



ANNUAL FINANCIAL REPORT
WITH REPORT ON AUDIT BY INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS
JUNE 30, 2014

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Vallecitos Water District
San Marcos, California

We have audited the basic financial statements of the Vallecitos Water District (the District) as of and for the year ended June 30, 2014, and the related notes to the basic financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Vallecitos Water District as of June 30, 2014 and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America, as well as the accounting systems prescribed by the State Controller's Office and State Regulations governing Special Districts.

Other Matters:

Summarized Comparative Information

We have previously audited the Vallecitos Water District's 2013 financial statements, and our report dated November 25, 2013, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedule of funding progress for OPEB, 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 the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Matters (Continued):

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The supplementary information, as identified in the accompanying table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

White Nelson Dick Evans LLP

Carlsbad, California
November 6, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ended June 30, 2014

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, 2014. 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, 2014 (2013/14), the following highlights impacted, or have the potential to impact, the finances of the District.

- Total reserves increased by \$7.4 million during 2013/14 primarily from transfers from operations (revenues in excess of expenses).
- Overall revenues increased \$4 million primarily due to increased water sales and ready-to-serve charges while expenses increased by \$0.4 million.
- Capital Facility Fees received and accounted for in the capacity fund (restricted for projects that increase capacity) were \$2.4 million as compared to \$7.3 million the prior year. The capacity fund deficit increased by \$4 million to \$7.7 million. However, the number of residential living units permitted by the City of San Marcos continues to increase: 407 in 2011, 561 in 2012, 817 in 2013.
- Capital spending increased to \$8.9 million from \$8.2 million in the prior year. Of the \$8.9 million, \$4.1 million was funded from debt proceeds received the prior year. The remainder was cash funded.
- Effective January 1, 2014, the wholesale cost per acre foot of treated water increased by 4%. Fixed wholesale costs increased 5.2%. The cost of water increased by \$2.2 million and purchases increased by 470 acre feet (3%) during the fiscal year.
- Overall non-current liabilities decreased by \$2.7 million as the District continues to reduce the principal balances on all debt. The District paid \$5.6 million in debt service compared to \$4.8 million in 2012/13.
- For the second year in a row, results of operations fully funded depreciation. Fiscal Year 2013/14 resulted in positive operating income.
- On June 18, 2014, the Board of Directors adopted the District budget for 2014/15 which anticipates increases in water rates charged by the District's wholesaler the San Diego County Water Authority. The increase in budgeted water purchases is \$766,000. Other than water purchases, the operating budget increased by \$368,000 from fiscal year 2013/14 due to outreach efforts related to the drought along with other miscellaneous increases. The 2014/15 budget reflects \$2.7 million less in capital expenditures during the budget year than the previous budget year.

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.

Statement of Net Position

The Statement of Net Position presents the District’s financial position (assets and liabilities) as of June 30, 2014. Assets in excess of liabilities (Net Position) are \$256,108,804 (compared to \$249,751,418 as of June 30, 2013). 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.

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position presents the District’s results of operations for the year ended June 30, 2014. 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 treatment and disposal services, and processing and delivering recycled water). Non-operating revenues and expenses (e.g. investment income and interest expense) are not directly related to the core activities of the District. Operating income for the year ended June 30, 2014, of \$2,574,786 is combined with a net non-operating gain of \$779,700 and capital contributions of \$3,002,900 to arrive at an increase in net position of \$6,357,386. The increase in net position is added to beginning net position of \$249,751,418 to arrive at ending net position of \$256,108,804 as of June 30, 2014.

| | 2013/14 | 2012/13 |
|---------------------------------------|-----------------------|-----------------------|
| Operating Income | \$ 2,574,786 | \$ 1,075,415 |
| Nonoperating revenues / (expenses) | 779,700 | (1,357,436) |
| Capital contributions | 3,002,900 | 8,484,563 |
| Change in net position | 6,357,386 | 8,202,542 |
| Total Net Position, Beginning of Year | 249,751,418 | 241,548,876 |
| Total Net Position, End of Year | <u>\$ 256,108,804</u> | <u>\$ 249,751,418</u> |

