolled forward to determine the December 31, 2017 total OPEB liability, based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal Cost, Level Percent of Pay		
Actuarial Assumptions:			
Discount Rate	7.00%		
Inflation	2.75%		
Salary Increases	3.00%		
Investment Rate of Return	7.00%		
Mortality Rate	Derived using CalPERS' Membership Data for all funds		
Pre-Retirement Turnover	Derived using CalPERS' Membership Data for all funds		
Healthcare Trend Rate	Medical costs are adjusted in future years by the following trends:		
	<u>Year</u>	<u>PPO</u>	<u>HMO</u>
	2018	7.0%	6.5%
	2019	6.5%	6.0%
	2020	6.0%	5.5%
	2021	5.5%	5.0%
	2022+	5.0%	5.0%

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

**VALLEY CENTER MUNICIPAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**Note 9 - Other Postemployment Benefits: (Continued)**

**(b) Net OPEB Liability (Continued)**

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Equity	30.0%	4.85%
International Equity	27.0%	5.85%
REITS	8.0%	3.65%
U.S. Fixed Income	27.0%	2.35%
Commodities	3.0%	1.75%
Inflation Assets	5.0%	1.50%
Total	<u>100.0%</u>	

**(c) Discount Rate**

The discount rate used to measure the total OPEB liability was 7.00 percent. The projection of cash flows used to determine the discount rate assumed that the District will continue to fund the actuarial determined contribution each year. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return of OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

**(d) Changes in the OPEB Liability**

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

	<u>Increase (Decrease)</u>		
	<u>Total OPEB Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net OPEB Liability (c) = (a) - (b)</u>
Balance at June 30, 2017	\$ <u>7,474,637</u>	\$ <u>3,279,730</u>	\$ <u>4,194,907</u>
Changes recognized for the measurement period:			
Service cost	163,337	-	163,337
Interest	525,499	-	525,499
Contributions - employer	-	690,259	(690,259)
Net investment income	-	344,077	(344,077)
Benefit payments	(261,691)	(261,691)	-
Administrative expense	-	(1,759)	1,759
Net Changes	<u>427,145</u>	<u>770,886</u>	<u>(343,741)</u>
Balance at June 30, 2018	\$ <u><u>7,901,782</u></u>	\$ <u><u>4,050,616</u></u>	\$ <u><u>3,851,166</u></u>

**VALLEY CENTER MUNICIPAL WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**Note 9 - Other Postemployment Benefits: (Continued)**

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

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

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Net OPEB liability (asset)	\$ 4,923,455	\$ 3,851,166	\$ 2,961,836

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

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

	1% Decrease (5.50% HMO/6.00% PPO Decreasing to 4.00% HMO/4.00% PPO)	Current Healthcare Cost Trend Rates (6.50% HMO/7.00% PPO Decreasing to 5.00% HMO/5.00% PPO)	1% Increase (7.50% HMO/8.00% PPO Decreasing to 6.00% HMO/6.00% PPO)
Net OPEB liability (asset)	\$ 4,783,629	\$ 3,851,166	\$ 2,869,246

**(g) OPEB Plan Fiduciary Net Position**

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

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

Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time.

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

**VALLEY CENTER MUNICIPAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**Note 9 - Other Postemployment Benefits: (Continued)**

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

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

Net difference between projected and actual earnings on OPEB plan investments	5 Years
-------------------------------------------------------------------------------	---------

For the period from July 1, 2017 to June 30, 2018, the District recognized OPEB expense of \$426,164. As of June 30, 2018, the District reported deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	\$ 722,121	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on OPEB plan investments	79,646	-
Total	<u>\$ 801,767</u>	<u>\$ -</u>

The \$722,121 reported as deferred outflows or resources related to contributions subsequent to the June 30, 2017 measurement date will be recognized as a reduction of the net OPEB liability during year ended June 30, 2019. Other amounts reported as deferred outflows of resources related to OPEB will be recognized as expense as follows:

Fiscal Year Ended June 30	Deferred Outflows/(Inflows) Of Resources
2019	\$ 19,912
2020	19,912
2021	19,911
2022	19,911
Total	<u>\$ 79,646</u>

**(i) 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.

**VALLEY CENTER MUNICIPAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**Note 9 - Other Postemployment Benefits: (Continued)**

**(i) Defined Contribution Plan (Continued)**

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, 2018, employee contributions were \$24,629 and District contributions were \$9,758 for a total of \$34,386.

**Note 10 - Risk Management:**

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

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

The District pays annual premiums for its liability (auto, general, and public officials), property loss, workers' compensation, and fidelity bond coverage. They are subject to retrospective adjustments based on claims experience. The nature and amounts of these adjustments cannot be estimated and are charged or credited to expense as invoiced. The District's insurance expense for the year ended June 30, 2018 was \$104,218. 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, 2018, the total unpaid amount on these contracts is approximately \$334,189 for water operations and \$108,168 for wastewater operations.

**(b) Litigation**

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

**VALLEY CENTER MUNICIPAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**Note 13 - New Governmental Accounting Standards:**

**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 Statement is effective for financial statements for fiscal years beginning after June 15, 2017. Earlier application is encouraged. The effects of this pronouncement on the financial statements of the District are more fully described in Note 14.

**GASB No. 81**

In March 2016, the Governmental Accounting Standards Board issued Statement No. 81, "Irrevocable Split-Interest Agreements". 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. This pronouncement did not have a material effect 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". 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. This pronouncement did not have a material effect on the financial statements of the District in the year of implementation.

**GASB No. 83**

In November 2016, the Governmental Accounting Standards Board issued Statement No. 83 "Certain Asset Retirement Obligations". The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier Application is encouraged. The District has not determined the effects of this pronouncement on the financial statements of the District in the year of implementation.

**GASB No. 84**

In January 2017, the Governmental Accounting Standards Board issued Statement No. 84 "Fiduciary Activities". The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier Application is encouraged. The District has not determined the effects of this pronouncement on the financial statements of the District in the year of implementation.

**VALLEY CENTER MUNICIPAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**Note 13 - New Governmental Accounting Standards: (Continued)**

**GASB No. 85**

In March 2017, the Governmental Accounting Standards Board issued Statement No. 85 “Omnibus 2017”. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. This pronouncement did not have a material effect on the financial statements of the District in the year of implementation.

**GASB No. 86**

In May 2017, the Governmental Accounting Standards Board issued Statement No. 86 “Certain Debt Extinguishment Issues”. The requirements of this Statement are effective for reporting periods beginning after December 15, 2017. Earlier Application is encouraged. The District has not determined the effects of this pronouncement on the financial statements of the District in the year of implementation.

**GASB No. 87**

In June 2017, the Governmental Accounting Standards Board issued Statement No. 87 “Leases”. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The District has not determined the effects of this pronouncement on the financial statements of the District in the year of implementation.

**GASB No. 88**

In April 2018, the Governmental Accounting Standards Board issued Statement No. 88 “Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements”. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. 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. 89**

In June 2018, the Governmental Accounting Standards Board issued Statement No. 89 “Accounting for Interest Cost Incurred before the End of a Construction Period”. The requirements of this Statement are effective for reporting periods beginning after December 14, 2019. 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. 90**

In August 2018, the Governmental Accounting Standards Board issued Statement No. 90 “Majority Equity Interests-an amendment of GASB Statements No. 14 and No. 61”. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. 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.



**VALLEY CENTER MUNICIPAL WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**Note 14 - Net Position:**

**Change in Accounting Principle**

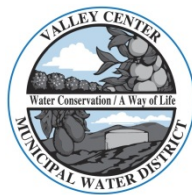
Effective July 1, 2017, the District changed its method of accounting for other postemployment benefits other than pensions and the related OPEB expense as well any deferred inflows and deferred outflows of resources in order to conform with Governmental Accounting in Standards Board Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions".

This statement requires the liability of employers and nonemployer contributing entities to employees for defined benefit OPEB (net OPEB liability) to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position. As a result, the District recorded a net OPEB obligation and deferred outflow of resources resulting in a reduction in net position reported at June 30, 2017.

**Prior Period Adjustment**

During the year ended June 30, 2018, the District finalized project costs for the development of the Woods Valley Ranch Water Reclamation Facility. The project costs were determined to be less than the amount of deposits collected from developers and as such the excess deposits are to be refunded back to the developers. As a result, the District determined Construction in Progress and Deposits expended at June 30, 2017 were overstated by \$3,625,281 and a reduction in net position reported at June 30, 2017 was recorded. The following is the detail of both adjustments to net position:

Net OPEB Liability	\$ (4,194,907)
Prepaid expenses and deposits	(108)
Deferred outflows related to OPEB contributions	<u>690,259</u>
Net Effect of Change in Accounting Principle	(3,504,756)
 Developer deposits to be refunded	 (3,625,281)
Net Position at June 30, 2017, as Originally Stated	<u>88,764,211</u>
Net Position at June 30, 2017, as Restated	<u><u>\$ 81,634,174</u></u>



# Required Supplementary Information



**VALLEY CENTER MUNICIPAL WATER DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2018**

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

	Measurement Date June 30, 2017	Measurement Date June 30, 2016	Measurement Date June 30, 2015	Measurement Date June 30, 2014
Proportion of the Collective Net Pension Liability	.586912%	.602440%	.687478%	0.697343%
Proportionate Share of the Collective Net Pension Liability	23,136,342	20,928.033	18,860,732	17,234,744
Covered Payroll	5,940,494	5,916,822	5,465,453	5,410,242
Proportionate Share of the Collective Net Pension Liability as Percentage of Covered Payroll	389.47%	353.70%	345.09%	318.55%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	59.30%	58.82%	60.99%	61.73%

**Notes to Schedule:**

**Benefit Changes** - The figures above do not include any liability impact that may have resulted from plan changes which occurred after the June 30, 2016 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 7.65 percent as of June 30, 2016 measurement date to 7.15 percent as of the June 30, 2017 measurement date.

\*Fiscal year 2014 was the first year of implementation, therefore only four years are shown.

**VALLEY CENTER MUNICIPAL WATER DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2018**

**SCHEDULES OF PLAN CONTRIBUTIONS  
LAST TEN YEARS \***

	Fiscal Year 2017 - 2018	Fiscal Year 2016 - 2017	Fiscal Year 2015 - 2016	Fiscal Year 2014 - 2015
Actuarial Determined Contribution	\$ 2,061,087	\$ 1,945,730	\$ 1,806,422	\$ 1,764,663
Contributions in Relation to the Actuarially Determined Contribution	2,061,087	1,945,730	1,806,422	1,764,663
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 5,894,187	\$ 5,940,494	\$ 5,916,822	\$ 5,465,453
Contributions as a Percentage of Covered Payroll	34.97%	32.75%	30.53%	32.29%

**Notes to Schedule:**

Fiscal Year End	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Valuation Date	June 30, 2016	June 30, 2014	June 30, 2013	June 30, 2012

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry Age	Entry Age	Entry Age	Entry Age
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
Asset Valuation Method	Market Value	Market Value	Market Value	Market Value
Discount Rate	7.15%	7.65%	7.50%	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	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%	2.75%	2.75%
Payroll Growth	3.00%	3.00%	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%	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 four years are shown.

