



**ANNUAL FINANCIAL REPORT**  
**WITH REPORT ON AUDIT BY INDEPENDENT**  
**CERTIFIED PUBLIC ACCOUNTANTS**  
**JUNE 30, 2012**

	<b>Page Number</b>
Independent Auditors' Report	1 - 2
Management's Discussion and Analysis	3 -9
Basic Financial Statements:	
Statements of Net Assets	10
Statements of Revenues, Expenses and Changes in Net Assets	11
Statements of Cash Flows	12 - 13
Notes to the Basic Financial Statements	14 - 37
Required Supplementary Information:	
Schedule of Funding Progress for OPEB	38
Supplementary Information:	
Schedule of Operating Expenses – Water Division	39 - 41
Schedule of Operating Expenses – Wastewater Division	42 - 44

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Vallecitos Water District  
San Marcos, California

We have audited the accompanying basic financial statements of Vallecitos Water District as of and for the year ended June 30, 2012 as listed in the table of contents. These basic financial statements are the responsibility of the Vallecitos Water District's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the financial statements of the District for the year ended June 30, 2011 and in our report dated November 7, 2011, we expressed an unqualified opinion on these financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Vallecitos Water District as of June 30, 2012, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and Other Post-Employment Benefit Plan – schedule of funding progress, as identified in the accompanying table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the accompanying basic financial statements of Vallecitos Water District. The supplementary information, as identified in the accompanying table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The supplementary 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

*White Nelson Dick Evans LLP*

December 5, 2012  
Carlsbad, California

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

### **Fiscal Year Ended June 30, 2012**

Our discussion and analysis of the Vallecitos Water District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2012. Management's Discussion and Analysis (MD&A) presents financial highlights; an overview of the accompanying financial statements; an analysis of financial position and results of operations; current-to-prior year analysis; discussion on restrictions, commitments and limitations; and discussion on significant activity involving capital assets and long-term debt.

#### **FINANCIAL HIGHLIGHTS**

During the fiscal year ended June 30, 2012 (2011/12), the following highlights impacted, or have the potential to impact, the finances of the District.

- Effective January 1, 2012, the wholesale cost per acre foot of treated water increased by 7%. Fixed wholesale costs increased 10.5%. The cost of water increased by \$2.6 million and purchases increased by 741 acre feet (4.8%).
- In June 2011, California Governor Jerry Brown signed a budget-related bill eliminating redevelopment agencies in their existing form. Starting in 2013/14 the District will no longer receive the RDA pass-through from The City of San Marcos. The District received a total of \$1.6 million in pass-through and "true up" payments in 2011/12. Of the \$1.6 million, the City of San Marcos is contesting \$746k with the State. The District has set-aside the \$746k in reserve until resolution between the City and the State. The loss of revenue was anticipated in the District's 2011/12 and 2012/13 budgets.
- Capital spending during 2011/12 increased to \$6.1 million compared to \$2.8 million in the prior year, \$7 million two years prior, and \$9.4 million three years prior. Of the \$6.1 million, \$2.7 million is directly related to the settlement of the Meadowlark Reclamation Facility lawsuit.
- On April 18, 2012, the Board of Directors adopted an increase to the water capital facility fee, a decrease to the sewer capital facility, and a new density impact fee. Capital facility fees recover the costs of capital needed to accommodate growth. The impact fee recovers the costs of additional sewer treatment capacity needed due to projects increasing densities from the adopted densities.
- On June 6, 2012, the Board of Directors adopted the District budget for 2012/13 which anticipates increases in water rates charged by the District's wholesaler the San Diego County Water Authority and increased demand from District customers. The increase in budgeted water purchases is \$4.2 million. Other than water purchases, the operating budget decreased by \$126k from fiscal year 2011/12 due to across the board reductions in each department.
- On March 1, 2012, the District began transferring a total of \$2,325,689 to an irrevocable trust administrator, California Employers' Retiree Benefit Trust Fund (CERBT), to reduce the annual Other Post Employment Benefits (OPEB) liability. The trust managers will invest the District's installments to target a rate of return of 7% to meet future retiree benefits. The fiscal year 2011/12 OPEB liability decreased \$2.3 million by this action.
- During the course of fiscal year 2011/12, the District completed its new strategic plan to serve as a guide in meeting long-range goals. The plan also provides a new mission statement and emphasizes fiscal responsibility.
- On July 26, 2011, Fitch Ratings affirmed the District's AA+ rating with a stable outlook. And, on September 18, 2012, Standard and Poor's reaffirm the District's AA rating with a stable outlook.
- During 2011/12, the District negotiated a water treatment services agreement with the Olivenhain Municipal Water District and a purchase commitment agreement for desalinated water with the San Diego County Water Authority. Both agreements were approved and executed in November of 2012 and will diversify 39% of the of the District's water supply portfolio.

**VALLECITOS WATER DISTRICT**

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

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

Statements of Net Assets

The Statements of Net Assets present the District’s financial position (assets and liabilities) as of June 30, 2012, and 2011. Assets in excess of liabilities (Net Assets) are \$242,264,772 and \$237,670,785 as of June 30, 2012, and 2011, respectively. In accordance with generally accepted accounting principles, capital assets acquired through purchase or construction by the District are recorded at historical cost. Capital assets contributed by development are recorded at fair value or developers’ construction cost.

Statements of Revenues, Expenses, and Changes in Net Assets

The Statements of Revenues, Expenses, and Changes in Net Assets present the District’s results of operations for the years ended June 30, 2012, and 2011. Revenues are recognized (recorded) when water or services are provided, and expenses are recognized when incurred. Operating revenues and expenses are related to the District’s core activities (providing water and related services, wastewater services, and processing and delivering recycled water). Non-operating revenues and expenses (e.g. investment income and interest expense) are not directly related to the core activities of the District. The operating loss for the year ended June 30, 2012, of \$1,156,758 is combined with a net non-operating loss of \$517,794 and capital contributions of \$6,268,539 to arrive at an increase in net assets of \$4,593,987. The increase in net assets is added to beginning net assets of \$237,670,785 to arrive at ending net assets of \$242,264,772 as of June 30, 2012.

	2011/12	2010/11
Operating loss	\$ (1,156,758)	\$ (3,220,250)
Nonoperating revenues / (expenses)	(517,794)	(1,814,152)
Capital contributions	6,268,539	4,278,595
Change in net assets	4,593,987	(755,807)
Beginning net assets	237,670,785	238,426,592
Ending net assets	<u>\$ 242,264,772</u>	<u>\$ 237,670,785</u>

Statements of Cash Flows

The Statements of Cash Flows presents the amounts of cash provided or used by the District’s operating, financing, and investing activities. Every cash flow has been categorized into one of the following activities: operating, non-capital financing, capital and related financing, or investing. The total of these categories for the year ended June 30, 2012, is the increase in cash and cash equivalents of \$2,864,774, which is combined with beginning cash and cash equivalents of \$15,380,938 to arrive at ending cash and cash equivalents of

\$18,245,712. Investments in the California Local Agency Investment Fund, San Diego County Investment Pool, and open-ended money market mutual funds, are the only cash equivalents held by the District as of June 30, 2012.

Beginning cash & cash equivalents	\$ 15,380,938
Increase in cash & cash equivalents	2,864,774
Ending cash & cash equivalents	<u>\$ 18,245,712</u>

As of June 30, 2012, the ending cash and cash equivalents are represented on the Statements of Net Assets as follows:

	2011/12	2010/11
Unrestricted cash & cash equivalents	\$ 15,300,091	\$ 12,470,142
Cash & cash equivalents restricted - current	2,945,621	2,910,796
Total cash & cash equivalents	<u>\$ 18,245,712</u>	<u>\$ 15,380,938</u>

# VALLECITOS WATER DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

During the fiscal year ended June 30, 2012, the decrease in total assets of \$713,149 and the decrease in total liabilities of \$5,307,136 resulted in an increase in net assets of \$4,593,987.

Operating activities, property taxes, capital facility fees, and other sources helped fund \$4.8 million in debt service and \$6.1 million in capital acquisitions and construction. The following table summarizes how these capital projects and debt service were financed during the year.

Sources (in millions)		Uses (in millions)	
Capital facility fees	\$ 4.8	Capital construction and acquisition	\$ 6.1
Operating activities	4.5	Debt service	4.8
Property taxes	3.3	Increase in cash and investments	1.9
Investment activities and other receipts	<u>0.2</u>		
	<u>\$ 12.8</u>		<u>\$ 12.8</u>

The operating loss of \$1,156,758 includes non-cash depreciation and amortization expense of \$8,714,294. Depreciation is the systematic allocation of a capital asset's cost to expense over a specified period of time. Depreciation on contributed assets, for which the District never realized cash outflows, is also included in the \$8.7 million of depreciation. Accounting pronouncements do not recognize that operating losses of growth agencies created by depreciation on contributed assets have no negative impact on financial performance. The District has established reserve floors for the replacement of aging infrastructure.

### CURRENT-TO-PRIOR YEAR ANALYSIS

#### Analysis of Net Assets

The increase in assets noted in the table below is primarily attributed to contributed capital recognized as developer projects were closed during the fiscal year and the capitalization of interest on long-term debt.