Statement of Cash Flows

The Statement of Cash Flows presents the amounts of cash provided or used by the District’s operating, financing, and investing activities. Every cash flow has been categorized into one of the following activities: operating, non-capital financing, capital and related financing, or investing. The total of these categories for the year ended June 30, 2014, is the increase in cash and cash equivalents of \$2,243,979, which is combined with beginning cash and cash equivalents of \$15,368,268 to arrive at ending cash and cash equivalents of \$17,612,247. 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, 2014.

| | |
|-------------------------------------|----------------------|
| Beginning cash & cash equivalents | \$ 15,368,268 |
| Increase in cash & cash equivalents | 2,243,979 |
| Ending cash & cash equivalents | <u>\$ 17,612,247</u> |

VALLECITOS WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

As of June 30, 2014, the ending cash and cash equivalents are represented on the Statement of Net Position as follows:

| | 2013/14 | 2012/13 |
|--|----------------------|----------------------|
| Unrestricted cash & cash equivalents | \$ 14,592,877 | \$ 8,105,509 |
| Cash & cash equivalents restricted - current | 3,019,370 | 7,262,759 |
| Total cash & cash equivalents | <u>\$ 17,612,247</u> | <u>\$ 15,368,268</u> |

ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

During the fiscal year ended June 30, 2014, the increase in total assets of \$4,349,785 and the decrease in total liabilities of \$2,007,601 resulted in an increase in net position of \$6,357,386.

Operating activities, capital facility fees, property taxes, and other sources helped fund \$8.9 million in capital acquisitions and construction, and \$5.6 million in debt service. The following table summarizes how these capital projects and debt service were financed during the year.

| Vallecitos Water District - Sources and Uses of Cash & Investments | | | |
|--|---------------|----------------|---------------|
| <i>in millions</i> | | | |
| | 2013/14 | 2012/13 | 2011/12 |
| Sources: | | | |
| Operating activities | \$ 12.6 | \$ 9.6 | \$ 4.5 |
| Property tax | 3.1 | 4.4 | 3.3 |
| Capital facility fees | 2.4 | 7.3 | 4.8 |
| Bond proceeds | - | 7.1 | - |
| Investment earnings & other receipts | 0.7 | 0.3 | 0.2 |
| Uses: | | | |
| Capital construction and acquisition | (8.9) | (8.2) | (6.1) |
| Debt service | (5.6) | (4.8) | (4.8) |
| Increase in cash and investments | <u>\$ 4.3</u> | <u>\$ 15.7</u> | <u>\$ 1.9</u> |

CURRENT-TO-PRIOR YEAR ANALYSIS

Analysis of Net Position

The overall increase in net position noted in the table below is primarily attributed to results of operating activities, contributed capital, debt proceeds, and property tax received.

| Vallecitos Water District's Net Position | | | | |
|--|-----------------------|-----------------------|---------------------|--------|
| | 2013/14 | 2012/13 | Change | |
| | | | Amount | % |
| Cash and investments | \$ 43,499,742 | \$ 39,157,244 | \$ 4,342,498 | 11.1% |
| Capital assets | 280,412,693 | 277,583,823 | 2,828,870 | 1.0% |
| Other assets | 11,163,202 | 13,984,785 | (2,821,583) | -20.2% |
| Total Assets | <u>335,075,637</u> | <u>330,725,852</u> | <u>4,349,785</u> | 1.3% |
| Current liabilities | 13,061,890 | 12,345,952 | 715,938 | 5.8% |
| Noncurrent liabilities | 65,904,943 | 68,628,482 | (2,723,539) | -4.0% |
| Total Liabilities | <u>78,966,833</u> | <u>80,974,434</u> | <u>(2,007,601)</u> | -2.5% |
| Net Position | | | | |
| Net investment in capital assets | 211,842,759 | 210,637,696 | 1,205,063 | 0.6% |
| Restricted | 1,645,172 | 1,536,415 | 108,757 | 7.1% |
| Unrestricted | 42,620,873 | 37,577,307 | 5,043,566 | 13.4% |
| Total Net Position | <u>\$ 256,108,804</u> | <u>\$ 249,751,418</u> | <u>\$ 6,357,386</u> | 2.5% |