**VALLEY CENTER MUNICIPAL WATER DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2018**

**SCHEDULE OF CHANGES IN THE DISTRICT'S NET OPEB LIABILITY AND RELATED RATIOS  
LAST TEN YEARS \***

	<u>2018</u>
<b>Total OPEB Liability</b>	
Service cost	\$ 163,337
Interest	525,499
Change of benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions	-
Benefit payments	(261,691)
<b>Net Change in Total OPEB Liability</b>	<u>427,145</u>
<b>Total OPEB Liability - Beginning</b>	<u>7,474,637</u>
<b>Total OPEB Liability - Ending (a)</b>	<u><u>\$ 7,901,782</u></u>
 <b>Plan Fiduciary Net Position</b>	
Contributions - Employer	\$ 690,259
Net investment income	344,077
Benefit payments	(261,691)
Administrative expense	(1,759)
<b>Net Change in Plan Fiduciary Net Position</b>	<u>770,886</u>
<b>Plan Fiduciary Net Position - Beginning</b>	<u>3,279,730</u>
<b>Plan Fiduciary Net Position - Ending (b)</b>	<u><u>\$ 4,050,616</u></u>
 District's Net OPEB Liability - Ending (a) - (b)	<u><u>\$ 3,851,166</u></u>
 <b>Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability</b>	 51.26%
 Covered-Employee Payroll	 \$ 5,018,000
 District's Net OPEB Liability as a Percentage of Covered-Employee Payroll	 76.7%

**Notes to Schedule:**

Changes in assumptions - None

\* Fiscal year 2018 was the first year of implementation. The District must eventually disclose a 10-year history of the schedule of changes in net OPEB liability and related ratios.

**VALLEY CENTER MUNICIPAL WATER DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2018**

**SCHEDULE OF OPEB CONTRIBUTIONS  
LAST TEN YEARS \***

	<u>2018</u>
Actuarial Determined Contribution (ADC)	\$ 637,891
Contributions in Relation to the Actuarially Determined Contribution	<u>690,259</u>
Contribution Deficiency (Excess)	<u>\$ (52,368)</u>
 Covered-Employee Payroll	 <u>\$ 5,018,000</u>
 Contributions as a Percentage of Covered- Employee Payroll	  13.76%

**Notes to Schedule:**

The ADC developed for the District's fiscal year ending June 30, 2017 was determined and presented in the July 2016 Actuarial Valuation report. Expected contributions, relative to the ADC, for the fiscal year ending December 31, 2017 are shown above.

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry age
Amortization Method	Level percentage of payroll
Amortization Period	Closed
Asset Valuation Method	Market Value
Inflation	2.75 percent
Investment Rate of Return	7.00% per annum. Assumes investing in California Employers' Retiree Benefit Trust asset allocation strategy 1.
Healthcare Cost Trend Rates	7.0% HMO/6.5% PPO initial, decreasing to an ultimate rate of 5.0% for the years 2022 and thereafter
Salary Increase	3.00% per year

**VALLEY CENTER MUNICIPAL WATER DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2018**

**SCHEDULE OF OPEB CONTRIBUTIONS (CONTINUED)  
LAST TEN YEARS \***

**Notes to Schedule: (Continued)**

Valuation Date: (Continued)

Retirement Age	Miscellaneous Tier 1	2.7% @ 55
	Miscellaneous Tier 2	2.0% @ 62
Mortality	Mortality rates based on study by California Public Employees Retirement System.	

\* Fiscal year 2018 was the first year of implementation. The District must eventually disclose a 10-year history of the contributing investment return, and payroll schedules.



# Combining Schedules



**VALLEY CENTER MUNICIPAL WATER DISTRICT  
COMBINING SCHEDULE OF NET POSITION  
JUNE 30, 2018**

**ASSETS**

			Lower Moosa	Woods Valley
	<u>Total</u>	<u>General</u>	<u>Wastewater</u>	<u>Ranch</u> <u>Wastewater</u>
<b><u>Current Assets:</u></b>				
Cash and cash equivalents	\$ 24,634,604	\$ 14,018,126	\$ 2,519,958	\$ 8,096,520
Investments	8,746,709	8,746,709	-	-
Accounts receivable - Water and wastewater, net	6,595,384	6,595,384	-	-
WVR Phase 1 Buy-In receivable	148,000	-	-	148,000
Interest receivable	143,177	143,177	-	-
Taxes receivable	10,906	10,906	-	-
Other receivables	6,213	6,213	-	-
Inventory	586,485	586,485	-	-
Prepaid expenses and deposits	251,338	251,338	-	-
Work in progress for others	787,494	787,494	-	-
Due (to)/from other funds	-	97,910	-	(97,910)
Total Current Assets	<u>41,910,310</u>	<u>31,243,742</u>	<u>2,519,958</u>	<u>8,146,610</u>
<b><u>Noncurrent Assets:</u></b>				
<b>Restricted Assets:</b>				
Cash and cash equivalents	501,146	-	501,146	-
Investments	858,181	858,181	-	-
Total Restricted Assets	<u>1,359,327</u>	<u>858,181</u>	<u>501,146</u>	<u>-</u>
<b>Long-term Receivables</b>				
WVR Phase 1 Buy-In receivable, net of current portion	3,148,892	-	-	3,148,892
Total Long-Term Receivables	<u>3,148,892</u>	<u>-</u>	<u>-</u>	<u>3,148,892</u>
<b>Capital Assets:</b>				
Nondepreciable capital assets	16,146,085	11,268,786	529,607	4,347,692
Depreciable capital assets, net	82,370,197	48,463,294	6,210,576	27,696,327
Total Capital Assets	<u>98,516,282</u>	<u>59,732,080</u>	<u>6,740,183</u>	<u>32,044,019</u>
Total Noncurrent Assets	<u>103,024,501</u>	<u>60,590,261</u>	<u>7,241,329</u>	<u>35,192,911</u>
<b>TOTAL ASSETS</b>	<u>\$ 144,934,811</u>	<u>\$ 91,834,003</u>	<u>\$ 9,761,287</u>	<u>\$ 43,339,521</u>
<b><u>DEFERRED OUTFLOWS OF RESOURCES:</u></b>				
Deferred outflows related to pensions	\$ 4,407,282	\$ 4,407,282	\$ -	\$ -
Deferred outflows related to pension contributions	2,061,087	2,061,087	-	-
Deferred outflows related to OPEB contributions	722,121	722,121	-	-
Total Deferred Outflows of Resources	<u>7,190,490</u>	<u>7,190,490</u>	<u>-</u>	<u>-</u>

**VALLEY CENTER MUNICIPAL WATER DISTRICT  
COMBINING SCHEDULE OF NET POSITION (CONTINUED)  
JUNE 30, 2018**

**LIABILITIES**

	<u>Total</u>	<u>General</u>	<u>Lower Moosa Wastewater</u>	<u>Woods Valley Ranch Wastewater</u>
<b><u>Current Liabilities:</u></b>				
Accounts payable	\$ 6,529,725	\$ 6,422,287	\$ 61,142	\$ 46,296
Accrued payroll	126,099	126,099	-	-
Accrued compensated absences	784,100	784,100	-	-
Interest payable	309,860	-	-	309,860
Customer deposits	4,759,796	1,053,814	21,450	3,684,532
Current portion of loans payable	1,182,874	156,243	-	1,026,631
Total Current Liabilities	<u>13,692,454</u>	<u>8,542,543</u>	<u>82,592</u>	<u>5,067,319</u>
<b><u>Noncurrent Liabilities:</u></b>				
<b>Long-Term debt:</b>				
Loans payable, net of current portion	25,649,394	2,930,495	-	22,718,899
Total Long-Term Debt	<u>25,649,394</u>	<u>2,930,495</u>	<u>-</u>	<u>22,718,899</u>
<b>Other Noncurrent Liabilities:</b>				
Net pension liability	23,136,342	23,136,342	-	-
Net OPEB Liability	3,851,166	3,851,166	-	-
Compensated absences, net of current portion	1,580,553	1,580,553	-	-
Total Other Noncurrent Liabilities	<u>28,568,061</u>	<u>28,568,061</u>	<u>-</u>	<u>-</u>
Total Noncurrent Liabilities	<u>54,217,455</u>	<u>31,498,556</u>	<u>-</u>	<u>22,718,899</u>
Total Liabilities	<u>67,909,909</u>	<u>40,041,099</u>	<u>82,592</u>	<u>27,786,218</u>
<b><u>DEFERRED INFLOWS OF RESOURCES:</u></b>				
Deferred inflows related to OPEB	254,779	254,779	-	-
Deferred inflows related to pensions	79,646	79,646	-	-
Total Deferred Inflows of Resources	<u>334,425</u>	<u>334,425</u>	<u>-</u>	<u>-</u>
<b><u>NET POSITION:</u></b>				
Net investment in capital assets	71,684,014	56,645,342	6,740,183	8,298,489
Restricted for facility expansion	1,359,327	858,181	501,146	-
Unrestricted	10,837,626	1,145,446	2,437,366	7,254,814
Total Net Position	<u>\$ 83,880,967</u>	<u>\$ 58,648,969</u>	<u>\$ 9,678,695</u>	<u>\$ 15,553,303</u>