Vallecitos Water District's Net Assets				
	2011/12	2010/11	Change	
			Amount	%
Cash and investments	\$ 23,685,328	\$ 21,760,924	\$ 1,924,404	8.8%
Capital assets	281,431,796	284,252,162	(2,820,366)	-1.0%
Other assets	<u>12,559,011</u>	<u>12,376,198</u>	<u>182,813</u>	<u>1.5%</u>
Total Assets	<u>317,676,135</u>	<u>318,389,284</u>	<u>(713,149)</u>	<u>-0.2%</u>
Current liabilities	11,354,189	12,437,047	(1,082,858)	-8.7%
Noncurrent liabilities	<u>64,057,174</u>	<u>68,281,452</u>	<u>(4,224,278)</u>	<u>-6.2%</u>
Total Liabilities	<u>75,411,363</u>	<u>80,718,499</u>	<u>(5,307,136)</u>	<u>-6.6%</u>
Net Assets				
Invested in capital assets, net of related debt	215,509,964	214,976,399	533,565	0.2%
Restricted	1,504,206	1,427,825	76,381	5.3%
Unrestricted	<u>25,250,602</u>	<u>21,266,561</u>	<u>3,984,041</u>	<u>18.7%</u>
Total Net Assets	<u>\$ 242,264,772</u>	<u>\$ 237,670,785</u>	<u>\$ 4,593,987</u>	<u>1.9%</u>

**VALLECITOS WATER DISTRICT**

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

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

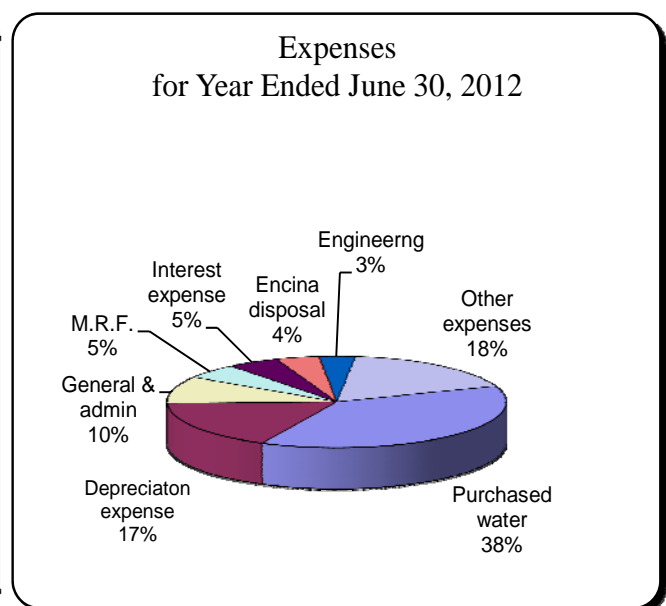
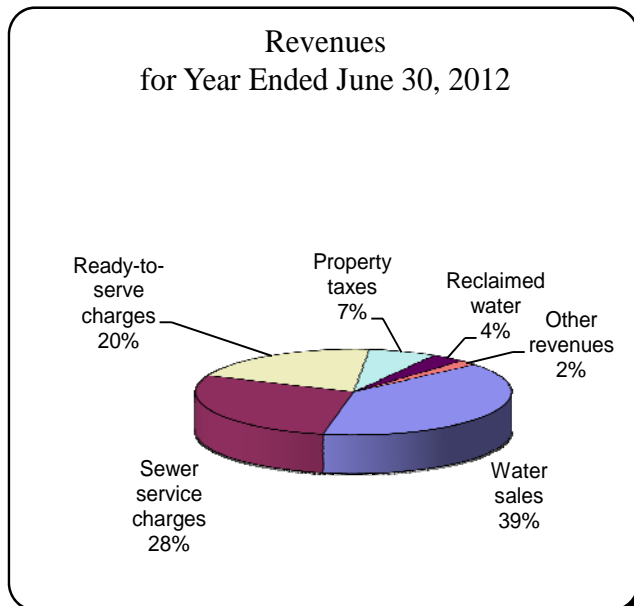
Analysis of Net Assets (continued)

Vallecitos Water District Selected Financial Ratios		
	2011/12	2010/11
Current ratio	2.89	2.43
Quick ratio	2.75	2.29
Capital assets-to-Long-term liabilities	4.39 / 1	4.16 / 1
Debt-to-equity	1 / 3.21	1 / 2.94

The table at the left illustrates how effectively the District can meet its current obligations, and the margin of safety to creditors. The current ratio (current assets divided by current liabilities) indicates that the District can pay 2.89 times its current debt from current assets. However, some current assets are not easily, or will never be, converted to cash (e.g. inventories and prepaid insurance). The quick

ratio, quick assets (cash, liquid investments, accounts receivable) divided by current liabilities, measures how effectively the District can meet current obligations with assets that are readily convertible to cash. The District can pay 2.75 times its current obligations with assets readily convertible to cash. The District’s current and quick ratios show a high degree of solvency and a strong current position. The increase from the prior year is a result of disciplined rate setting, prudent budget cuts and more than anticipated pass through property tax from redevelopment. The capital-assets-to-long-term-liabilities ratio indicates that for every dollar of debt the District has \$4.39 in capital assets (infrastructure, land, building, vehicles, equipment, furniture, etc., net of depreciation). The significantly higher numerator in this ratio and the higher denominator in the debt-to-equity ratio indicate the District’s ability to cash fund some degree of capital projects. The debt-to-equity ratio indicates that for every dollar of debt the District has \$3.21 of net assets (equity).

Analysis of Revenues and Expenses



The composition of revenues and expenses for the 2011/12 fiscal year is graphically illustrated above. Water sales, ready-to-serve charges, and wastewater service charges continue to be the main sources of revenue funding District operations. Water sales are commodity charges assessed to cover the variable costs of purchasing and delivering water to customers. Ready-to-serve charges are intended to cover fixed costs in the wholesale water rate, and costs related to being able to provide water to customers. A comparative analysis of revenues and expenses with a discussion of significant and unanticipated variances from the prior year is presented on the following page.



**VALLECITOS WATER DISTRICT**

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

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

Analysis of Revenues and Expenses (continued)

Vallecitos Water District's Revenues and Expenses				
	For Fiscal Year:		Change	
	2011/12	2010/11	Amount	%
Water sales	\$ 19,164,527	\$ 17,298,173	\$ 1,866,354	10.8%
Wastewater service charges	13,780,015	12,855,742	924,273	7.2%
Ready-to-serve charges	9,945,683	9,080,597	865,086	9.5%
Property taxes	3,397,004	2,245,553	1,151,451	51.3%
Reclaimed water sales	1,710,914	1,604,276	106,638	6.6%
Other revenues	896,213	982,827	(86,614)	-8.8%
Total Revenues	<u>48,894,356</u>	<u>44,067,168</u>	<u>4,827,188</u>	11.0%
Purchased water	19,107,271	16,468,792	2,638,479	16.0%
Depreciation expense	8,714,294	8,220,514	493,780	6.0%
General and administrative	4,842,082	5,224,802	(382,720)	-7.3%
Meadowlark Reclamation Facility (M.R.F.)	2,653,869	3,116,849	(462,980)	-14.9%
Interest expense	2,511,105	2,645,778	(134,673)	-5.1%
Encina disposal	2,078,337	2,097,610	(19,273)	-0.9%
Engineering	1,784,054	2,078,053	(293,999)	-14.1%
Other expenses	8,877,896	9,249,172	(371,276)	-4.0%
Total Expenses	<u>50,568,908</u>	<u>49,101,570</u>	<u>1,467,338</u>	3.0%
Loss before contributions	(1,674,552)	(5,034,402)	3,359,850	66.7%
Capital contributions	6,268,539	4,278,595	1,989,944	46.5%
Change in Net Assets	4,593,987	(755,807)	5,349,794	707.8%
Beginning Net Assets	237,670,785	238,426,592	(755,807)	-0.3%
Ending Net Assets	<u>\$ 242,264,772</u>	<u>\$ 237,670,785</u>	<u>\$ 4,593,987</u>	1.9%

- Water sales, Wastewater service charges and Ready-to-serve changes are due to increases in the tier 1 water commodity rate of 28¢ per unit, \$1.82 monthly increase per single family residence Ready-to-Serve and \$1.96 monthly increase per single family residence sewer charge. Each rate increase took effect during fiscal year 2011/12.
- Property tax receipts are up 51.3% in fiscal year 2011/12, as a result of pass-through payments being more than in previous years with the dissolution of Redevelopment Agencies.
- Other revenues are lower than the prior fiscal year mostly due to decreased return on investments.
- The District recovers costs of tertiary sewer treatment from reclaimed water sales to the City of Carlsbad and the Olivenhain Municipal Water District. These costs, included in MRF expenses, decreased significantly from the prior year due to treatment processes stabilizing and fewer labor and materials needed at the plant.
- The purchased water increase was anticipated and offset with the rate increases mentioned above.
- The majority of the decrease in both General and administrative and Engineering expenses are from reduced salary and benefit costs due to attrition and many employees opting for lower cost benefit plans.
- Other expenses include the changes in all other operating departments which also realized a decrease in salary and benefit costs.
- Capital contributions rose significantly with 71% of the increase being new or additional capacity payments from developers.

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

**RESTRICTIONS, COMMITMENTS, AND LIMITATIONS**

2008 Union Bank Tax-Exempt Private Placement Loan

On November 12, 2008, the District received \$7.9 million in proceeds from a variable rate tax-exempt private placement loan from Union Bank of California to fund a portion of EWA’s treatment plant expansion. The District’s share in solids capacity at EWA increased from 7.5 million gallons per day (MGD) to 10.5 MGD. The variable rate on the loan is indexed to LIBOR with the District’s option to periodically change the LIBOR period and associated rate (adjusted by the bank’s formula for a tax-exempt borrowing) currently at 1.5258%. Principal payments of \$200,000 are due every March 31<sup>st</sup> and September 30<sup>th</sup>. Interest payments are due at the end of the LIBOR period chosen by the District. Total debt service paid in fiscal year 11/12 related to the loan was \$468,258. The outstanding principal balance at June 30, 2012, of \$6.6 million is subordinate to existing certificates of participation.