VALLECITOS WATER DISTRICT

MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)

CURRENT-TO-PRIOR YEAR ANALYSIS (Continued)

Analysis of Net Position (continued)

- Cash and investments increased by \$4.3 million during the fiscal year 13/14. The increase is attributable to \$12.6 million in operating activities, \$6.2 million in property tax, capital facility fees and other receipts offset by capital expenditures and debt service as illustrated in the Sources and Uses table on the previous page.
- Other assets decreased significantly due to receiving a one-time reimbursement of capital paid toward the Phase V expansion at the Encina Wastewater Authority (EWA). The remaining balance reflects traditional receivables.
- Total liabilities decreased with the payment of principal on outstanding debt.

Selected Financial Ratios:

| Vallecitos Water District Selected Financial Ratios | | |
|--|----------|----------|
| | 2013/14 | 2012/13 |
| Current ratio | 4.05 | 4.12 |
| Quick ratio | 3.90 | 3.98 |
| Days of operations in cash | 339 | 281 |
| Capital assets-to-Long-term liabilities | 4.25 / 1 | 4.04 / 1 |
| Debt-to-equity | 1 / 3.24 | 1 / 3.08 |

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 4.05 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 3.90 times its current obligations with assets readily convertible to cash. The District’s current and quick ratios show a high degree of solvency and a strong current position. The days of operations in cash is a common measure scrutinized by the investment community. It measures the number of days the District can operate without any cash inflow. The District’s goal is 308 days of operations in cash. The capital-assets-to-long-term-liabilities ratio indicates that for every dollar of debt the District has \$4.25 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 \$3.24 of net position (equity). The decreases in the current and quick ratios mixed with the increases in capital assets to long-term liabilities and debt to equity ratio, demonstrates the District is investing in long-term assets and building equity.

Analysis of Revenues and Expenses

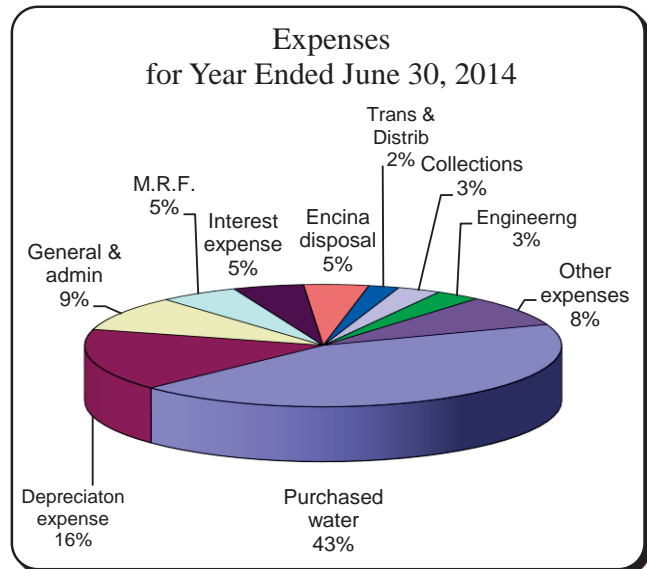
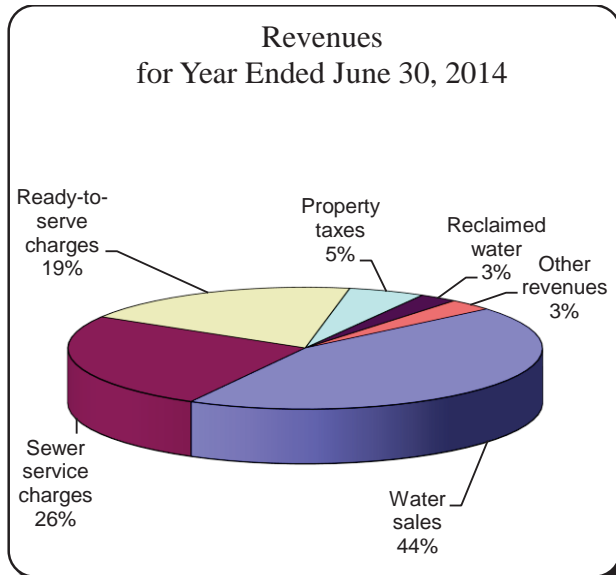
The composition of revenues and expenses for the 2013/14 fiscal year is illustrated in the following graphs. Water sales, ready-to-serve charges, and wastewater service charges continue to be the main sources of revenue funding District operations. Water sales are commodity charges assessed to cover the variable costs of purchasing and delivering water to customers. Ready-to-serve charges are intended to cover fixed costs in the wholesale water rate, and costs related to being able to provide water to customers.