**VALLEY CENTER MUNICIPAL WATER DISTRICT  
COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Total</u>	<u>General</u>	<u>Lower Moosa Wastewater</u>	<u>Woods Valley Ranch Wastewater</u>
<b><u>Operating Revenues:</u></b>				
Water sales and pumping charges	\$ 39,010,351	\$ 39,010,351	\$ -	\$ -
Meter service charges	6,208,303	6,208,303	-	-
Wastewater charges	4,056,779	-	1,683,107	2,373,672
Meter installation fees	222,587	222,587	-	-
Other water operating revenues	610,544	610,544	-	-
Total Operating Revenues	<u>50,108,564</u>	<u>46,051,785</u>	<u>1,683,107</u>	<u>2,373,672</u>
<b><u>Operating Expenses:</u></b>				
Cost of water sold	30,744,890	30,744,890	-	-
Energy and pumping costs	2,888,038	2,727,869	85,366	74,803
Water systems operations	5,890,653	5,890,653	-	-
Wastewater collection and treatment	1,333,425	-	960,192	373,233
Engineering	1,455,201	1,454,878	323	-
General and administrative	5,677,591	5,283,419	260,575	133,597
Depreciation	3,402,608	2,717,501	312,029	373,078
Total Operating Expenses	<u>51,392,406</u>	<u>48,819,210</u>	<u>1,618,485</u>	<u>954,711</u>
Operating Income (Loss)	<u>(1,283,842)</u>	<u>(2,767,425)</u>	<u>64,622</u>	<u>1,418,961</u>
<b><u>Nonoperating Revenues (Expenses):</u></b>				
Property taxes and assessments	2,878,959	2,878,959	-	-
Investment income	345,698	261,332	43,689	40,677
Other nonoperating revenues	325,571	325,571	-	-
Interest expense	(540,037)	(45,240)	-	(494,797)
Gain on disposal of capital assets	123,546	123,546	-	-
Total Nonoperating Revenues (Expenses)	<u>3,133,737</u>	<u>3,544,168</u>	<u>43,689</u>	<u>(454,120)</u>
Income Before Contributions	1,849,895	776,743	108,311	964,841
Capital Contributions	<u>396,898</u>	<u>144,400</u>	<u>52,498</u>	<u>200,000</u>
Change in Net Position	2,246,793	921,143	160,809	1,164,841
Net Position at Beginning of Year	<u>81,634,174</u>	<u>57,727,826</u>	<u>9,517,886</u>	<u>14,388,462</u>
<b>NET POSITION AT END OF YEAR</b>	<u><u>\$ 83,880,967</u></u>	<u><u>\$ 58,648,969</u></u>	<u><u>\$ 9,678,695</u></u>	<u><u>\$ 15,553,303</u></u>

# 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
Financial Trends	57
<i>These schedules contain trend information to help the reader understand how the District's financial performance and well-being have changed over time.</i>	
Revenue Capacity	59
<i>These schedules contain information to help the reader access the District's two most significant local revenue sources, water sales and property levies.</i>	
Debt Capacity	68
<i>These schedules present information to help the reader access the affordability of the District's current levels of outstanding debt and the District's ability to issue additional debt in the future.</i>	
Demographic and Economic Information	70
<i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place.</i>	
Operating Information	72
<i>These schedules contain service and infrastructure data to help the reader understand how the information in the District's financial report relates to the services the District provides and the activities it performs.</i>	

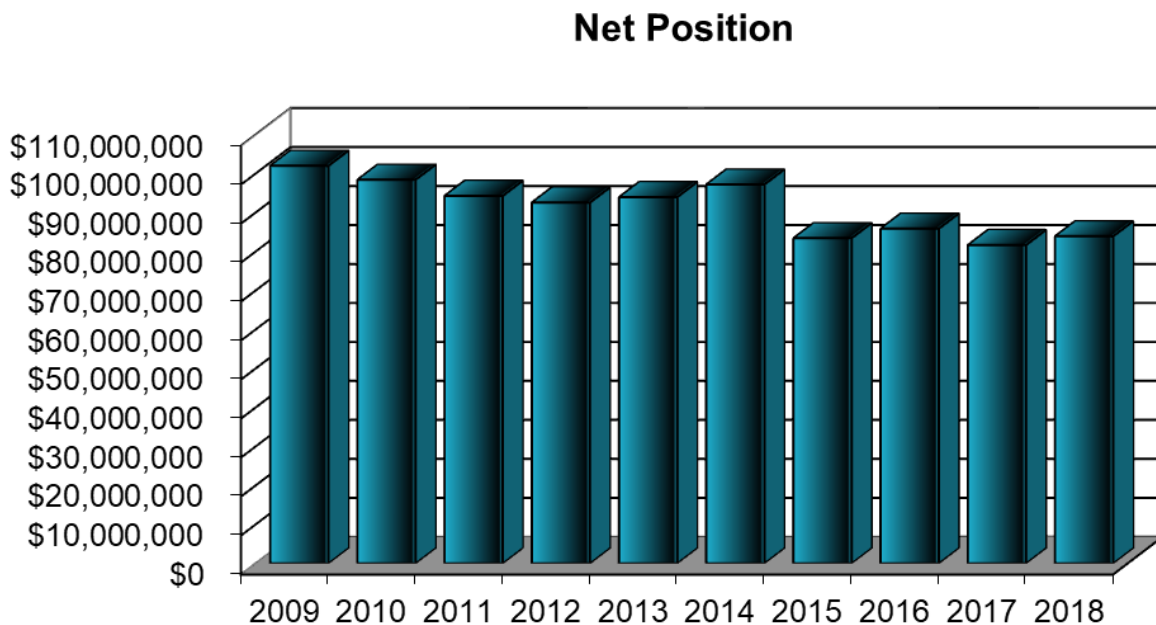
*Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.*

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

	Fiscal year ended				
	<u>2018</u>	<u>2017 (1)</u>	<u>2016</u>	<u>2015 (1)</u>	<u>2014</u>
Primary government					
Net investment in capital assets	\$ 71,684,014	\$ 72,382,729	\$ 84,494,979	\$ 79,423,330	\$ 76,462,875
Restricted for facility expansion	1,359,327	1,177,622	1,075,636	947,142	1,047,564
Unrestricted	<u>10,837,626</u>	<u>8,073,823</u>	<u>276,747</u>	<u>3,026,744</u>	<u>20,655,672</u>
Total primary government net position	<u>\$ 83,880,967</u>	<u>\$ 81,634,174</u>	<u>\$ 85,847,362</u>	<u>\$ 83,397,216</u>	<u>\$ 97,166,111</u>
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009 (1)</u>
Primary government					
Net investment in capital assets	\$ 76,276,487	\$ 77,829,804	\$ 81,249,809	\$ 83,824,468	\$ 85,622,542
Restricted for facility expansion	628,018	302,877	276,993	268,225	503,862
Unrestricted	<u>17,022,399</u>	<u>14,415,835</u>	<u>12,745,389</u>	<u>14,300,005</u>	<u>15,843,119</u>
Total primary government net position	<u>\$ 93,926,904</u>	<u>\$ 92,548,516</u>	<u>\$ 94,272,191</u>	<u>\$ 98,392,698</u>	<u>\$101,969,523</u>

(1) As restated (See Table II, Note 3).

Source: Valley Center Municipal Water District



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

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
<b>Operating Revenues:</b>										
Water sales <sup>(1)</sup>	\$43,079,273	\$36,090,543	\$33,785,302	\$39,792,544	\$44,114,111	\$40,703,792	\$35,457,375	\$29,258,333	\$29,772,214	\$28,987,435
Pumping charges	2,139,381	2,139,381	1,978,644	2,702,605	3,124,770	3,039,474	2,940,227	2,726,802	3,187,965	3,838,476
Wastewater charges	4,056,779	4,239,359	2,521,787	2,090,109	2,088,881	1,870,259	1,811,397	1,761,685	1,675,877	1,576,437
Meter installation fees	222,587	196,154	215,995	233,939	139,563	101,930	88,834	57,748	87,065	155,358
Other water operating revenues	610,544	645,435	545,347	565,452	622,128	532,841	510,083	554,997	798,548	797,534
Total operating revenues	\$50,108,564	\$43,310,872	\$39,047,075	\$45,384,649	\$50,089,453	\$46,248,296	\$40,807,916	\$34,359,565	\$35,521,669	\$35,355,240
<b>Operating Expenses:</b>										
Cost of water sold	\$30,744,890	\$26,930,842	\$25,358,738	\$30,583,409	\$33,822,193	\$31,113,969	\$27,385,538	\$23,522,162	\$23,884,810	\$21,820,598
Energy and pumping costs	2,888,038	2,631,927	2,733,376	3,019,017	2,766,632	2,482,530	2,522,694	2,525,600	2,944,042	4,082,268
Water systems operations	5,890,653	5,304,895	5,267,718	5,047,286	5,123,092	4,810,835	5,008,872	5,091,000	5,133,041	4,821,920
Wastewater collection and treatment	1,333,425	1,283,283	1,121,601	1,104,544	1,086,185	1,058,507	1,019,208	907,388	841,443	866,812
Engineering	1,455,201	1,695,911	1,450,071	1,313,336	1,548,003	1,642,298	1,661,797	1,716,551	1,591,578	1,580,009
General and administrative	5,677,591	2,527,800	1,944,488	3,048,293	2,861,803	2,892,713	3,116,844	3,187,920	3,072,738	3,207,975
Depreciation	3,402,608	3,306,838	3,525,655	3,465,543	3,757,012	4,451,395	4,753,297	4,908,607	5,003,462	4,137,915
Total operating expenses	\$51,392,406	\$43,681,496	\$41,401,647	\$47,581,428	\$50,964,920	\$48,452,247	\$45,468,250	\$41,859,228	\$42,471,114	\$40,517,497
Operating (Loss)	\$ (1,283,842)	\$ (370,624)	\$ (2,354,572)	\$ (2,196,779)	\$ (875,467)	\$ (2,203,951)	\$ (4,660,334)	\$ (7,499,663)	\$ (6,949,445)	\$ (5,162,257)
<b>Nonoperating Revenues and (Expenses):</b>										
Property taxes and assessments	\$ 2,878,959	\$ 2,777,382	\$ 2,665,133	\$ 2,558,443	\$ 2,486,977	\$ 2,543,153	\$ 2,499,875	\$ 2,513,255	\$ 2,595,610	\$ 2,764,166
Investment income	345,698	169,070	201,138	157,024	130,887	82,496	127,900	132,978	220,489	476,566
Other nonoperating revenues	325,571	350,924	328,923	341,794	323,813	291,832	289,382	315,542	208,413	192,882
Interest expense	(540,037)	(238,935)	(47,272)	(15,030)	(7,749)	(15)	(1,709)	(3,883)	(5,929)	(9,470)
Gain on disposal of capital assets <sup>(2)</sup>	123,546	23,747	13,484	(163,605)	(2,448)	(37,238)	(8,399)	(22,217)	(51,146)	(31,275)
Total Nonoperating Revenues and (Expenses)	\$ 3,133,737	\$ 3,082,188	\$ 3,161,406	\$ 2,878,626	\$ 2,931,480	\$ 2,880,228	\$ 2,907,049	\$ 2,935,675	\$ 2,967,437	\$ 3,392,869
Income (Loss) Before Contributions	\$ 1,849,895	\$ 2,711,564	\$ 806,834	\$ 681,847	\$ 2,056,013	\$ 676,277	\$ (1,753,285)	\$ (4,563,988)	\$ (3,982,008)	\$ (1,769,388)
Capital contributions	396,898	205,285	1,643,312	2,510,558	1,183,194	702,111	29,610	443,481	405,183	12,296,892
Change in Net Assets	\$ 2,246,793	\$ 2,916,849	\$ 2,450,146	\$ 3,192,405	\$ 3,239,207	\$ 1,378,388	\$ (1,723,675)	\$ (4,120,507)	\$ (3,576,825)	\$ 10,527,504
Net Position at Beginning of Year	\$81,634,174	\$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
Restatement <sup>(3)</sup>	\$ -	\$ (7,130,037)	\$ -	\$ (16,961,300)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,436,921
Restated Net Position at Beginning of Year	\$81,634,174	\$78,717,325	\$83,397,216	\$80,204,811	\$93,926,904	\$92,548,516	\$94,272,191	\$98,392,698	\$101,969,523	\$91,442,019
<b>NET POSITION AT END OF YEAR <sup>(4)</sup></b>	<b>\$83,880,967</b>	<b>\$81,634,174</b>	<b>\$85,847,362</b>	<b>\$83,397,216</b>	<b>\$97,166,111</b>	<b>\$93,926,904</b>	<b>\$92,548,516</b>	<b>\$94,272,191</b>	<b>\$98,392,698</b>	<b>\$101,969,523</b>

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

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

(3) 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. 2017 restatement of \$3,504,756 per GASB 75 for OPEB Liability and \$3,625,281 for developer deposits to be refunded.