2005 Certificates of Participation

The District pays debt service semi-annually on certificates issued as variable-rate in 2005 and converted to a fixed rate of 4.736% (total-all-in-cost) in 2007. The January 1<sup>st</sup> payment of interest only is \$1.5 million and the July 1<sup>st</sup> principal and interest payment is \$2.8 million. Total debt service paid in fiscal year 11/12 related to the loan was \$4.3 million. The outstanding principal balance at June 30, 2012, is \$58.5 million. The net revenue requirement is 1.15 times the total debt service of the District. The District’s 2011/12 net revenue was 3.28 times debt service.

Capital Facility Fees

The District collects capital facility fees from new development and increased demands from existing customers, maintains the collected fees in separate funds (one for water and one for wastewater), and uses the funds exclusively to provide capacity to serve new development and fund future construction of facilities identified in the District’s Master Plan and capital budget. As of June 30, 2012, the water capacity fund had a deficit of \$3,163,330 and the sewer capacity had a deficit of \$3,417,388. (The District maintains separate funds for specific purposes. Funds are combined for financial statement presentation.)

Capital Projects

The following budgeted projects have been contracted for at least the design phase before 2012/13:

Project Description	2012/13 Budget	Spent Through	
		June 30, 2012	Remaining
San Marcos interceptor sewer line	\$ 15,400,000	\$ 4,671,186	\$ 10,728,814
Meadowlark Tank #3	4,434,000	488,961	3,945,039
Mountain Belle pump station and pipeline	3,860,000	99,350	3,760,650
Linda Vista Sewer East	2,160,000	284,427	1,875,573
Rock Springs Sewer Replacement	1,345,000	125,907	1,219,093

The budget amounts in the previous table indicate the amount anticipated for completion of the projects. For some of these projects the District has only committed to the design phase through contractual obligations, and the construction has not yet been through the bidding process. Details are provided in the District’s 2012-13 Budget on these and several other committed projects less than \$1 million in scope.

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

**CAPITAL ASSETS AND LONG-TERM DEBT**

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

Water mains, service lines, meters & fire hydrants	\$ 1,001,053
Sewer mains, manholes, and cleanouts	866,888
Five-year Master Plan	843,239
Remainder of law suit settlement - wastewater treatment	721,130

The \$58.5 million in re-issued COPs and the \$6.6 million loan balance are the only long-term debts owed by the District as of June 30, 2012.

**ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES**

The District considered the following economic factors in establishing 2012/13 budget amounts:

- Increases to wholesale water rates,
- Continued slow but steady economic recovery in construction,
- Dissolution of Redevelopment Agencies and the corresponding pass-through payments.

As a result of these factors, the 2012/13 budget includes:

- Increased water sales based on higher water demand projections,
- A 2.5% reduction in employee benefits and a 1.7% increase in salaries from the 2011/12 budget as previously vacant positions are filled,
- The district is pursuing a debt issuance of \$7.1 million in new money to finance the San Marcos Interceptor, Linda Vista sewer, Rock Springs sewer and the Encina parallel land outfall capital projects.

**CONTACTING THE DISTRICT’S FINANCIAL MANAGEMENT**

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

**VALLECITOS WATER DISTRICT**STATEMENTS OF NET ASSETS  
June 30, 2012  
(with prior year data for comparison only)

	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 15,300,091	\$ 12,470,142
Restricted cash and cash equivalents	2,945,621	2,910,796
Investments	5,439,616	6,379,986
Accounts Receivable:		
Water and wastewater sales and services, net	5,499,734	4,801,965
Taxes and assessments	947,929	872,594
From other governmental entities	562,653	637,061
Other	316,642	264,373
Accrued interest receivable	55,070	65,975
Current portion of note receivable	107,996	102,366
Inventories	930,920	963,980
Prepaid expenses	738,593	715,817
Total current assets	<u>32,844,865</u>	<u>30,185,055</u>
Non-current assets:		
Restricted capital facility fees receivable	19,204	7,823
Note receivable from City of San Marcos, net of current portion	635,884	743,880
Prepaid PERS contribution	2,152,533	2,583,039
Debt issuance costs, net	591,853	617,325
Investment in Encina Wastewater Authority capital assets	35,234,766	35,210,864
Capital assets not being depreciated	15,639,057	14,618,351
Net capital assets being depreciated	<u>230,557,973</u>	<u>234,422,947</u>
Total non-current assets	<u>284,831,270</u>	<u>288,204,229</u>
Total Assets	<u>317,676,135</u>	<u>318,389,284</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable	6,168,780	5,919,480
Accrued compensation	1,421,957	1,576,680
Construction and service deposits	417,833	130,093
Construction litigation payable	-	1,500,000
Accrued interest payable from restricted assets	1,460,619	1,490,794
Current portion of long-term debt	<u>1,885,000</u>	<u>1,820,000</u>
Total current liabilities	<u>11,354,189</u>	<u>12,437,047</u>
Non-current liabilities:		
Other post employment benefits obligation, net	20,342	2,325,689
Loan payable, net of current portion	6,200,000	6,600,000
Certificates of participation, net of amortized discount and current portion	<u>57,836,832</u>	<u>59,355,763</u>
Total non-current liabilities	<u>64,057,174</u>	<u>68,281,452</u>
Total Liabilities	<u>75,411,363</u>	<u>80,718,499</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	215,509,964	214,976,399
Restricted for future capital projects	19,204	7,823
Restricted for debt service	1,485,002	1,420,002
Unrestricted	<u>25,250,602</u>	<u>21,266,561</u>
Total net assets	<u>\$ 242,264,772</u>	<u>\$ 237,670,785</u>

See accompanying independent auditors' report and notes to basic financial statements.

**VALLECITOS WATER DISTRICT**

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the year ended June 30, 2012

(with prior year data for comparison only)

	<u>2012</u>	<u>2011</u>
<b>OPERATING REVENUES</b>		
Water sales	\$ 19,164,527	\$ 17,298,173
Wastewater service charges	13,780,015	12,855,742
Ready-to-serve charges	9,945,683	9,080,597
Reclaimed water sales	1,710,914	1,604,276
Pumping charges	157,887	171,875
Other services and abatements	576,906	562,212
Total operating revenues	<u>45,335,932</u>	<u>41,572,875</u>
<b>OPERATING EXPENSES</b>		
Purchased water	19,107,271	16,468,792
General and administrative	4,842,082	5,224,802
Meadowlark wastewater treatment plant	2,653,869	3,116,849
Encina disposal	2,078,337	2,097,610
Engineering	1,784,054	2,078,053
Collection and conveyance	1,737,981	1,737,012
Transmission and distribution	1,022,862	1,122,921
Customer accounts	950,480	995,965
Information technology	813,691	758,418
Building and grounds	495,033	565,199
Meter reading and repairs	504,405	511,121
Tanks and reservoirs	357,022	400,277
Equipment and vehicles	403,289	373,264
Pumping	279,569	266,670
Water quality and treatment	360,717	336,759
Other water operating expenses	400,147	427,874
Other wastewater operating expenses	402,564	394,043
Total operating expenses	<u>38,193,373</u>	<u>36,875,629</u>
Operating income before overhead absorption	7,142,559	4,697,246
Overhead absorption	414,977	303,018
Operating income before depreciation and amortization	7,557,536	5,000,264
Depreciation and amortization	<u>(8,714,294)</u>	<u>(8,220,514)</u>
Operating loss	<u>(1,156,758)</u>	<u>(3,220,250)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Property taxes	3,397,004	2,245,553
Investment income	132,960	166,307
Annexation fees	(50,947)	44,370
Change in Encina Joint Venture assets	(1,514,166)	(1,662,667)
Interest expense	(2,511,105)	(2,645,778)
Other non-operating revenues/(expenses), net	28,460	38,063
Total non-operating revenues (expenses), net	<u>(517,794)</u>	<u>(1,814,152)</u>
Net income (loss) before capital contributions	(1,674,552)	(5,034,402)
Capital contributions	<u>6,268,539</u>	<u>4,278,595</u>
Change in net assets	4,593,987	(755,807)
Total Net Assets, Beginning of Year	<u>237,670,785</u>	<u>238,426,592</u>
Total Net Assets, End of Year	<u>\$ 242,264,772</u>	<u>\$ 237,670,785</u>

See accompanying independent auditors' report and notes to basic financial statements.

**VALLECITOS WATER DISTRICT**

STATEMENTS OF CASH FLOWS  
For the year ended June 30, 2012  
(with prior year data for comparison only)

	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from water and wastewater customers	\$ 44,660,302	\$ 41,864,657
Payments for water	(18,781,344)	(16,262,142)
Payments for services and supplies	(7,317,552)	(5,809,818)
Payments for employee wages, benefits and related costs	(14,021,421)	(16,458,843)
Net cash provided by operating activities	<u>4,539,985</u>	<u>3,333,854</u>
<b>CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Receipts from taxes and assessments	<u>3,321,669</u>	<u>2,371,708</u>
Net Cash Provided by Noncapital and Related Financing Activities	<u>3,321,669</u>	<u>2,371,708</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Receipts from annexation fees	(20,434)	78,013
Acquisition and construction of utility plant	(4,422,763)	(2,047,280)
Principal paid on long-term debt	(1,820,000)	(1,760,000)
Interest payments on long-term debt	(3,020,262)	(3,089,577)
Investment in Encina Wastewater Authority	(1,696,556)	(721,574)
Capacity fees received	<u>4,796,534</u>	<u>2,128,646</u>
Net Cash (Used) by Capital and Related Financing Activities	<u>(6,183,481)</u>	<u>(5,411,772)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments	(4,883,863)	(7,425,937)
Proceeds from sale, call and maturity of investments	5,882,535	7,933,965
Investment earnings	85,563	102,096
Collections on note receivable from City of San Marcos	<u>102,366</u>	<u>97,029</u>
Net cash provided by investing activities	<u>1,186,601</u>	<u>707,153</u>
Net Increase (Decrease) in Cash and Cash Equivalents	2,864,774	1,000,943
Cash and Cash Equivalents, Beginning of Year	<u>15,380,938</u>	<u>14,379,995</u>
Cash and Cash Equivalents, End of Year	<u>\$ 18,245,712</u>	<u>\$ 15,380,938</u>

(Continued)

See accompanying independent auditors' report and notes to basic financial statements.