Deductions from revenue to arrive at the operating income of \$2,574,786 include non-cash depreciation and amortization expense of \$9,160,497. Depreciation is the systematic allocation of a capital asset’s cost to expense over a specified period of time. The District has established reserve floors and ceilings for the replacement of aging infrastructure.

VALLECITOS WATER DISTRICT

MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)

CURRENT-TO-PRIOR YEAR ANALYSIS (Continued)



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

| Vallecitos Water District's Revenues and Expenses | | | | |
|---|-----------------------|-----------------------|---------------------|-------------|
| | For Fiscal Year: | | Change | |
| | 2013/14 | 2012/13 | Amount | % |
| Water sales | \$ 26,031,460 | \$ 23,364,573 | \$ 2,666,887 | 11.4% |
| Wastewater service charges | 15,128,763 | 14,921,894 | 206,869 | 1.4% |
| Ready-to-serve charges | 11,484,584 | 10,638,282 | 846,302 | 8.0% |
| Property taxes | 3,077,966 | 3,519,081 | (441,115) | -12.5% |
| Reclaimed water sales | 1,533,203 | 1,718,013 | (184,810) | -10.8% |
| Other revenues | 1,812,762 | 915,889 | 896,873 | 97.9% |
| Total Revenues | 59,068,738 | 55,077,732 | 3,991,006 | 7.2% |
| Purchased water | 24,145,579 | 21,982,845 | 2,162,734 | 9.8% |
| Depreciation expense | 9,160,497 | 8,955,355 | 205,142 | 2.3% |
| General and administrative | 5,173,986 | 4,879,580 | 294,406 | 6.0% |
| Meadowlark Reclamation Facility (M.R.F.) | 2,993,578 | 2,777,837 | 215,741 | 7.8% |
| Interest expense | 2,672,296 | 2,758,728 | (86,432) | -3.1% |
| Encina disposal | 2,450,330 | 2,709,307 | (258,977) | -9.6% |
| Engineering | 1,698,699 | 1,703,359 | (4,660) | -0.3% |
| Collections | 1,632,347 | 1,633,839 | (1,492) | -0.1% |
| Transmission & Distribution | 1,154,882 | 1,068,907 | 85,975 | 8.0% |
| Other expenses | 4,632,058 | 6,889,996 | (2,257,938) | -32.8% |
| Total Expenses | 55,714,252 | 55,359,753 | 354,499 | 0.6% |
| Net Income/(Loss) before contributions | 3,354,486 | (282,021) | 3,636,507 | 1289.4% |
| Capital contributions | 3,002,900 | 8,484,563 | (5,481,663) | -64.6% |
| Change in Net Position | 6,357,386 | 8,202,542 | (1,845,156) | -22.5% |
| Total Net Position at Beginning of Year | 249,751,418 | 241,548,876 | 8,202,542 | 3.4% |
| Total Net Position, End of Year | \$ 256,108,804 | \$ 249,751,418 | \$ 6,357,386 | 2.5% |

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CURRENT-TO-PRIOR YEAR ANALYSIS (Continued)