(4) The decrease in Net Position at End of Year between Fiscal Years 2014 and 2015 is due to the requirement per GASB 68 to record the Pension Liability of \$16,961,300.

Source: Valley Center Municipal Water District



**Table III**  
**Water Sales by User Type <sup>(1)</sup>** (Last Ten Fiscal Years)

Fiscal Year Ended	Domestic		Commercial		Certified Agricultural <sup>(2)</sup>		Total		Average Direct Rate <sup>(3)</sup>
	Value	Acre Feet	Value	Acre Feet	Value	Acre Feet	Value	Acre Feet	
2018	\$14,545,576	5,118.4	\$4,438,219	1,884.2	\$23,461,780	14,495.3	\$42,445,575	21,497.9	\$1,974
2017	\$13,002,142	4,691.3	\$4,010,125	1,682.1	\$19,078,276	12,865.7	\$36,090,543	19,239.1	\$1,876
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

(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

## Water Sales in Acre Feet

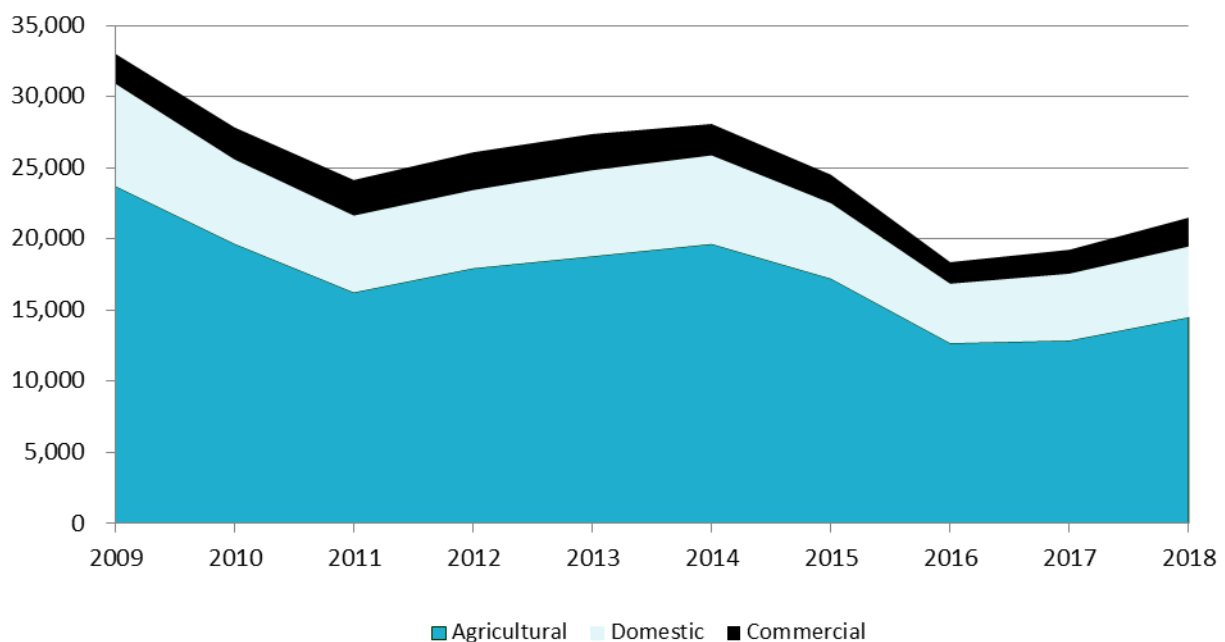


Table IV  
Active Water Meters and Wastewater Services (Last Ten Fiscal Years)

Fiscal Year Ended	Domestic	Commercial	Certified Agricultural <sup>(1)</sup>	Total Active	All Inactive Meters	Total	Wastewater EDUs
2018	8,633	459	1,071	10,163	864	11,027	2,750
2017	8,556	459	1,071	10,086	821	10,907	2,742
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

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

Source: Valley Center Municipal Water District

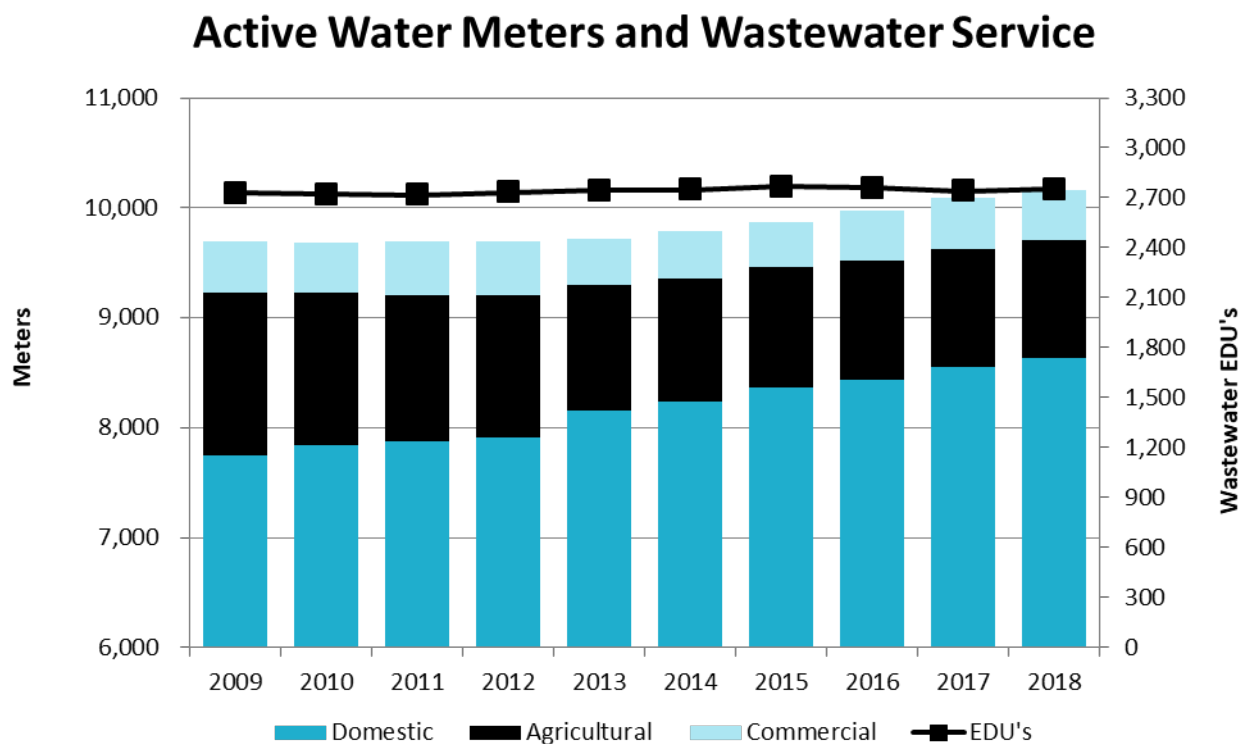


Table V  
Assessed Value of Taxable Property (Last Ten Fiscal Years)

Fiscal Year Ended	Secured				Assessed Unsecured Value	Total Assessed Value	Tax Rate
	Real Property	Personal Property	Exemptions	Net Assessed Value			
2018	\$4,440,851,377	\$25,856	\$37,354,411	\$4,403,522,822	\$26,531,923	\$4,430,054,745	0
2017	\$4,244,393,695	\$651,184	\$33,823,178	\$4,211,221,701	\$23,668,704	\$4,234,890,405	0
2016	\$4,036,249,358	\$733,024	\$31,225,271	\$4,005,757,111	\$23,401,366	\$4,029,158,477	0
2015	\$3,852,112,900	\$1,215,597	\$29,635,128	\$3,823,693,369	\$20,367,813	\$3,844,061,182	0
2014	\$3,706,577,321	\$1,376,872	\$28,443,008	\$3,679,511,185	\$20,755,618	\$3,700,266,803	0
2013	\$3,740,016,370	\$1,265,751	\$27,317,686	\$3,713,964,435	\$20,078,143	\$3,734,042,578	0
2012	\$3,831,030,133	\$325,570	\$25,754,739	\$3,805,600,964	\$24,459,608	\$3,830,060,572	0
2011	\$3,878,894,450	\$176,496	\$24,763,190	\$3,854,307,756	\$25,180,931	\$3,879,488,687	0
2010	\$4,008,313,358	\$297,477	\$25,760,391	\$3,982,850,444	\$27,925,200	\$4,010,775,644	0
2009	\$4,226,310,595	\$375,035	\$19,968,104	\$4,206,717,526	\$30,378,264	\$4,237,095,790	0