12

**VALLECITOS WATER DISTRICT**STATEMENTS OF CASH FLOWS (Continued)  
For the year ended June 30, 2012  
(with prior year data for comparison only)

	<u>2012</u>	<u>2011</u>
<b>Reconciliation of operating income (loss) to net cash flows provided by operating activities:</b>		
Operating income (loss)	\$ (1,156,758)	\$ (3,220,250)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization of capital assets	8,714,294	8,220,514
Changes in operating assets and liabilities:		
(Increase) Decrease in assets:		
Accounts receivable from water and wastewater sales	(697,769)	(251,308)
Accounts receivable from other governments	74,408	661,328
Accounts receivable – other	(52,269)	(118,236)
Inventories	33,060	(40,223)
Prepaid expenses	(22,776)	(3,001,034)
Increase (Decrease) in liabilities:		
Accounts payable	107,865	440,838
Accrued compensation	(154,723)	6,782
Other post employment benefits obligation, net	(2,305,347)	635,443
Total adjustments	<u>5,696,743</u>	<u>6,554,104</u>
Net cash provided by operating activities	<u>\$ 4,539,985</u>	<u>\$ 3,333,854</u>

**Financial Statement Classification****Cash and cash equivalents**

## Current assets:

Cash and cash equivalents	\$ 15,300,091	\$ 12,470,142
Restricted cash and cash equivalents	<u>2,945,621</u>	<u>2,910,796</u>
Total Cash and Cash Equivalents	<u>\$ 18,245,712</u>	<u>\$ 15,380,938</u>

**Supplemental Disclosures:**

## Noncash Investing and Financing Activities

Contributions of assets by developers	\$ 1,355,674	\$ 1,957,086
Amortization related to PERS Sidefund	\$ 430,506	\$ -
Amortization related to long-term debt	\$ 34,969	\$ 34,969
Unrealized appreciation (depreciation) of investments	\$ 58,302	\$ 60,522

June 30, 2012

1. Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The Vallecitos Water District was organized in March of 1955 under the provisions of the California Water Code. By Board action in 1989, the District's name changed from the San Marcos County Water District to the Vallecitos Water District. The District was organized to finance, construct, operate, and maintain a water and wastewater system serving portions of northern San Diego County. Currently, the District services approximately 29,000 acres and provides water and wastewater service to the City of San Marcos, portions of the cities of Escondido and Carlsbad, and portions of surrounding unincorporated areas.

The District is the primary governmental unit based on the foundation of a separately elected governing board elected by geographic division of the citizens in a general popular election. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District is financially accountable if it appoints a voting majority of the organization's governing body and: 1) It is able to impose its will on that organization, or 2) There is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

The Vallecitos Water District Financing Corporation (Corporation) was incorporated in March 1998. The Corporation is a California nonprofit public benefit corporation formed to assist the District by acquiring, constructing, operating and maintaining facilities, equipment, or other property needed by the District and leasing or selling such property to the District and as such has no employees or other operations. Although the Corporation is legally separate, it is included as a blended component unit of the District, as it is in substance part of the District's operations. No separate financial statements are prepared for the Corporation.

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

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

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



## 1. Reporting Entity and Summary of Significant Accounting Policies (Continued)

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

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

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

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

Invested in Capital Assets, Net of Related Debt

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

Restricted Net Assets

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

Unrestricted Net Assets

This component of net asset consists of net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted net assets”.

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

C. Use of Estimates

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

D. Cash and Cash Equivalents

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

E. Investments and Investment Policy

The District has adopted an investment policy directing the Treasurer to deposit funds in financial institutions.

Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

F. Accounts Receivable and Allowance for Uncollectible Accounts

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

G. Federal and State Capital and Operating Grants

If a grant agreement were approved and eligible expenditures were incurred, the amount is recorded as a capital or operating grant receivable on the statement of net assets and as capital grant contribution or operating grant revenue, as appropriate, on the statement of revenues, expenses and changes in net assets.

H. Property Taxes and Assessments

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

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

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

I. Water-In-Storage Inventory

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

J. Materials and Supplies Inventory

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

K. Prepaid Expenses

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

L. Restricted Assets

Certain assets of the District are restricted in use by law or debt covenant and, accordingly are shown as restricted assets on the accompanying statement of net assets. Certificates of Participation construction funds set aside from Certificates of Participation proceeds are restricted for construction projects. The District uses restricted resources, prior to using unrestricted resources, to pay expenditures meeting the criteria imposed on the use of restricted resources by a third party.

M. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets expected to have a useful life of more than one year at \$5,000. Donated assets are recorded at estimated fair market value at the date of donation. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

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

N. Encina Wastewater Authority

The District’s participation in the Encina Wastewater Authority (EWA) is included in the accompanying financial statements. The District’s investment in EWA is capitalized as a percentage of ownership of capital expenditures incurred by EWA. Ownership percentages are determined by joint agreements at the time the assets are acquired.

O. Deferred Charges

Deferred charges from bond issuance costs are amortized using the straight-line method over the remaining life of the respective debt service.

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

P. Compensated Absences

The District's personnel policies provide for accumulation of vacation and sick leave. Liabilities for vacation and sick leave are recorded when benefits are earned. Cash payment equal to 100% of unused vacation and 25% or 50% of sick leave, depending on length of service, is available upon retirement or termination.

Q. Construction Advances and Deposits

Construction advances represent deposits received in aid of construction, which are refundable if the applicable construction does not take place. Construction advances are transferred to contributed capital when the District is no longer liable for the applicable construction project.

R. Water and Wastewater Sales and Services

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

S. Interest Expense

The District incurs interest charges on long-term debt. For fiscal year ended June 30, 2012 the District expensed \$2,511,105 of interest incurred and capitalized \$467,148 as part of the cost of construction projects.

T. Capital Contributions

Capital contributions represent cash and capital asset additions contributed to the District by property owners, granting agencies or real estate developers desiring services that require capital expenditures or capacity commitment.

U. Economic Dependency

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

V. Budgetary Policies

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

W. Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

X. Prior Year Data

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

2. Cash and Investments

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

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	\$ 15,300,091	\$ 12,470,142
Restricted cash and cash equivalents	2,945,621	2,910,796
Investments	<u>5,439,616</u>	<u>6,379,986</u>
Total Cash and Investments	<u>\$ 23,685,328</u>	<u>\$ 21,760,924</u>

Cash and Investments consist of the following:

	<u>2012</u>	<u>2011</u>
Cash on hand	\$ 1,700	\$ 1,700
Deposits with financial institutions (over draft)	130,833	(186,342)
Investments	<u>23,552,795</u>	<u>21,945,566</u>
Total cash and investments	<u>\$ 23,685,328</u>	<u>\$ 21,760,924</u>

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

The table below identifies the investment types that are authorized by the District in accordance with the District’s investment policy, which is more restrictive than the California Government Code. The table also identifies certain provisions of the District’s investment policy that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds that are governed by the provisions of debt agreements of the District, rather than the general provisions of the District’s investment policy.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Of Portfolio</u>	<u>Maximum Investment in One Issuer/Institution</u>
U.S. Treasury Obligations	5 years	75%	None
Federal Agency Obligations	5 years	60%	20%
Commercial Paper	270 days	20%	10%
Certificates of Deposit	4 years	20%	FDIC limit
Repurchase Agreements	1 year	10%	25%
Local Government Investment Pools	N/A	40%	25%
Local Agency Investment Fund (LAIF)	N/A	60%	None
State and Local Agency Bonds	5 years	20%	25%
FDIC - Backed Medium - Term Notes	4 years	20%	25%
Savings Accounts	N/A	10%	25%

## 2. Cash and Investments (Continued)

Investments Authorized by Debt Agreements

Investment of debt proceeds are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's investment policy. Appendix B of the official statements note the investment types that are authorized for investments and identifies certain provisions of these debt agreements that address interest rate risk, credit risk and concentration of credit risk. The District maintains and invests the 2005 Certificates of Participation debt proceeds in accordance with debt covenants.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF). The District's investment policy considers aversion to custodial credit risk by requiring all participants in the investment process to invest no more than 25% of the portfolio with one financial institution, with the exception of LAIF, the U.S. Treasury and funds advanced or in trustee accounts for project construction. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. The District had deposits with bank balances of \$415,818 and \$228,164 as of June 30, 2012 and 2011, respectively. Of the bank balances, up to \$250,000 is federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

Investment in State Investment Pool

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

2. Cash and Investments (Continued)

San Diego County Pooled Investment Fund

The San Diego County Pooled Investment Fund (SDCPIF) is a pooled investment fund program governed by the County of San Diego Board of Supervisors, and administered by the County of San Diego Treasurer and Tax Collector. Investments in SDCPIF are highly liquid as deposits and withdrawals can be made at anytime without penalty. SDCPIF does not impose a maximum investment limit; however, the District’s investment policy limits investment in SDCPIF to 20% of the District’s total portfolio.