- Water sales and Ready-to-serve changes are due to increases in the tier 1 water commodity rate of 39¢ per unit and \$2.13 monthly increase per single family residence Ready-to-Serve. Each rate increase took effect during fiscal year 2013/14.
- The District received \$1.4 million in property taxes from discontinued Redevelopment Agencies in fiscal year 13/14. A decrease of \$522,052 from the prior year mixed with an increase of \$80,937 in the 1% tax to arrive at the net decrease of \$441,115. The District anticipates receipts from discontinued Redevelopment Agencies to decrease in subsequent years.
- Other revenues increase is due to new annexations, investment income received, investment market valuation increases, recovery of damaged property and other miscellaneous fees and receipts.
- The purchased water increase was anticipated and offset with the rate increases mentioned above.
- The Encina disposal expense decrease is the result of fiscal year 2012/13's reconciliation of joint facility operating expenses. The prior year's reconciliation was a one time "true-up" adjustment and fiscal year 2013/14's expense reflects normal operating costs.
- Net other expenses decreased significantly due to prior year's accounting adjustments of the Investment in Encina Wastewater Authority (\$1.7 million) and implementation of a new overhead absorption rate (\$563,005) in fiscal year 2013/14.
- Capital contributions decreased in comparison to fiscal year 2012/13. Fiscal year 2012/13 capital contributions rose significantly as new and additional capacity was purchased by developers. Fiscal year 2013/14 is representative of the trend prior to 2012/13's spike.

RESTRICTIONS, COMMITMENTS, AND LIMITATIONS

The District's net revenue requirement is 1.15 times the total debt service of the District. The District's 2013/14 net revenue was 3.11 times debt service. Debt per capital within the District is \$648 exclusive of other debt such as San Diego County Water Authority and Metropolitan Water District.

2012 Certificates of Participation

In December 2012, the District received \$7.1 million in proceeds as the Board of Directors executed the 2nd Installment Purchase Agreement of the Master Agreement of the 2005 Certificates of Participation. The proceeds were used toward the following sewer projects: San Marcos Interceptor, Linda Vista, Encina Land Parallel Outfall and Rock Springs. The District pays debt service semi-annually on the certificates issued at a fixed rate of 1.98%. Interest payments are due each April and October 1st and principal is due each October 1st. Total debt service paid in fiscal year 13/14 related to the COPs was \$779,195. The outstanding principal balance at June 30, 2014, is \$6.5 million.

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 1.00292%. Principal payments of \$200,000 are due every March 31st and September 30th. Interest payments are due at the end of the LIBOR period chosen by the District. Total debt service paid in fiscal year 13/14 related to the loan was \$449,547. The outstanding principal balance at June 30, 2014, of \$5.8 million is subordinate to existing certificates of participation.

VALLECITOS WATER DISTRICT

MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)

RESTRICTIONS, COMMITMENTS, AND LIMITATIONS (continued)

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 1st payment of interest only was \$1.4 million and the July 1st principal and interest payment is \$3 million. Total debt service paid in fiscal year 13/14 related to the loan was \$4.4 million. The outstanding principal balance at June 30, 2014, is \$55.4 million.

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, 2014, the water capacity fund had a deficit of \$5,308,364 and the sewer capacity had a deficit of \$2,384,466. (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 2014/15:

| Project Description | 2014/15 Budget | Spent Through June 30, 2014 | Remaining |
|--|----------------|--------------------------------|---------------|
| Encina Land Parallel Outfall | \$ 28,150,000 | \$ 138,880 | \$ 28,011,120 |
| San Marcos interceptor sewer line | 18,650,000 | 12,891,967 | 5,758,033 |
| 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 | 2,750,000 | 620,150 | 2,129,850 |
| MRF Solids Force Main Replacement | 1,750,000 | 224,003 | 1,525,997 |
| Rock Springs Sewer Replacement | 1,595,000 | 259,256 | 1,335,744 |

The budget amounts in the previous table indicate the amount anticipated for completion of the projects. For some of these projects the District has only committed to the design phase through contractual obligations, and the construction has not yet been through the bidding process. Construction of the land outfall, Meadowlark tank, and Mountain Bell project will not commence unless there is significantly more growth than anticipated. Details are provided in the District’s 2014-15 Budget on these and several other committed projects less than \$1 million in scope.