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

## Assessed Value of Taxable Property

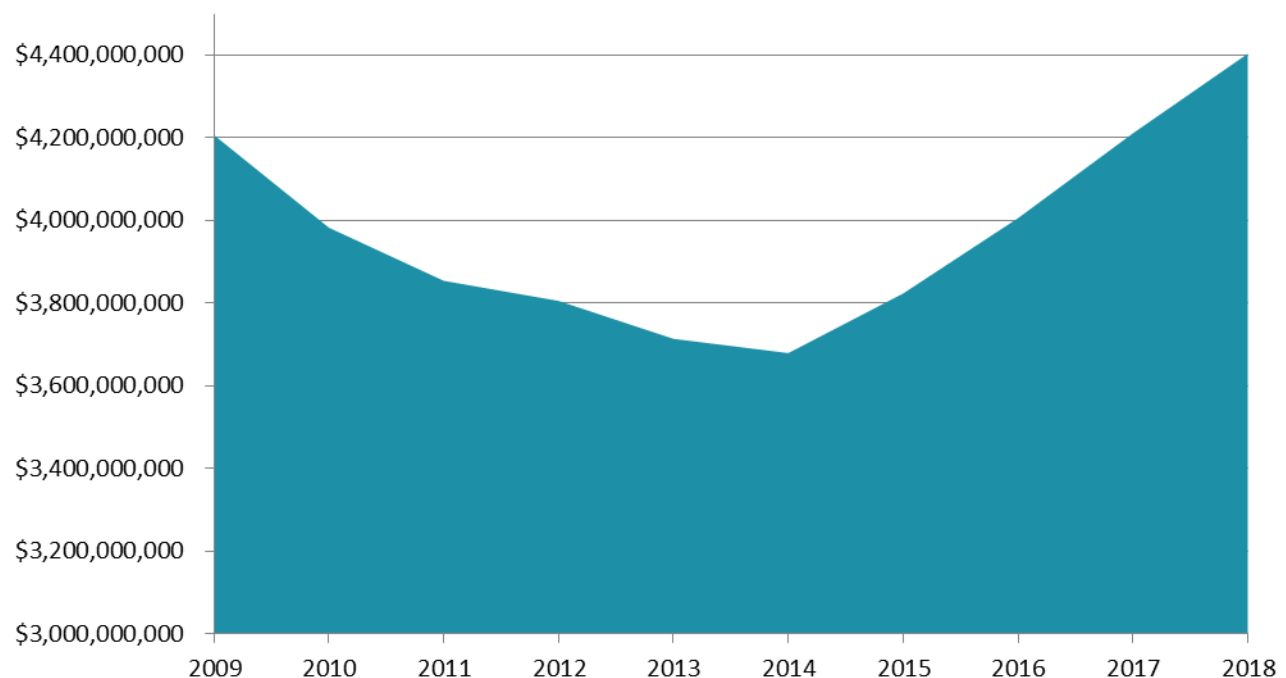


Table VI  
Property Taxes and Assessment Levies and Collections<sup>(1)</sup> (Last Ten Fiscal Years)

Fiscal Year Ended	Levy			Total Collections <sup>(3)</sup>	Net Delinquent <sup>(4)</sup>	Percent Delinquent <sup>(5)</sup>
	Property Taxes	Special Assessments <sup>(2)</sup>	Total Levy			
2018	\$2,366,917	\$3,224,152	\$5,591,068	\$5,564,397	\$26,671	0%
2017	\$2,267,255	\$3,210,182	\$5,477,437	\$5,448,333	\$29,104	0%
2016	\$2,153,564	\$1,659,911	\$3,813,476	\$3,787,091	\$26,384	0%
2015	\$2,050,185	\$1,254,306	\$3,304,491	\$3,278,508	\$25,982	0%
2014	\$1,979,568	\$1,253,812	\$3,233,380	\$3,204,819	\$28,561	0%
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%

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

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

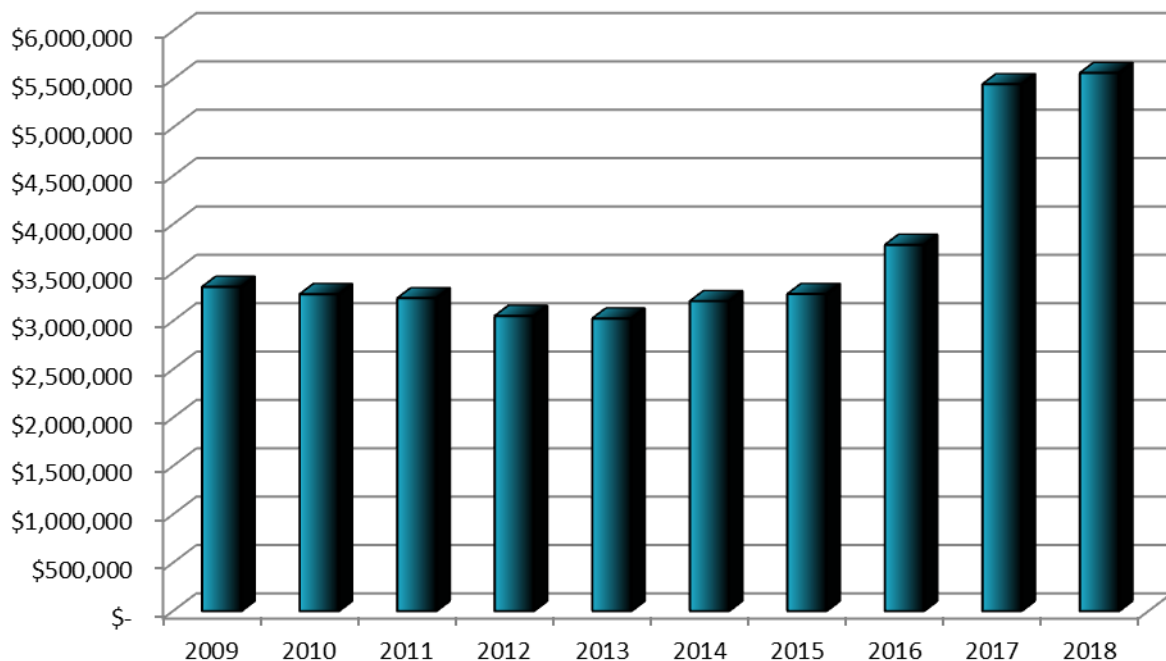
(3) Collections do not include miscellaneous adjustments.

(4) Net Delinquent includes uncollectible portion.

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

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

## Property Tax Collections



**Table VII**  
**Direct and Overlapping Bonded Debt <sup>(1)</sup>** (June 30, 2018)

2017-18 Assessed Valuation: \$4,430,054,745

	Total Debt 6/30/2018	% Applicable <sup>(1)</sup>	District's Share of Debt 6/30/18
<b><u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u></b>			
Metropolitan Water District	\$60,600,000	0.161%	\$97,566
Palomar Pomerado Health District	436,358,740	5.466	23,851,369
Palomar Community College District	627,826,320	3.820	23,982,965
Escondido Union High School District	87,884,694	6.115	5,374,149
Fallbrook Union High School District	11,152,627	1.573	175,431
Escondido Union School District	141,369,622	6.329	8,947,283
Fallbrook Union School District	20,119,476	0.063	12,675
Bonsall Unified School District	11,039,906	3.950	436,076
Valley Center-Pauma USD Community Facilities District No. 2003-1	7,555,000	100.000	7,555,000
City of Escondido	58,680,000	0.031	18,191
Valley Center Municipal Water District	0	100.000	0
<b>TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT</b>			<b><u>\$70,450,705</u></b>
<b><u>OVERLAPPING GENERAL FUND DEBT:</u></b>			
San Diego County General Fund Obligations	\$ 273,220,000	0.893%	\$2,439,855
San Diego County Pension Obligation Bonds	558,525,000	0.893	4,987,628
San Diego County Superintendent of Schools Certificates of Participation	10,785,000	0.893	96,310
Palomar Community College District Certificates of Participation	2,720,000	3.820	103,904
Bonsall Unified School District Certificates of Participation	7,580,000	3.950	299,410
Escondido Union High School District Certificates of Participation	55,510,000	6.115	3,394,437
Escondido Union School District Certificates of Participation	16,525,000	6.329	1,045,867
Escondido Union School District Benefit Obligations	7,955,000	6.329	503,472
City of Escondido Certificates of Participation	3,750,000	0.031	1,163
<b>TOTAL OVERLAPPING GENERAL FUND DEBT</b>			<b><u>\$12,872,046</u></b>
<b>TOTAL DIRECT DEBT</b>			<b>\$0</b>
<b>TOTAL OVERLAPPING DEBT</b>			<b><u>\$83,322,751</u></b>
<b>COMBINED TOTAL DEBT</b>			<b><u>\$83,322,751</u></b> <sup>(2)</sup>

Ratios to Assessed Valuation:

<b>Direct Debt</b>	<b>0.00%</b>
Total Direct and Overlapping Tax and Assessment Debt	1.59%
Combined Total Debt	1.88%

2017-18 TYPICAL TOTAL TAX RATE (TRA 94-075): 1.07865

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

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

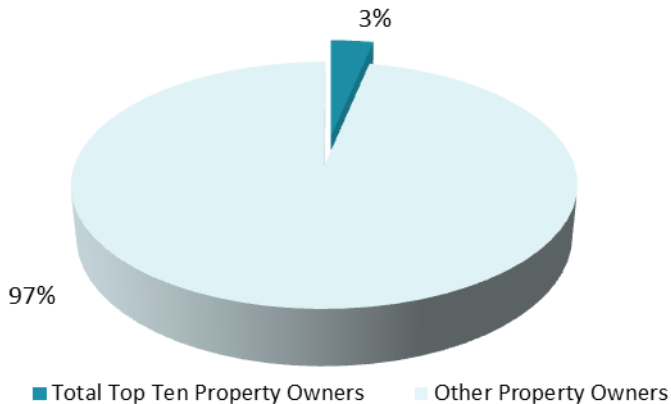
Source: California Municipal Statistics, Inc.

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

Fiscal Year Ended June 30, 2018			Fiscal Year Ended June 30, 2009		
Property Owner	Cumulative Net Assessed Value	Percent of Total Net Assessed Value	Property Owner	Cumulative Net Assessed Value	Percent of Total Net Assessed Value
Welk Resort Platinum Owners Assoc.	\$64,787,196	1.46%	Welk Resort Platinum Owners Assoc.	\$37,807,102	0.89%
Welk Resort Properties Inc.	12,283,618	0.28%	Rimrock Springs LLC	17,173,570	0.41%
Bell Holdings LLC	9,957,248	0.22%	Perricone Sam Survivors Trust	8,923,549	0.21%
Pardee Homes	9,641,050	0.22%	Lilac Ranch LLC	8,582,367	0.20%
Welk Resort Group Inc.	9,161,731	0.21%	Welk Resort Group Inc.	7,273,202	0.17%
Welk Mountain Villas Inc.	8,678,753	0.20%	Bell Family Trust	6,351,163	0.15%
Skyline Ranch Country Club LLC	8,607,502	0.19%	Richard & Lora L Stevens Revocable Trust	4,702,034	0.11%
San Pasqual Band of Dieg. Mission	8,020,426	0.18%	Live Oak Ranch Development LLC	4,648,735	0.11%
A T C Realty Sixteen Inc.	7,110,346	0.16%	Trimark Pacific Sherwood LLC	4,010,614	0.09%
McMillan Trust 11-09-05	7,023,550	0.16%	Meadow Lake Country Club LLC	3,650,000	0.09%
Total Top Ten Property Owners	\$145,271,420	3.28%	Total Top Ten Property Owners	\$103,122,336	2.43%
Other Property Owners	\$4,284,783,325	96.72%	Other Property Owners	\$4,133,973,454	97.57%
Total Assessed Valuation	\$4,430,054,745	100.00%	Total Assessed Valuation	\$4,237,095,790	100.00%

Data Source: 2017 Master Property Records from San Diego County Used for 2017-18 Property Taxes.