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes in market interest rates. The District manages interest rate risk by limiting terms of investment as noted in the Authorized Investment Type on page 19. The District also manages its exposure to interest rate risk by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio matures or comes close to maturity evenly over time as necessary to provide requirements for cash flow and liquidity needed for operations. Information about the sensitivity of the fair values of the District’s investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District’s investments by maturity date:

Maturities of investments at June 30, 2012, are as follows:

Investment Type	Total	Remaining Maturity (in Months)		
		12 Months Or Less	13 - 24 Months	25 - 60 Months
Federal Farm Credit Banks	\$ 1,000,050		500,005	500,045
Federal Home Loan Bank	714,966	714,966	-	-
Federal Home Loan Mortgage Association	1,002,830	1,002,830	-	-
Federal National Mortgage Association	1,722,320	720,545	-	1,001,775
Certificates of Deposit	499,950	-	499,950	-
Commerical Paper	499,500	499,500	-	-
Local Agency Investment Fund (LAIF)	10,119,576	10,119,576	-	-
San Diego County Investment Pool	5,048,000	5,048,000	-	-
Held by bond trustee:				
Money market funds	2,945,603	2,945,603	-	-
<b>Total</b>	<b>\$ 23,552,795</b>	<b>21,051,020</b>	<b>999,955</b>	<b>1,501,820</b>

2. Cash and Investments (Continued)

Credit Risk

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

Credit ratings of investments as of June 30, 2012 were as follows:

Investment Types	Total	Minimum Legal Rating	Rating as of Year End		
			AAA	AA+	Not Rated
Federal Farm Credit Banks	\$ 1,000,050	N/A	1,000,050	-	-
Federal Home Loan Bank	714,966	N/A	714,966	-	-
Federal Home Loan Mortgage Corporation	1,002,830	N/A	502,170	-	500,660
Federal National Mortgage Association	1,722,320	N/A	1,221,820	-	500,500
Certificates of Deposit	499,950	N/A	-	-	499,950
Commercial Paper	499,500	A1	499,500	-	-
Local Agency Investment Fund (LAIF)	10,119,576	N/A	-	-	10,119,576
San Diego County Investment Pool	5,048,000	AAA	5,048,000	-	-
Held by bond trustee:	-				
Money market funds	2,945,603	N/A	2,945,603	-	-
<b>Total</b>	<b>\$ 23,552,795</b>		<b>11,932,109</b>	<b>-</b>	<b>11,620,686</b>

Concentration of Credit Risk

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

	2012	
	Reported Amount	Portfolio Percentage
Federal National Mortgage Association	\$ 1,722,320	7.3%



3. Accounts Receivable

The balance at June 30, consists of the following:

	<u>2012</u>	<u>2011</u>
Accounts receivable - water and wastewater sales and services	\$ 5,536,279	\$ 4,831,400
Allowance for uncollectible accounts	<u>(36,545)</u>	<u>(29,435)</u>
Accounts receivable - water sales, net	<u>\$ 5,499,734</u>	<u>\$ 4,801,965</u>

Property Tax Receivable

Taxes and assessments receivable of \$957,445 and \$882,894 have been reduced by an allowance for estimated uncollectible taxes of \$9,516 and \$10,300 at June 30, 2012 and 2011, respectively.

4. Capital Assets

Changes in capital assets for 2012 were as follow:

	<u>Balance 2011</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2012</u>
Capital Assets, Not Depreciated				
Land	\$ 4,744,508	\$ -	\$ -	\$ 4,744,508
Construction-in-process	<u>9,873,843</u>	<u>4,796,788</u>	<u>(3,776,082)</u>	<u>10,894,549</u>
Total Capital Assets, Not Depreciated	<u>14,618,351</u>	<u>4,796,788</u>	<u>(3,776,082)</u>	<u>15,639,057</u>
Capital Assets, Being Depreciated				
Water transmission and distribution system	182,571,956	1,249,525	-	183,821,481
Wastewater system	112,017,704	2,089,022	-	114,106,726
Buildings	15,229,776	-	-	15,229,776
Transportation equipment	3,539,177	11,452	-	3,550,629
Field and shop equipment	10,852,234	891,218	(1,742,889)	10,000,563
Office equipment	<u>2,337,185</u>	<u>177,597</u>	<u>(100,482)</u>	<u>2,414,300</u>
Total Capital Assets, Being Depreciated	<u>326,548,032</u>	<u>4,418,814</u>	<u>(1,843,371)</u>	<u>329,123,475</u>
Less Accumulated Depreciation:				
Water transmission and distribution system	(45,838,854)	(4,048,016)	-	(49,886,870)
Wastewater system	(28,901,270)	(1,985,594)	-	(30,886,864)
Buildings	(6,116,434)	(1,262,229)	-	(7,378,663)
Transportation equipment	(2,100,292)	(302,804)	-	(2,403,096)
Field and shop equipment	(7,907,523)	(508,562)	1,742,889	(6,673,196)
Office equipment	<u>(1,260,712)</u>	<u>(176,583)</u>	<u>100,482</u>	<u>(1,336,813)</u>
Total Accumulated Depreciation	<u>(92,125,085)</u>	<u>(8,283,788)</u>	<u>1,843,371</u>	<u>(98,565,502)</u>
Total Capital Assets, Being Depreciated, net	<u>234,422,947</u>	<u>(3,864,974)</u>	<u>-</u>	<u>230,557,973</u>
Total Capital Assets, net	<u>\$ 249,041,298</u>	<u>\$ 931,814</u>	<u>\$ (3,776,082)</u>	<u>\$ 246,197,030</u>

In 2012, major capital assets additions during the year included settlement of treatment plant litigation.

Depreciation expense for the ended June 30, 2012 was \$8,283,788 and is included in Depreciation and Amortization expense on the Statement of Revenues, Expense and Changes in Net Assets.

4. Capital Assets (Continued):

Construction-In-Process

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

<u>Project Name</u>	<u>2011</u>	<u>2012</u>
<i>District Financed</i>		
SM interceptor - SM Blvd/Discovery	\$ 3,932,797	4,671,186
Wulff Reservoir/Pressure Reducing Station	1,105,536	1,106,388
Wulff Tank Replacement	103,503	756,459
San Elijo Road Facilities	641,279	641,279
Meadowlark Tank #3	487,537	488,961
Linda Vista Sewer Upgrade	172,100	284,427
Annual Steel Tank Refurbishment	-	240,863
Meadowlark Plant Expansion	186,368	238,815
Rock Springs Sewer Replacement	99,544	125,907
Encina Land Parallel Outfall	123,762	124,662
Rotating Big Contractors	-	108,343
District Wide Valve Replacement Program	-	105,321
Mountain Belle Pump Station & Pipeline Design	99,350	99,350
Vulnerability Assessment	98,189	98,189
204330 - Radio/Communication S	77,376	97,027
Discovery St Sewer Replacement	16,754	91,309
Secondary Skimmer Controls	-	69,986
Particulate Filters per Carb	64,131	69,694
Surge Tank & 12" Plug Valve	-	69,197
Portable Load Bank Trailer	-	63,688
Environmental Mitigation Property	59,646	59,646
205070 - Flow Monitoring Station	58,374	58,374
Influent Chlorine Analyzier	-	48,800
204484 - Pavement and Access Roads	34,742	34,742
Sagewood Place Waterline	-	25,227
8" Pump Control Valves	-	17,879
Old Questhaven Sewer Replacement	718	718
Water & Sewer Master Plan	801,689	-
MRF 2007 Upgrade Warrantee work done by VWD	415,533	-
Center Drive Sewer Relacement	200,549	-
VM Ware & Meadowlark Service Room Upgrade	128,083	-
Subtotal - District Financed	<u>8,907,560</u>	<u>9,796,437</u>
<i>Developer Financed</i>		
High Point Hydropneum	87,510	91,226
Developer Impact Fee Study	46,425	73,966
Palos Vista Estates	55,548	55,693
Redel Road Student Housing	-	27,891
Improvement Plans TPM-643	25,153	25,153
Westlake Village	-	20,737
Hunter Inudstries University Commons PA	16,801	16,801
San Marcos Vista	-	15,082
Grand Avenue City	14,879	14,879
Autumn Drive and Buelow Park	14,206	14,206
San Marcos Creek Improvement Plan	9,851	13,615
Pump Station Meadowlark	9,617	9,617
Civic Center Market Place	-	8,764
Arbor Ranch TSM 445-4	28,129	-
Camino De Las Lomas Water Meter Relocation	15,832	-
San Elijo Hills Towncenter On-Site	12,662	-
Subtotal - Developer Financed	<u>336,613</u>	<u>387,630</u>
Various Other Projects	<u>629,670</u>	<u>710,482</u>
Total	<u>\$ 9,873,843</u>	<u>10,894,549</u>

5. Encina Wastewater Authority

The Revised Basic Agreement is a joint exercise of powers agreement by and among the cities of Carlsbad, Vista, and Encinitas, the Buena Sanitation District, the Vallecitos Water District, and the Leucadia Wastewater District for the ownership and operation of a joint sewerage system. The Encina Wastewater Authority (EWA) board is composed of representatives of these Member Agencies. Each Member Agency has an investment in EWA’s assets and owns a corresponding proportion of the capacity of the joint system. As of June 30, 2012, the Member Agencies have the following approximate ownership interest:

City of Vista	22%
City of Carlsbad	25%
Buena Sanitation District	8%
Vallecitos Water District	20%
Leucadia Wastewater District	20%
City of Encinitas	5%

The latest available financial statements of EWA, dated June 30, 2011 and 2010, are available directly from EWA (6200 Avenida Encinas, Carlsbad, California 92009), and show the following:

	2011	2010
Total assets	\$ 127,222,958	\$ 126,737,698
Total liabilities	2,788,259	1,896,221
Total net assets	<u>124,434,699</u>	<u>124,841,477</u>
Increase (decrease) in net assets	<u>\$ (406,778)</u>	<u>\$ (2,137,905)</u>

6. Note Receivable from City of San Marcos

In February 1998, the District sold 23.6 acres of excess land to the City of San Marcos for \$1,829,520. The District received \$50,000 and an installment note of \$1,779,520. The note is payable in twenty annual installments of \$148,909 including interest of 5.5%. As of June 30, 2012, the following amounts are due to the District:

Fiscal Year	Principal Amount
2013	\$ 107,996
2014	113,935
2015	120,202
2016	126,813
2017	133,788
2018-2019	<u>141,146</u>
Total	743,880
Current Portion	<u>(107,996)</u>
Non-current Portion	<u>\$ 635,884</u>

7. Debt Issuance Costs

The debt issuance costs balance relates to the issuance costs of the 2005A Refunding Certificates of Participation and the 2008 loan payable from Union Bank of California. The balance for the 2005A Refunding Certificate of Participation is being amortized over a thirty-two year period. The balance for the 2008 loan payable from Union Bank of California is being amortized over a twenty-one year period.