CAPITAL ASSETS AND LONG-TERM DEBT

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

| | |
|--|------------|
| Tank refurbishment | \$ 760,835 |
| Vehicles | 564,957 |
| Water mains, service lines, meters, valves & fire hydrants | 556,164 |
| Sewer mains, manholes, and cleanouts | 526,275 |
| Treatment equipment | 326,202 |

The \$55.4 million in re-issued COPs, the \$5.8 million loan and the \$6.5 million COPS balance are the only long-term debts owed by the District as of June 30, 2014.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The District considered the following economic factors in establishing 2014/15 budget amounts:

- Increases to wholesale water rates as the Carlsbad desalination plant comes closer to becoming operational
- Continued drought conditions throughout the state,
- Slow but steady recovery in construction,
- Increasing regulatory compliance

As a result of these factors, the 2014/15 budget includes:

- A smooth rate ramp to absorb the increase of the Carlsbad desalination plant
- Water sales reflective of drought conservation efforts by customers,
- Staffing level increases from the 2013/14 budget as previously vacant positions are filled and reorganizations occur.

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.

VALLECITOS WATER DISTRICTSTATEMENTS OF NET POSITION
June 30, 2014
(with prior year data for comparison only)

| | <u>2014</u> | <u>2013</u> |
|---|-----------------------|-----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 14,592,877 | \$ 8,105,509 |
| Restricted cash and cash equivalents | 3,019,370 | 7,262,759 |
| Investments | 25,887,495 | 23,788,976 |
| Accounts Receivable: | | |
| Water and wastewater sales and services, net | 6,104,834 | 6,754,459 |
| Taxes and assessments | 99,417 | 95,430 |
| From other governmental entities | 735,270 | 2,509,923 |
| Other | 378,713 | 449,973 |
| Accrued interest receivable | 66,365 | 70,677 |
| Current portion of note receivable | 120,203 | 113,936 |
| Inventories | 1,115,354 | 975,560 |
| Prepaid expenses | 793,370 | 747,869 |
| Total current assets | <u>52,913,268</u> | <u>50,875,071</u> |
| Non-current assets: | | |
| Restricted capital facility fees receivable | 56,412 | 22,985 |
| Note receivable from City of San Marcos, net of current portion | 401,745 | 521,947 |
| Prepaid PERS contribution | 1,291,519 | 1,722,026 |
| Investment in Encina Wastewater Authority capital assets | 34,161,875 | 32,850,882 |
| Capital assets not being depreciated | 24,315,510 | 17,253,705 |
| Net capital assets being depreciated | <u>221,935,308</u> | <u>227,479,236</u> |
| Total non-current assets | <u>282,162,369</u> | <u>279,850,781</u> |
| Total Assets | <u>335,075,637</u> | <u>330,725,852</u> |
| LIABILITIES | | |
| Current Liabilities: | | |
| Accounts payable | 7,048,797 | 6,451,474 |
| Accrued compensation | 1,705,430 | 1,430,255 |
| Construction and service deposits | 182,053 | 379,159 |
| Accrued interest payable from restricted assets | 1,430,610 | 1,475,064 |
| Current portion of long-term debt | <u>2,695,000</u> | <u>2,610,000</u> |
| Total current liabilities | <u>13,061,890</u> | <u>12,345,952</u> |
| Non-current liabilities: | | |
| Other post employment benefits obligation, net | 30,009 | 18,090 |
| Loan payable, net of current portion | 5,400,000 | 5,800,000 |
| Certificates of participation, net of amortized discount and current portion | <u>60,474,934</u> | <u>62,810,392</u> |
| Total non-current liabilities | <u>65,904,943</u> | <u>68,628,482</u> |
| Total Liabilities | <u>78,966,833</u> | <u>80,974,434</u> |
| NET POSITION | | |
| Net investment in capital assets | 211,842,759 | 210,637,696 |
| Restricted for future capital projects | 56,412 | 22,985 |
| Restricted for debt service | 1,588,760 | 1,513,430 |
| Unrestricted | <u>42,620,873</u> | <u>37,577,307</u> |
| Total net position | <u>\$ 256,108,804</u> | <u>\$ 249,751,418</u> |