### Principal Property Owners 2018



### Principal Property Owners 2009

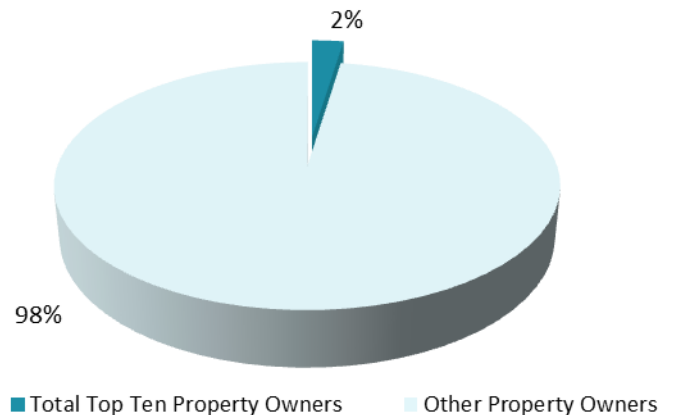


Table IX  
Water Rates (Last Ten Fiscal Years)

Fiscal Year Ended <sup>(1)</sup>	Commodity Charge <sup>(2)</sup>									Monthly Meter Charge <sup>(5)</sup>	
	Domestic			IAWP <sup>(3)</sup>			TSAWR <sup>(4)</sup>				
	MWD/ SDCWA			MWD/ SDCWA			MWD/ SDCWA				
	Wholesale	VCMWD	Total	Wholesale	VCMWD	Total	Wholesale	VCMWD	Total	3/4" Meter	1" Meter <sup>(6)</sup>
2018	\$1,884	\$232	\$2,116	\$0	\$0	\$0	\$1,320	\$232	\$1,552	\$39.93	\$54.55
2017	\$1,827	\$221	\$2,048	\$0	\$0	\$0	\$1,277	\$221	\$1,498	\$39.93	\$54.55
2016	\$1,714	\$201	\$1,915	\$0	\$0	\$0	\$1,182	\$201	\$1,383	\$36.30	\$49.59
2015	\$1,558	\$183	\$1,741	\$0	\$0	\$0	\$1,151	\$183	\$1,334	\$33.00	\$45.08
2014	\$1,490	\$175	\$1,665	\$0	\$0	\$0	\$1,139	\$175	\$1,314	\$31.55	\$43.10
2013	\$1,419	\$166	\$1,585	\$0	\$0	\$0	\$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

(1) Rate as of January 1.

(2) Excludes pumping charges.

(3) Interim Agricultural Water Program. Phased out by MWD on December 31, 2012.

(4) Transitional Special Agricultural Water Rate implemented by SDCWA effective January 1, 2009.

(5) Excludes SDCWA Infrastructure Access Charge.

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

Source: Valley Center Municipal Water District

## Water Rates

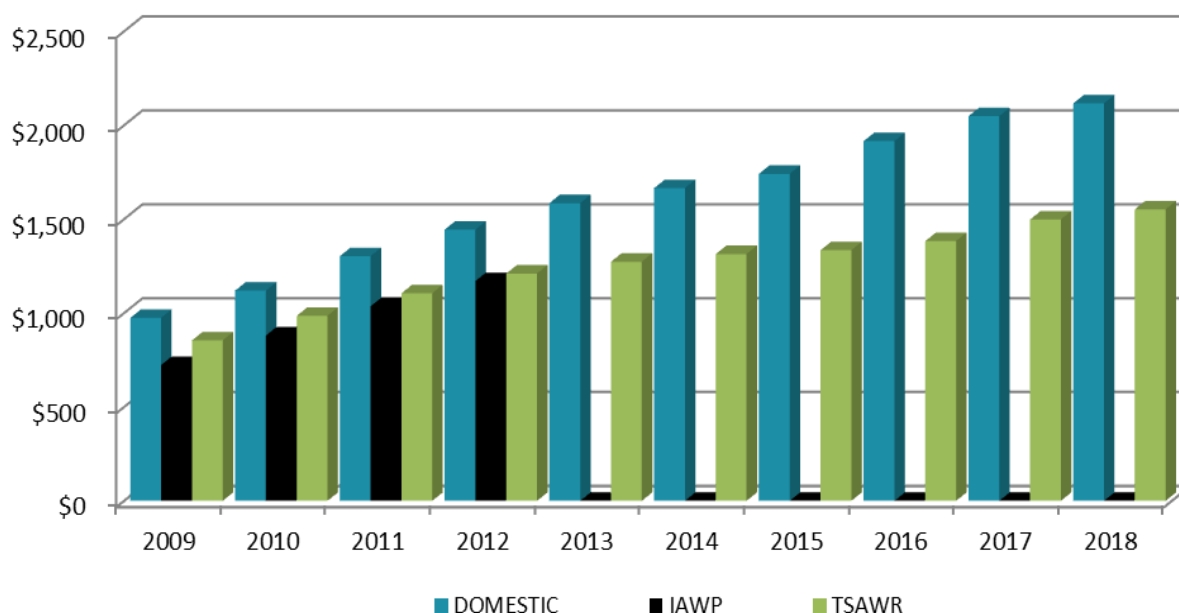


Table X  
Wastewater Rates<sup>(2)</sup> (Last Ten Fiscal Years)

Fiscal Year Ended <sup>(1)</sup>	Moosa Gravity	Moosa Pressure	Woods Valley Ranch
2018	\$56.45	\$103.03	\$98.60
2017	\$53.76	\$98.12	\$98.60
2016	\$51.20	\$93.45	\$98.60
2015	\$51.20	\$93.45	\$98.60
2014	\$51.20	\$93.45	\$98.60
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

(1) Rate as of January 1.

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

Source: Valley Center Municipal Water District

## Wastewater Rates

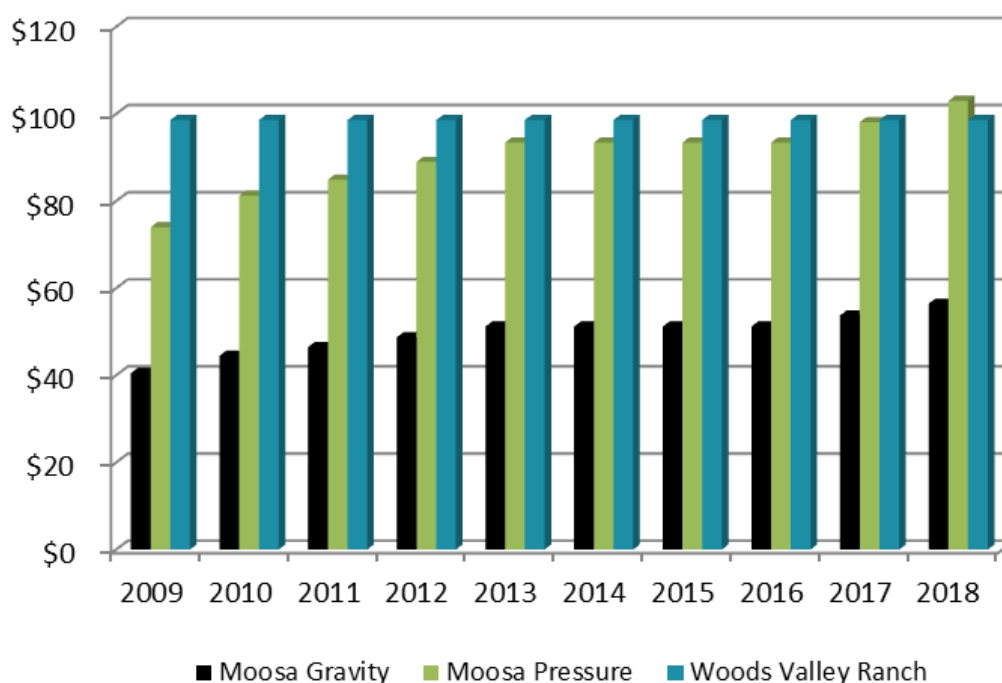




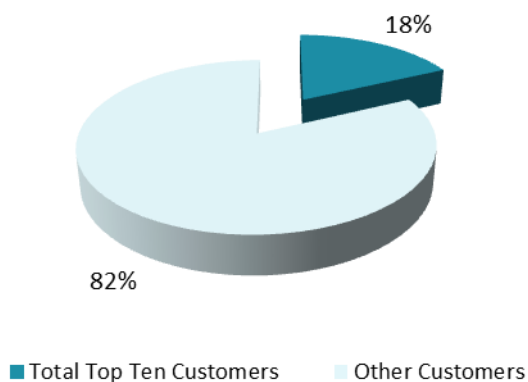
Table XI  
Principal Water Customers

Fiscal year ended June 30, 2018		
Customer	Usage in Acre Feet	Percent of Water Sold
Grandon Ranch Corp	848.0	3.94%
Coykendall, H. C. J.	533.4	2.48%
BSTCO	405.5	1.89%
Stehly, N. J.	396.6	1.84%
A-1 Sunshine Farms LLC	309.2	1.44%
Harlan Beck & Associates	324.1	1.51%
Rancho Erico	294.0	1.37%
Rancho Sereno	282.9	1.32%
Fallbrook Venture One	246.8	1.15%
Golden Park Ranch	222.8	1.04%
Total Top Ten Customers	3,863.3	17.98%
Other Customers	17,634.6	82.02%
Total Water Sales	21,497.9	100.00%

Fiscal year ended June 30, 2009		
Customer	Usage in Acre Feet	Percent of Water Sold
Stehly, N. J. C.	864.2	2.62%
BSTCO	721.5	2.19%
Grandon Ranch Corp.	548.6	1.66%
Harlan Beck & Associates	523.6	1.59%
Coykendall, H. C. J.	520.0	1.58%
Segal, G.	397.9	1.21%
Gray Cor Farms	385.0	1.17%
Rancho Sereno	373.1	1.13%
Rancho Trio	308.4	0.93%
Rancho Erico	295.6	0.90%
Total Top Ten Customers	4,937.9	14.98%
Other Customers	28,076.2	85.02%
Total Water Sales	33,014.1	100.00%

Source: Valley Center Municipal Water District

Principal Water Customers  
2018



Principal Water Customers  
2009

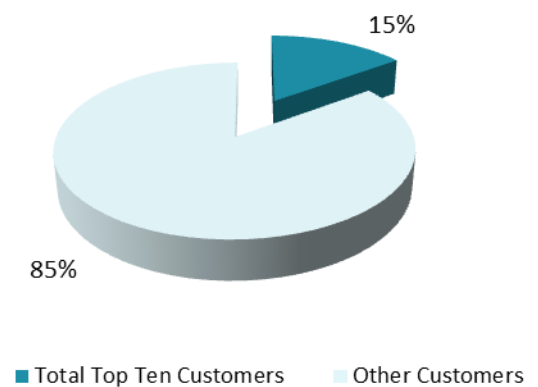


Table XII  
Ratios of Outstanding Debt by Type (Last Ten Fiscal Years)

Fiscal Year Ended	General Obligation Bonds <sup>(1)</sup>	Revenue Bonds <sup>(2)</sup>	Notes Payable SRF Loan <sup>(3)</sup>	Financing Loan Agreement <sup>(4)</sup>	Total	Percentage of Personal Income <sup>(5)</sup>	Per Capita <sup>(5)</sup>
2018	-	-	\$26,753,731	\$78,537	\$26,832,268	2.66%	\$1,042
2017	-	-	\$23,029,735	\$98,130	\$23,127,865	2.35%	\$902
2016	-	-	\$7,679,830	\$117,724	\$7,797,554	0.81%	\$304
2015	-	-	\$676,310	\$137,318	\$813,638	0.09%	\$32
2014	-	-	\$676,310	\$88,123	\$764,433	0.08%	\$30
2013	-	-	-	-	-	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

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

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

(3) In Fiscal Years 2014-2017 the District began receiving funds from the State Revolving Fund Loans for the Cool Valley Reservoir and the Woods Valley Ranch Water Reclamation Facility Expansion.