The debt issuance costs, net balances are as follows:

	<u>2012</u>	<u>2011</u>
Bond Issuance Costs	\$ 635,294	\$ 635,294
Debt Issuance Costs	58,448	58,448
Accumulated amortization	(101,889)	(76,417)
Debt Issuance Costs, net	<u>\$ 591,853</u>	<u>\$ 617,325</u>

8. Deferred Charges from Debt Retirement

The deferred charges from debt retirement balance relate to the defeasance costs of the District’s 1998 Twin Oaks Certificates of Participation. The balance is being amortized over a twenty-six year period. The deferred charges are netted against the long-term portion of the Certificates of Participation on the Statements of Net Assets (see note 9).

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

	<u>2012</u>	<u>2011</u>
Deferred charges from debt retirement	\$ 218,424	\$ 218,424
Accumulated amortization	(37,987)	(28,490)
Deferred charges from debt retirement, net	<u>\$ 180,437</u>	<u>\$ 189,934</u>

9. Long-Term Debt

2005 Certificates of Participation

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

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

9. Long-Term Debt (Continued)

*2005 Certificates of Participation (continued)*

The Series 2005A COPs are payable solely from the net revenues of the District’s water and sewer systems as defined in the 2005 Certificates of Participation. The Certificates are due in annual installments from July 1, 2008 to July 1, 2035 bearing interest at 4.00% to 5.25%. This debt contains a rate covenant which requires the District to maintain annual net revenues of at least 115% of the annual debt service. In Fiscal Year 2012 the District was in compliance with this rate covenant.

The balance at June 30, 2012 net of unamortized premiums, discounts and deferred charges is as follows:

	<b>Balance 2011</b>	<b>Additions</b>	<b>Payments/ Deletions</b>	<b>Balance 2012</b>
2005 Series A COP	\$ 59,880,000	\$ -	\$ 1,420,000	\$ 58,460,000
Add: Bond Premium	1,472,430	-	58,897	1,413,533
Less: Unamortized Discount	(386,733)	-	(15,469)	(371,264)
Less: Deferred charges	(189,934)	-	(9,497)	(180,437)
<b>Total</b>	<b>60,775,763</b>	<b>\$ -</b>	<b>\$ 1,453,931</b>	<b>59,321,832</b>
Less: Current Portion	(1,420,000)			(1,485,000)
<b>Long-Term Portion</b>	<b>\$ 59,355,763</b>			<b>\$ 57,836,832</b>

Annual debt service payments are as follows:

<b>Fiscal Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2013	\$ 1,485,000	\$ 2,884,113	\$ 4,369,113
2014	1,565,000	2,807,863	4,372,863
2015	1,635,000	2,736,038	4,371,038
2016	1,715,000	2,656,175	4,371,175
2017	1,810,000	2,559,238	4,369,238
2018-2022	10,605,000	11,232,626	21,837,626
2023-2027	13,765,000	8,092,632	21,857,632
2028-2032	15,955,000	4,272,063	20,227,063
2033-2036	9,925,000	1,020,496	10,945,496
<b>Total</b>	<b>58,460,000</b>	<b>\$ 38,261,244</b>	<b>\$ 96,721,244</b>
Less current portion	(1,485,000)		
<b>Total non-current portion</b>	<b>\$ 56,975,000</b>		

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

9. Long-Term Debt (Continued)

2008 Loan Payable

On November 12, 2008, the District entered into a variable rate tax-exempt private placement loan with Union Bank of California (UBOC) in the amount of \$8,000,000 to partially finance the District’s share of the expansion costs at the Encina Wastewater Authority’s treatment plant. Terms of the agreement call for interest to accrue at an interest rate per annum equal to 64.72% of the LIBOR index plus 0.79% (1.5258% at June 30, 2012). Principal payments of \$200,000 plus interest are payable semi-annually and maturing in 2028.

Loan payables for the year ended June 30, 2012 is as follows:

	<u>Balance 2011</u>	<u>Additions</u>	<u>Payments/ Deletions</u>	<u>Balance 2012</u>
2008 UBOC Loan	\$ 7,000,000	\$ -	\$ 400,000	\$ 6,600,000
Less: Current Portion	<u>(400,000)</u>			<u>(400,000)</u>
Long-Term Portion	<u>\$ 6,600,000</u>			<u>\$ 6,200,000</u>

Annual debt service payments are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest*</u>	<u>Total</u>
2013	\$ 400,000	\$ 99,177	\$ 499,177
2014	400,000	93,074	493,074
2015	400,000	86,971	486,971
2016	400,000	80,867	480,867
2017	400,000	74,764	474,764
2018-2022	2,000,000	282,273	2,282,273
2023-2027	2,000,000	129,693	2,129,693
2028-2032	600,000	9,155	609,155
Total	6,600,000	<u>\$ 855,974</u>	<u>\$ 7,455,974</u>
Less current portion	<u>(400,000)</u>		
Total non-current portion	<u>\$ 6,200,000</u>		

\* - Interest rate of 1.5258% used for future years is interest rate set by Union Bank on 3/31/2012 for effective dates 3/31/2012 – 9/30/2012.

10. Net Assets

a. Invested In Capital Assets, Net of Related Debt

Invested in Capital Assets, Net of Related Debt at June 30, consists of the following:

	<u>2012</u>	<u>2011</u>
Investment in Encina Wastewater Authority capital assets	\$ 35,234,766	\$ 35,210,864
Capital assets not being depreciated	15,639,057	14,618,351
Net capital assets being depreciated	230,557,973	232,922,947
Certificates of participation - current portion	(1,485,000)	(1,420,000)
Loan payable - UBOC - current portion	(400,000)	(400,000)
Certificates of participation - noncurrent portion	(57,836,832)	(59,355,763)
Loan payable - UBOC - noncurrent portion	<u>(6,200,000)</u>	<u>(6,600,000)</u>
Total net investment in capital assets	<u>\$ 215,509,964</u>	<u>\$ 214,976,399</u>

b. Restricted Net Assets

Restricted Assets at June 30, consists of the following:

	<u>2012</u>	<u>2011</u>
Restricted for debt service	\$ 1,485,002	\$ 1,420,002
Restricted for future capital projects	19,204	7,823
Total restricted net assets	<u>\$ 1,504,206</u>	<u>\$ 1,427,825</u>

c. Unrestricted Net Assets

Unrestricted Assets at June 30, consists of the following:

	<u>2012</u>	<u>2011</u>
Non-spendable net assets:		
Inventories	\$ 930,920	\$ 963,980
Prepaid expenses	2,891,126	3,298,856
Debt issuance costs, net of amortization	<u>591,853</u>	<u>617,325</u>
Total non-spendable net assets	<u>4,413,899</u>	<u>4,880,161</u>
Spendable net assets:		
Unrestricted	<u>20,836,703</u>	<u>16,386,400</u>
Total spendable net assets	<u>20,836,703</u>	<u>16,386,400</u>
Total unrestricted net assets	<u>\$ 25,250,602</u>	<u>\$ 21,266,561</u>
Total net assets	<u>\$ 242,264,772</u>	<u>\$ 237,670,785</u>

11. Defined Benefit Pension Plan

**Plan Description**

The District contributes to the California Public Employees Retirement System (CalPERS), a cost sharing multi-employer defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public agencies within the State of California. Benefit provisions and all other requirements are established by state statute and the Agency. Copies of CalPERS annual financial report may be obtained from their executive Office: 400 P Street, Sacramento, CA, 95814.

**Funding Policy**

The contribution rate for plan members in the CalPERS 3.0% at 60 Risk Pool Retirement Plan is 8% of their annual covered salary. For employees hired before July 1, 2011, the District makes these contributions required of District employees on their behalf and for their account. For employees hired after June 30, 2011, the District makes half (4%) of these contributions required of District employees on their behalf and for their account. The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the fiscal year ended June 30, 2012 was 14.826%. The contribution requirements of the Plan members are established by State statute and the employer contribution rate is established and may be amended by the CalPERS.

**Annual Pension Costs**

For the fiscal year ended June 30, 2012, the District’s annual pension cost and actual contribution was \$1,045,353. The required contribution for the fiscal year ended June 30, 2012 was determined as part of the June, 30 2009 actuarial valuation.

The following is a summary of the actuarial assumptions and methods:

Valuation Date	June 30, 2009
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	18 Years as of the Valuation Date
Asset Valuation Method	15 Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	7.75% (Net of Administrative Expenses)
Projected Salary Increase	3.55% to 14.45% Depending on Age, Service, and Type of Employment
Inflation	3.00%
Payroll Growth	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation component of 3.00% and an annual production growth of 0.25%.

Initial unfunded liabilities are amortized over a closed period that depends on the Plan’s date of entry into CalPERS. Subsequent Plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a rolling period, which results in an amortization of 6% of unamortized gains and losses each year. If the plan’s accrued liability exceeds the actuarial value of the plan assets, then the amortization payment of the total unfunded liability may be lower than the payment calculated over a 30-year amortization period.