VALLECITOS WATER DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the year ended June 30, 2014
(with prior year data for comparison only)

| | 2014 | 2013 |
|---|-----------------------|-----------------------|
| OPERATING REVENUES | | |
| Water sales | \$ 26,031,460 | \$ 23,364,573 |
| Wastewater service charges | 15,128,763 | 14,921,894 |
| Ready-to-serve charges | 11,484,584 | 10,638,282 |
| Reclaimed water sales | 1,533,203 | 1,718,013 |
| Pumping charges | 192,427 | 171,107 |
| Other services and abatements | 912,212 | 590,667 |
| Total operating revenues | <u>55,282,649</u> | <u>51,404,536</u> |
| OPERATING EXPENSES | | |
| Purchased water | 24,145,579 | 21,982,845 |
| General and administrative | 5,173,986 | 4,879,580 |
| Meadowlark wastewater treatment plant | 2,993,578 | 2,777,837 |
| Encina disposal | 2,450,330 | 2,709,307 |
| Collection and conveyance | 1,632,347 | 1,633,839 |
| Engineering | 1,698,699 | 1,703,359 |
| Transmission and distribution | 1,154,882 | 1,068,907 |
| Customer accounts | 825,805 | 886,279 |
| Information technology | 865,655 | 831,423 |
| Meter reading and repairs | 614,784 | 561,274 |
| Building and grounds | 600,159 | 496,637 |
| Equipment and vehicles | 443,827 | 490,875 |
| Other water operating expenses | 396,935 | 418,890 |
| Other wastewater operating expenses | 495,999 | 374,529 |
| Water quality and treatment | 434,191 | 410,473 |
| Tanks and reservoirs | 308,031 | 299,360 |
| Pumping | 352,823 | 325,591 |
| Total operating expenses | <u>44,587,610</u> | <u>41,851,005</u> |
| Operating income before overhead absorption | 10,695,039 | 9,553,531 |
| Overhead absorption | 1,040,244 | 477,239 |
| Operating income before depreciation and amortization | 11,735,283 | 10,030,770 |
| Depreciation and amortization | (9,160,497) | (8,955,355) |
| Operating income (loss) | <u>2,574,786</u> | <u>1,075,415</u> |
| NON-OPERATING REVENUES (EXPENSES) | | |
| Property taxes | 3,077,966 | 3,519,081 |
| Investment income | 302,384 | 142,911 |
| Unrealized appreciation (depreciation) of investments | 76,224 | (189,076) |
| Annexation fees | 288,580 | 11,204 |
| Change in Encina Joint Venture assets | (334,093) | (2,040,544) |
| Interest expense | (2,672,296) | (2,758,728) |
| Other non-operating revenues/(expenses), net | 40,935 | (42,284) |
| Total non-operating revenues (expenses), net | <u>779,700</u> | <u>(1,357,436)</u> |
| Net income (loss) before capital contributions | 3,354,486 | (282,021) |
| Capital contributions | 3,002,900 | 8,484,563 |
| Change in net position | 6,357,386 | 8,202,542 |
| Total Net Position, Beginning of Year | 249,751,418 | 241,548,876 |
| Total Net Position, End of Year | <u>\$ 256,108,804</u> | <u>\$ 249,751,418</u> |

VALLECITOS WATER DISTRICT

STATEMENTS OF CASH FLOWS
For the year ended June 30, 2014
(with prior year data for comparison only)

| | <u>2014</u> | <u>2013</u> |
|--|----------------------|----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Receipts from water and wastewater customers | \$ 55,910,187 | \$ 49,937,208 |
| Payments for water | (23,875,948) | (21,369,629) |
| Payments for services and supplies | (7,949,533) | (7,628,659) |
| Payments for employee wages, benefits and related costs | (11,522,941) | (11,310,494) |
| | <u>12,561,765</u> | <u>9,628,426</u> |
| CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Receipts from taxes and assessments | <u>3,073,978</u> | <u>4,371,580</u> |
| | <u>3,073,978</u> | <u>4,371,580</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Receipts from annexation fees & cell tower rentals | 324,522 | 45,593 |
| Acquisition and construction of utility plant | (9,294,330) | (6,211,209) |
| Proceeds from certificates of participation | - | 7,055,000 |
| Principal paid on long-term debt | (2,610,000) | (1,885,001) |
| Interest payments on long-term debt | (3,004,832) | (2,914,360) |
| Investment in Encina Wastewater Authority | 395,981 | (1,941,344) |
| Capacity fees received | <u>2,402,939</u> | <u>7,286,197</u> |
| | <u>(11,785,720)</u> | <u>1,434,876</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of investments | (13,493,898) | (23,553,760) |
| Proceeds from sale, call and maturity of investments | 11,468,088 | 5,006,133 |
| Investment earnings | 305,831 | 127,304 |
| Collections on note receivable from City of San Marcos | <u>113,935</u> | <u>107,997</u> |
| | <u>(1,606,044)</u> | <u>(18,312,326)</u> |
| | <u>2,243,979</u> | <u>(2,877,444)</u> |
| Cash and Cash Equivalents, Beginning of Year | <u>15,368,268</u> | <u>18,245,712</u> |
| Cash and Cash Equivalents, End of Year | <u>\$ 17,612,247</u> | <u>\$ 15,368,268</u> |