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

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

Source: Valley Center Municipal Water District

**Table XIII**  
**Pledged-Revenue Coverage** (Last Ten Fiscal Years)

Fiscal Year Ended	Operating Revenues <sup>(1)</sup>	Nonoperating Revenues <sup>(1)</sup>	Gross Revenues	Less: Operating Expenses <sup>(1)(2)</sup>	Net Available Revenues	Debt Service			Coverage Ratio <sup>(3)</sup>
						Principal	Interest	Total	
2018	\$50,108,564	\$3,673,774	\$53,782,338	\$47,989,798	\$5,792,540	\$1,177,257	\$540,037	\$1,717,294	3.37
2017	\$43,310,872	\$3,321,123	\$46,631,995	\$40,374,658	\$6,257,337	\$19,594	\$238,935	\$258,529	24.20
2016	\$39,047,075	\$3,208,678	\$42,255,753	\$37,875,992	\$4,379,761	\$19,594	\$47,272	\$66,866	65.50
2015	\$45,384,649	\$3,057,261	\$48,441,910	\$44,115,885	\$4,326,025	\$9,527	\$15,030	\$24,557	176.16
2014	\$50,089,453	\$2,941,677	\$53,031,130	\$47,207,908	\$5,823,222	\$6,351	\$7,749	\$14,100	412.99
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

(1) See Table II

(2) Operating expenses excluding depreciation.

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

See Table XII, Notes 2 – 4.

Source: Valley Center Municipal Water District

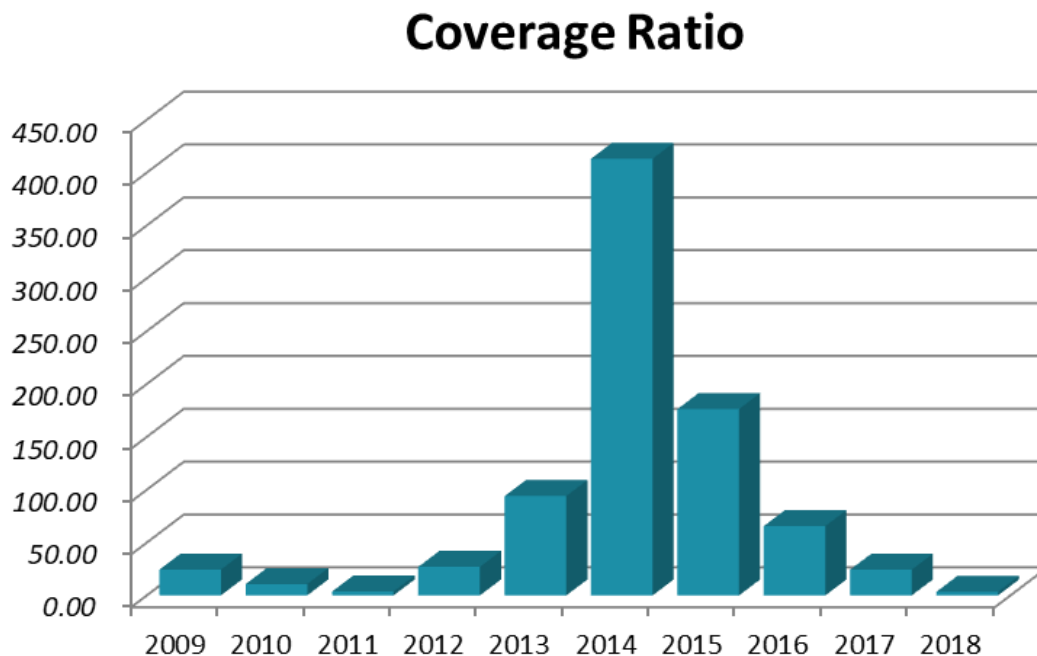


Table XIV  
Demographic and Economic Statistics (Last Ten Fiscal Years)

Fiscal Year Ended	Population (1)	Total Personal Income (2)	Per Capita Personal Income (3)	Unemployment Rate (4)
2018	25,760	\$1,009,792,000	\$39,200	3.1%
2017	25,630	\$984,192,000	\$38,400	2.3%
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%

Other Statistics: <sup>(5)</sup>

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.

### Per Capita Personal Income and Population

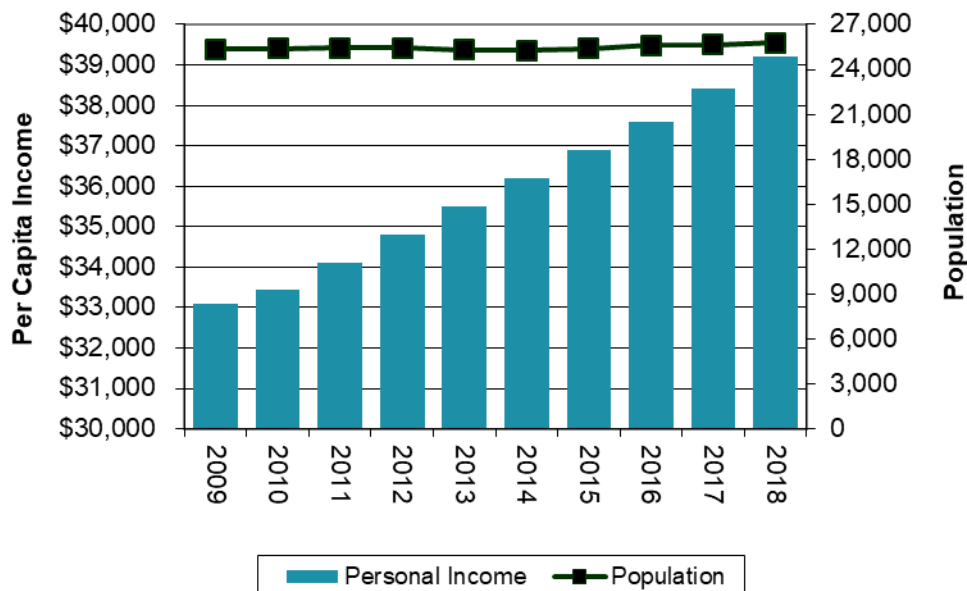


Table XV  
Principal Employers – County of San Diego (Current Fiscal Year and Nine Years Prior)

Fiscal year ended June 30, 2018				Fiscal year ended June 30, 2009			
Employer	Rank	# of Employees	% of Total Employment	Employer	Rank	# of Employees	% of Total Employment
University of California, San Diego	1	34,448	2.32%	Federal Government	1	43,500	3.11%
United States Navy, San Diego	2	34,185	2.30%	United States Navy, San Diego	2	42,000	3.00%
Sharp Healthcare	3	18,364	1.24%	State of California	3	40,900	2.92%
County of San Diego	4	17,413	1.17%	University of California, San Diego	4	26,000	1.86%
Scripps Healthcare	5	14,941	1.01%	County of San Diego	5	20,500	1.46%
San Diego Unified School District	6	13,815	0.93%	City of San Diego	6	19,500	1.39%
Qualcomm	7	11,800	0.79%	San Diego Unified School District	7	15,881	1.13%
City of San Diego	8	11,462	0.77%	Sharp Healthcare	8	14,390	1.03%
Kaiser Foundation Hospital	9	9,606	0.65%	Scripps Health	9	12,700	0.91%
UC San Diego Health	10	8,932	0.60%	Scripps Mercy Hospital	10	11,000	0.79%
Total Top Ten		<u>174,966</u>	11.77%	Total Top Ten		<u>246,371</u>	17.60%
2018 Total Number employed in San Diego County		<u>1,486,300</u>		2009 Total Number employed in San Diego County		<u>1,399,473</u>	

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,									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Pumping	3.63	4.20	3.58	2.90	3.16	3.42	4.21	4.55	5.44	5.24
Water Systems Operations	28.94	28.51	28.69	30.46	31.40	31.89	32.42	34.04	33.80	36.14
Wastewater Collection and Treatment	6.66	6.39	5.57	5.59	5.75	5.66	5.44	5.45	5.64	6.11
Engineering	8.80	8.60	8.80	9.83	9.40	9.60	10.82	12.46	13.46	11.27
General and Administrative	10.00	10.00	11.00	11.00	10.00	12.00	12.25	12.50	13.00	13.00
Capital Outlay <sup>(1)</sup>	3.03	4.32	3.71	3.54	3.46	3.60	3.06	4.36	2.50	3.31
Developer Projects <sup>(2)</sup>	0.94	0.98	0.65	0.68	0.83	0.83	1.05	1.14	1.16	4.93
Total Employees <sup>(3)</sup>	62.00	63.00	62.00	64.00	64.00	67.00	69.25	74.50	75.00	80.00
Average Years of Service	15.44	15.30	15.90	14.10	14.18	13.20	12.46	11.37	10.37	10.24