11. Defined Benefit Pension Plan (Continued)

***Three Year Trend Information for PERS***

<b>Fiscal Year</b>	<b>Annual Pension Cost (APC)</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Obligation</b>	<b>APC Percentage of Payroll</b>
2010	\$ 1,367,344	100%	-	19.122%
2011	\$ 1,376,682	100%	-	17.240%
2012	\$ 1,045,353	100%	-	13.477%

***Funding Status***

As of June 30, 2004, the District’s miscellaneous plan became part of a CalPERS Risk Pool for employers with less than 100 active plan members. As part of a cost-sharing multiple-employer defined benefit plan, disclosure of the schedule of funding progress is not required as information is not specific to the District.

12. Other Post Employment Benefits Plan

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

The total expense incurred for these benefits for retired employees for the year ended June 30, 2012 and 2011 was \$326,850 and \$211,948, respectively.

***Plan Description***

The District administers the Other Post-employment Benefit Plan, a multi-employer defined benefit plan. The District’s Other Post-employment Benefit Plan (OPEB) provides continued medical coverage for an eligible retired employee, spouse or registered domestic partner, and eligible dependent at no cost to the retired employee. Coverage will continue for the retiree and spouse or registered domestic partner until they become entitled to Medicare Benefits at age 65. Coverage for the retirees’ eligible dependents will continue until they are eligible for coverage under any other health care plan or public health care program or are no longer eligible for coverage under the District’s group health plans according to the terms and conditions of the agreement between the group health plan and the District.

Employees are eligible OPEB participants upon reaching age 50 with a minimum five years of eligible PERS service with the District. Board members are also eligible to participate. Eligible retirees and board members may enroll in any of the plans available through the ACWA Program or in an Aetna HMO plan provided by the District. The activity and liability from the OPEB plan are included in these financial statements.

12. Other Post Employment Benefits Plan (Continued)

Funding Policy

The District’s Resolution #788 establishes the authority for the plan and provides that the District will pay 100% of the cost of the OPEB plan. The District funds the plan on a pay-as-you-go basis and maintains reserves (and records a liability) for the difference between pay-as-you-go and the actuarially determined annual OPEB cost.

Annual OPEB Cost

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

The balance at June 30, consists of the following:

	<u>2012</u>	<u>2011</u>
Annual required contribution	\$ 632,485	\$ 893,864
Interest on net post employment benefits payable obligation	139,541	67,610
Adjustment to annual required contribution	<u>(176,304)</u>	<u>(105,753)</u>
Annual post employment benefits payable obligation cost (expense)	595,722	855,721
Contributions made:		
Retired employees post employment medical benefits payments	<u>(2,901,069)</u>	<u>(220,278)</u>
<b>Increase (decrease) in net post employment benefits payable obligation</b>	(2,305,347)	635,443
Post employment benefits payable, net - beginning of year	<u>2,325,689</u>	<u>1,690,246</u>
Post employment benefits payable, net - end of year	<u>\$ 20,342</u>	<u>\$ 2,325,689</u>

Funded Status of the Plan

The most recent valuation (dated July 1, 2011) includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of \$4,911,102. During fiscal year 2012 the District funded a trust with PERS totaling \$2,546,481. The remaining liability of \$20,342 was funded shortly after the end of year. The covered payroll (annual payroll of active employees covered by the plan) for the year ended June 30, 2012 is \$7,759,756. The ratio of the unfunded actuarial liability to annual payroll covered is 63.29%. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for the benefits.

12. Other Post Employment Benefits Plan (Continued)

Three Year Trend Information

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

Fiscal Year Ended	Annual OPEB Costs	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	\$ 802,051	20.02%	\$ 1,690,246
June 30, 2011	\$ 855,721	24.77%	\$ 2,325,689
June 30, 2012	\$ 595,722	486.98%	\$ 20,342

Actuarial Methods and Assumptions

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

The District’s valuation uses the Projected Unit Credit actuarial cost method to project the Annual Required Contribution and a 4% discount rate. The high rate of annual health care cost increases experienced in recent years is assumed to gradually decrease, 7.6% in 2012, 7.3% in 2013 and 7.0% in 2014. A level dollar amortization of the Unfunded Actuarial Accrued Liability is used over a closed 30-year period.

13. Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California water agencies. The purpose of the ACWA/JPIA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. At June 30, 2012, the District participated in the liability and property programs of the ACWA/JPIA as follows:

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

## 13. Risk Management (Continued)

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

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

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the years ending June 30, 2012 and 2011. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of June 30, 2012 and 2011.

14. Segment Information

The District’s 2005A COPs are payable solely from the net revenues of the District’s water and sewer systems. Summary financial information for the water and sewer systems is presented for June 30, 2012.

**Condensed Statement of Net Assets**

	2012			2011
	Water	Sewer	Total	Total
<b>Assets:</b>				
Current assets	\$ 14,163,306	\$ 18,681,559	\$ 32,844,865	\$ 30,185,055
Non-current assets	2,068,637	1,330,837	3,399,474	3,952,067
Capital assets, net	149,992,083	131,439,713	281,431,796	284,252,162
<b>Total assets</b>	<b>166,224,026</b>	<b>151,452,109</b>	<b>317,676,135</b>	<b>318,389,284</b>
<b>Liabilities:</b>				
Current liabilities	6,978,499	4,375,690	11,354,189	12,437,047
Non-current liabilities	28,663,144	35,394,030	64,057,174	68,281,452
<b>Total liabilities</b>	<b>35,641,643</b>	<b>39,769,720</b>	<b>75,411,363</b>	<b>80,718,499</b>
<b>Net assets:</b>				
Invested in capital assets, net of related debt	120,572,785	94,937,179	215,509,964	214,976,399
Restricted for future capital facilities	1,880	17,324	19,204	7,823
Restricted for debt service	761,162	723,840	1,485,002	1,420,002
Unrestricted	9,246,556	16,004,046	25,250,602	21,266,561
<b>Total net assets</b>	<b>\$ 130,582,383</b>	<b>\$ 111,682,389</b>	<b>\$ 242,264,772</b>	<b>\$ 237,670,785</b>

## 14. Segment Information (Continued):

## Condensed Statement of Revenues, Expenses and Changes in Net Assets

	2012			2011
	Water	Sewer	Total	Total
Operating Revenue	\$ 29,771,904	\$ 15,564,028	\$ 45,335,932	\$ 41,572,875
Operating Expenses:				
Water Division	28,373,835	-	28,373,835	26,093,160
Wastewater Division	-	9,404,561	9,404,561	10,479,451
Depreciation	5,180,131	3,534,163	8,714,294	8,220,514
Total Operating Expenses	33,553,966	12,938,724	46,492,690	44,793,125
Operating Income (Loss)	(3,782,062)	2,625,304	(1,156,758)	(3,220,250)
Nonoperating Revenues:				
Property taxes	1,794,166	1,602,838	3,397,004	2,245,553
Investment income	80,990	51,970	132,960	166,307
Annexation fees	-	(50,947)	(50,947)	44,370
Other	31,637	198	31,835	38,063
Total Nonoperating Revenues	1,906,793	1,604,059	3,510,852	2,494,293
Nonoperating Expenses:				
Interest	1,367,464	1,143,641	2,511,105	2,645,778
Change in Encina Joint Venture net assets	-	1,514,166	1,514,166	1,662,667
Other	1,921	1,454	3,375	-
Total Nonoperating Expenses	1,369,385	2,659,261	4,028,646	4,308,445
Capital Contributions	2,359,726	3,908,813	6,268,539	4,278,595
Total Change in Net Assets	(884,928)	5,478,915	4,593,987	(755,807)
Net assets, beginning of year	131,467,311	106,203,474	237,670,785	238,426,592
Net assets, end of year	\$ 130,582,383	\$ 111,682,389	\$ 242,264,772	\$ 237,670,785

## Condensed Statement of Cash Flows

	2012			2011
	Water	Sewer	Total	Total
Net cash provided (used) by:				
Operating activities	\$ (99,749)	\$ 4,639,734	\$ 4,539,985	\$ 3,333,854
Non-capital financing activities	1,756,878	1,564,791	3,321,669	2,371,708
Capital and related financing activities	(1,907,716)	(4,275,765)	(6,183,481)	(5,411,772)
Investing activities	527,801	658,800	1,186,601	707,153
<b>Net cash provided</b>	277,214	2,587,560	2,864,774	1,000,943
Cash and cash equivalents, beginning of year	5,745,489	9,635,449	15,380,938	14,379,995
Cash and cash equivalents, end of year	\$ 6,022,703	\$ 12,223,009	\$ 18,245,712	\$ 15,380,938

15. Commitments and Contingencies

Construction Contracts

The District has a variety of agreements with private parties relating to the installation, improvement or modification of water facilities and distribution systems within its service area. The financing of such construction contracts is being provided primarily from the District’s replacement reserves and advances for construction. The District has committed to approximately \$1,369,327 in open construction contracts as of June 30, 2012. These include the following:

<u>Project Name</u>	<u>Total Approved Contract(s)</u>	<u>Construction Costs to Date</u>	<u>Remaining Obligation</u>
San Marcos interceptor sewer line	\$ 1,471,091	383,350	1,087,741
Meadowlark Tank #2 Refurbishment	395,728	166,745	228,983
Wulff Tank Replacement	526,026	473,423	52,603
Total	\$ <u>2,392,845</u>	<u>1,023,518</u>	<u>1,369,327</u>

Grant Awards

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

Litigation

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. After consultation with legal counsel, the District believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

16. Prepaid PERS Contribution

During fiscal year 2011, the District prepaid the accumulated PERS side fund liability resulting from risk pooling as of June 30, 2003, valued at \$3,013,545. This value was determined based on a valuation as of June 30, 2009. The prepayment is amortizable over a seven year period and will result in a decrease to the District’s 2012/2013 PERS employer contribution rate of 6.508%. The amount amortizable during fiscal year 2012/2013 (\$430,506) is reported as current prepaid asset on the Statement of Net Assets. The balance of \$2,152,533 which will be amortizable in years after fiscal year 2012/2013 is shown as the non-current asset Prepaid PERS Contribution on the Statement of Net Assets.

**REQUIRED SUPPLEMENTARY INFORMATION**  
**YEAR ENDED JUNE 30, 2012**



**Schedule of Funding Progress for OPEB**

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/2011	\$ -	\$ 4,911,102	\$ 4,911,102	0.00%	\$ 7,759,756	63.29%
6/30/2009	\$ -	\$ 6,021,764	\$ 6,021,764	0.00%	\$ 7,984,313	75.42%
6/30/2007	\$ -	\$ 3,678,171	\$ 3,678,171	0.00%	\$ 8,154,171	45.11%

**SUPPLEMENTARY INFORMATION  
YEARS ENDED JUNE 30, 2012 AND 2011**

## VALLECITOS WATER DISTRICT

---

### Schedule of Operating Expenses - Water Division For the Fiscal Years Ended June 30, 2012 and 2011

	2012	2011
Purchased Water	\$ 19,107,271	\$ 16,468,792
Pumping:		
Labor	57,342	76,793
Materials and supplies	13,634	7,359
Outside repair	2,852	12,134
Power	205,741	170,384
Total Pumping	<u>279,569</u>	<u>266,670</u>
Water Quality and Treatment:		
Labor	279,097	255,074
Materials and supplies	43,811	46,631
Outside Repair	37,809	35,054
Total Water Treatment	<u>360,717</u>	<u>336,759</u>
Tanks and Reservoirs:		
Labor	248,590	311,540
Materials and supplies	21,401	28,607
Outside repair	83,668	57,260
Power	3,363	2,870
Total Tanks and Reservoirs	<u>357,022</u>	<u>400,277</u>
Transmission and Distribution:		
Labor	750,298	822,961
Materials and supplies	167,362	179,720
Outside repair	96,603	105,800
Power	8,568	9,254
Total Transmission and Distribution	<u>1,022,831</u>	<u>1,117,735</u>
Services:		
Labor	81,003	98,422
Materials and supplies	30,638	35,994
Outside repair	19,386	19,147
Total Services	<u>131,027</u>	<u>153,563</u>
Meters:		
Labor	462,669	466,639
Materials and supplies	35,100	34,680
Outside repair	6,636	9,802
Total Meters	<u>504,405</u>	<u>511,121</u>

**VALLECITOS WATER DISTRICT**Schedule of Operating Expenses - Water Division, continued  
For the Fiscal Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Backflow Prevention:		
Labor	49,142	74,176
Materials and supplies	1,918	1,895
Total Backflow Prevention	<u>51,060</u>	<u>76,071</u>
Customer Accounts:		
Labor	508,115	507,871
Materials and supplies	73,186	76,988
Uncollectible accounts	73,608	70,318
Outside Repair	16,856	30,383
Total Customer Accounts	<u>671,765</u>	<u>685,560</u>
Equipment and Vehicles:		
Labor, fuel and repairs	208,017	199,391
Materials and supplies	62,660	51,734
Allocated to wastewater division	-	-
Total Equipment and Vehicles	<u>270,677</u>	<u>251,125</u>
Building and Grounds:		
Labor	197,046	242,317
Materials and supplies	45,979	55,876
Outside Repair	96,616	81,123
Power	26,293	26,223
Total Building and Grounds	<u>365,934</u>	<u>405,539</u>
Engineering:		
Labor	1,173,114	1,349,496
Materials and supplies	9,646	53,781
Outside Repair	39,324	63,697
Total Engineering	<u>1,222,084</u>	<u>1,466,974</u>
Safety:		
Labor	190,303	180,178
Materials and supplies	16,485	8,687
Safety support	11,272	9,375
Total Safety	<u>218,060</u>	<u>198,240</u>

**VALLECITOS WATER DISTRICT**Schedule of Operating Expenses - Water Division, continued  
For the Fiscal Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Information Technology		
Labor	261,528	251,037
Travel	1,059	300
Dues and subscriptions	480	1,916
Meetings and seminars	1,942	-
Other materials and supplies	37,694	45,691
Phone	15,989	20,738
Equipment Rent	26,334	23,417
Outside Repair	163,166	139,734
Total Information Technology	<u>508,192</u>	<u>482,833</u>
 General and Administration:		
Salaries	1,584,712	1,439,742
Other taxes/benefits	9,277	9,518
Social security	181,463	205,874
Group insurance	655,616	581,610
Public employees' retirement	335,252	375,626
Workers' compensation insurance	19,186	7,495
District insurance	107,501	108,621
Director's expense	49,775	35,120
Director's fees	32,748	30,449
Public awareness	123,712	112,360
Travel	8,200	3,572
Postage	1,391	10,944
Office supplies	52,496	52,342
Dues and subscriptions	57,471	62,163
Meetings and seminars	13,784	15,345
Legal	150,396	86,858
Auditing	16,650	20,025
Outside services	120,948	123,375
Election and annexations	-	2,907
Other	16,577	112,920
Administrative credits transferred	(233,934)	(124,965)
Total General and Administration	<u>3,303,221</u>	<u>3,271,901</u>
 Total Water Division Expenses	<u>\$ 28,373,835</u>	<u>\$ 26,093,160</u>

**VALLECITOS WATER DISTRICT**

---

Schedule of Operating Expenses - Wastewater Division  
For the Fiscal Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Collection System:		
Labor	\$ 1,405,863	\$ 1,405,823
Materials and supplies	142,180	72,277
Chemicals	134,118	195,516
Outside repair	100,375	67,032
Power	1,549	1,550
Total Collection System	<u>1,784,085</u>	<u>1,742,198</u>
Lift Stations:		
Labor	122,606	119,555
Materials and supplies	12,597	22,905
Chemicals	10,646	32,037
Outside repair	50,507	19,935
Power	34,768	39,348
Total Lift Stations	<u>231,124</u>	<u>233,780</u>
Peroxide Station:		
Labor	2,671	2,479
Materials and supplies	67	-
Outside repair	393	122
Power	193	189
Total Peroxide Station	<u>3,324</u>	<u>2,790</u>
Industrial Waste:		
Labor	25,869	27,283
Materials and supplies	40,140	20,102
Total Industrial Waste	<u>66,009</u>	<u>47,385</u>
Encina Disposal	<u>2,078,337</u>	<u>2,097,610</u>
Meadowlark Lift Station:		
Labor	75,181	139,988
Materials and supplies	14,176	33,268
Chemicals	209,082	239,094
Outside repair	23,460	47,836
Power	68,045	62,726
Total Meadowlark Lift Station	<u>389,944</u>	<u>522,912</u>

**VALLECITOS WATER DISTRICT**

---

Schedule of Operating Expenses - Wastewater Division, continued  
For the Fiscal Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Meadowlark Plant:		
Labor	731,204	949,747
Materials and supplies	212,893	274,050
Chemicals	555,446	530,343
Outside repair	218,062	196,771
Power	346,632	351,304
Telephone	4,110	5,812
Total Meadowlark Plant	<u>2,068,347</u>	<u>2,308,027</u>
Mahr Reservoir:		
Labor	94,258	67,220
Materials and supplies	25,673	156,747
Chemicals	22,346	31,146
Outside repairs	53,301	30,797
Total Mahr Reservoir	<u>195,578</u>	<u>285,910</u>
Customer Accounts:		
Labor	192,473	230,106
Materials and supplies	45,877	44,011
Uncollectible accounts	29,452	22,375
Outside Services	10,913	13,913
Total Customer Accounts	<u>278,715</u>	<u>310,405</u>
Equipment and Vehicles:		
Labor, fuel and repairs	45,822	47,729
Materials and supplies	33,943	30,555
Fuel	52,847	43,855
Total Equipment and Vehicles	<u>132,612</u>	<u>122,139</u>
Buildings and Grounds:		
Labor	58,750	98,059
Materials and supplies	18,738	9,107
Outside repair	34,082	35,012
Power	17,529	17,482
Total Buildings and Grounds	<u>129,099</u>	<u>159,660</u>
Engineering:		
Labor	474,662	587,502
Materials and supplies	1,699	10,863
Outside repair	39,536	12,714
Total Engineering	<u>515,897</u>	<u>611,079</u>

**VALLECITOS WATER DISTRICT**Schedule of Operating Expenses - Wastewater Division, continued  
For the Fiscal Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Safety:		
Labor	98,263	104,567
Materials and supplies	59	773
Outside services	3,785	4,748
Allocated from water division	-	-
Total Safety	<u>102,107</u>	<u>110,088</u>
Information Technology		
Labor	137,902	136,590
Materials and supplies	48,348	38,879
Outside services	119,249	100,116
Total Information Technology	<u>305,499</u>	<u>275,585</u>
General and Administration:		
Salaries	480,631	581,725
Other taxes/benefits	3,999	3,892
Social security	57,105	80,869
Group insurance	343,425	744,293
Public employees' retirement	119,722	156,259
Workers' compensation insurance	4,607	2,148
District insurance	70,501	72,414
Director's fees	22,824	31,644
Travel	-	1,599
Office supplies	3,836	6,510
Dues and subscriptions	438	232
Meetings and seminars	60	-
Legal	139,690	94,654
Auditing	11,100	13,350
Outside services	45,610	32,129
Other	1,379	5,918
Administrative credits transferred	(181,043)	(178,053)
Total General and Administration	<u>1,123,884</u>	<u>1,649,583</u>
Total Wastewater Division Expenses	<u>\$ 9,404,561</u>	<u>\$ 10,479,151</u>