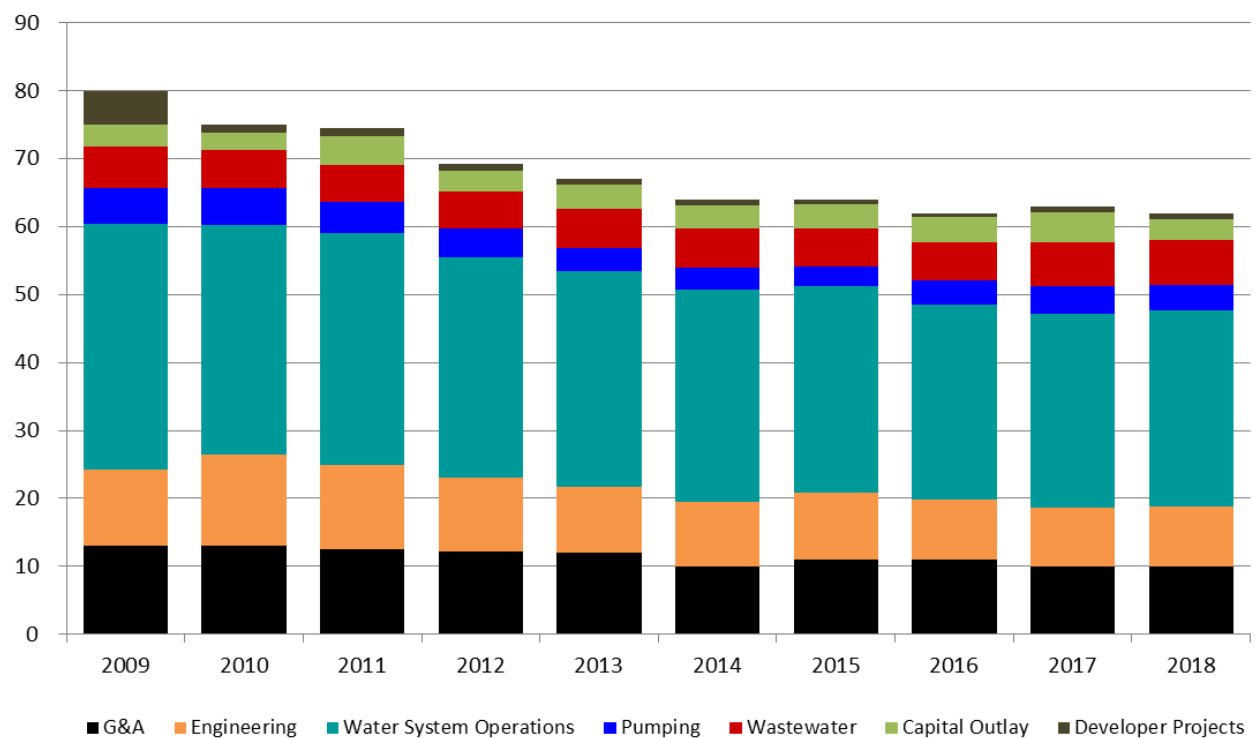
(1) Capitalized into construction in progress.

(2) Charged to work in progress for others.

(3) Authorized number of budgeted employees by year. For Fiscal Year 2009, actual number of employees was 78.

Source: Valley Center Municipal Water District

## Employees



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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>Water:</b>										
Service area (acres)	64,540	64,540	64,540	64,540	64,253	64,253	64,253	64,253	64,253	64,253
Miles of water main (8 inches and larger)	301	301	301	301	298	297	297	297	297	297
Number of enclosed reservoirs	43	43	43	43	42	42	42	42	42	42
Capacity of enclosed reservoirs (AF)	433	433	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	29	29	27	26	26	26	26	26
Number of pumps	105	105	106	106	110	106	100	100	100	96
Total pump capacity (horsepower)	19,960	19,960	20,310	20,160	20,185	20,185	20,050	19,785	19,785	19,785
Number of service connections	11,027	10,907	10,836	10,761	10,675	10,616	10,597	10,576	10,556	10,493
Number of meters in service	10,163	10,086	9,976	9,869	9,785	9,715	9,694	9,692	9,688	9,690
Production peak (m.g.d.)	41.48	39.90	42.00	50.00	55.84	55.45	49.87	55.30	65.27	53.96
Average production (m.g.d.)	20.11	18.06	17.57	22.83	26.43	26.13	24.77	22.80	26.35	30.33
Total rainfall (inches)	6.29	21.32	11.98	10.10	7.29	8.51	12.21	23.94	19.01	14.10
Average daily temperature (F.)	63.25	61.83	62.75	63.80	63.50	62.33	61.30	61.08	61.60	62.70
Electricity purchased (1,000 kWh)	9,608	6,997	7,344	15,582	16,894	16,276	15,595	16,984	18,480	25,362
Natural gas purchased (1,000 therms)	729	786	591	234	365	407	163	99	390	190
Mainline repairs	23	21	22	11	15	18	18	16	11	31
<b>Wastewater:</b>										
Miles of sewer lines	57	57	57	57	57	57	57	57	56	56
Number of treatment plants	2	2	2	2	2	2	2	2	2	2
Maximum capacity of treatment plants (m.g.d.)	0.77	0.57	0.57	0.57	0.57	0.57	0.57	0.57	0.57	0.57
Average dry weather flow (m.g.d.)	0.37	0.36	0.33	0.36	0.37	0.37	0.37	0.39	0.37	0.35
Number of sewer connections	2,750	2,742	2,761	2,769	2,746	2,745	2,731	2,717	2,722	2,729

AF - Acre feet

m.g.d. - Million gallons per day

Source: Valley Center Municipal Water District

## VALLEY CENTER MUNICIPAL WATER DISTRICT EMPLOYEES 2017-18

PAUL ADRIAN  
GARY ARANT  
RICHARD BEATH  
CALVIN BREWER  
LEONARD BROWN  
RONALD BURKE  
JEFFREY BURTON  
FERNANDO CARRILLO  
DANIELLE CATTANEO  
ASHLYN CROSTINI  
RON DARLAND  
EDUARDO DEALBA  
RAMIRO DE ALBA-JIMENEZ  
ROMAN DE MANRIQUEZ  
COREY ELMENDORF  
GREG FEIK  
PATRICIA GARCIA  
DOMINGO GONZALEZ  
TROY GOSWICK  
WALLY GRABBE  
CLARENCE HICKS

ALBERT HOYLE  
RYAN HUGHES  
TONY JACQUEZ  
CHRISTINE JOHNSON  
JOSHUA JONES  
THAD KLIMAS  
CHRISTOPHER KRATZ  
ERIC LAVENTURE  
ANTHONY LOPRESTI  
BRIAN LOVELADY  
JESSICA LOVELADY  
RYAN MADSON  
JOHN MARTINEAU  
MARLENE MARTINEZ  
JAMIE MARTINEZ  
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  
ROBERT TRUESDALE  
GLENDA VALENZUELA  
VANESSA VELASQUEZ  
PAUL VILLALOBOS+  
MICHELLE WICK  
CORAL WILLIAMS  
DENNIS WILLIAMS  
JAMES WOOTEN

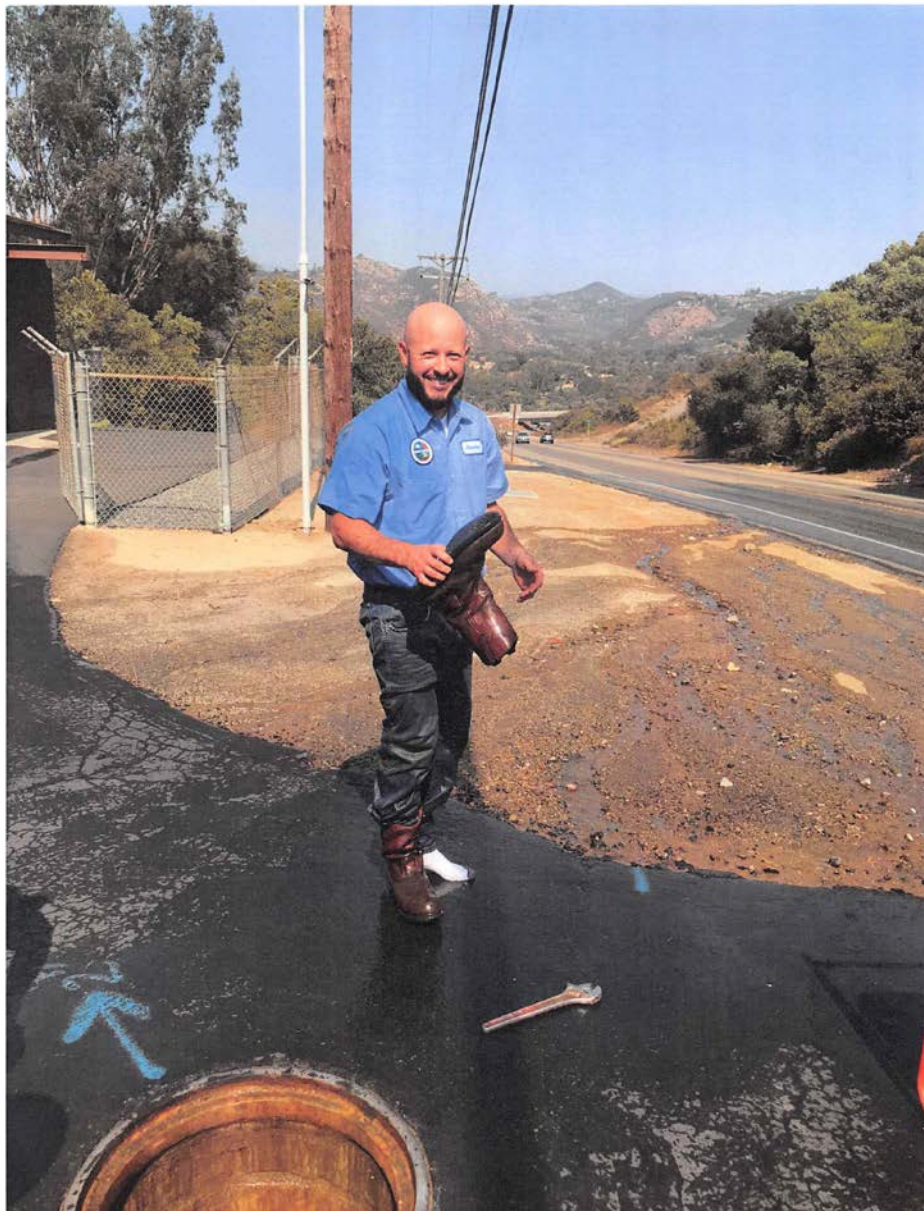
For additional copies contact:

Valley Center Municipal Water District  
Post Office Box 67  
Valley Center, California  
Telephone (760) 735-4500  
Facsimile (760) 749-6478

Visit us on the Internet at:

[www.valleycenterwater.org](http://www.valleycenterwater.org)





### **In Memoriam**

#### ***Paul Andrew Villalobos, Meter Services Technician III***

Valley Center Municipal Water District

June 2008 to August 2018

In August 2018, Andrew Villalobos, Meter Services Technician III for the District, passed away at the young age of 34.

Andrew, as he liked to be called, was a sports enthusiast and an avid San Diego Padres fan. He was a husband, father, son, uncle and brother. To us here at the District he was our co-worker but most of all he was our friend.

Andrew you will be sorely missed and forever in our memories.