(Continued)

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

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VALLECITOS WATER DISTRICTSTATEMENTS OF CASH FLOWS (Continued)
For the year ended June 30, 2014
(with prior year data for comparison only)

| | <u>2014</u> | <u>2013</u> |
|--|----------------------|---------------------|
| Reconciliation of operating income (loss) to net cash flows provided by operating activities: | | |
| Operating income (loss) | \$ 2,574,786 | \$ 1,075,415 |
| Adjustments to reconcile operating loss to net cash provided by operating activities: | | |
| Depreciation and amortization of capital assets | 9,160,497 | 8,955,355 |
| Non-cash operating expense Encina Phase V adjustment | - | 363,000 |
| Changes in operating assets and liabilities: | | |
| (Increase) Decrease in assets: | | |
| Accounts receivable from water and wastewater sales | 649,625 | (1,254,725) |
| Accounts receivable from other governments | (93,347) | (79,270) |
| Accounts receivable – other | 71,260 | (133,331) |
| Inventories | (139,794) | (44,640) |
| Prepaid expenses | (45,501) | (9,276) |
| Increase (Decrease) in liabilities: | | |
| Accounts payable | 97,145 | 749,852 |
| Accrued compensation | 275,175 | 8,298 |
| Other post employment benefits obligation, net | 11,919 | (2,252) |
| Total adjustments | <u>9,986,979</u> | <u>8,553,011</u> |
| Net cash provided by operating activities | <u>\$ 12,561,765</u> | <u>\$ 9,628,426</u> |

Financial Statement Classification**Cash and cash equivalents**

Current assets:

| | | |
|--------------------------------------|----------------------|----------------------|
| Cash and cash equivalents | \$ 14,592,877 | \$ 8,105,509 |
| Restricted cash and cash equivalents | <u>3,019,370</u> | <u>7,262,759</u> |
| Total Cash and Cash Equivalents | <u>\$ 17,612,247</u> | <u>\$ 15,368,268</u> |

Supplemental Disclosures:

Noncash Investing and Financing Activities

| | | |
|---|------------|--------------|
| Contributions of assets by developers | \$ 428,956 | \$ 934,777 |
| Amortization related to PERS Sidefund | \$ 430,506 | \$ 430,506 |
| Unrealized appreciation (depreciation) of investments | \$ 76,224 | \$ (189,076) |

June 30, 2014

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 potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

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

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

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

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

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

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

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

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

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

Net Investment in Capital Assets

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

Restricted Net Position

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

Unrestricted Net Position

This component of net position consists of net position that does not meet the definition of “net investment in capital assets” or “restricted net position”.

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

C. New Accounting Pronouncements

Pending Accounting Standards

GASB has issued the following statements which may impact the District's financial reporting requirements in the future:

- GASB 68—“*Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*”, effective for the fiscal years beginning after June 15, 2014.
- GASB 69—“*Government Combinations and Disposals of Government Operations*”, effective for periods beginning after December 15, 2013.
- GASB 71 - “*Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB No. 68*”, effective for the fiscal years beginning after June 15, 2014.

D. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District does not have any of these items as of June 30, 2014 or June 30, 2013.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statements element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The District does not have any of these items as of June 30, 2014 or June 30, 2013.

E. Use of Estimates

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

F. Statement of Cash Flows

For the purpose of the statement of cash flows, the District's cash is invested in interest bearing accounts. The District considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

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

G. 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.

H. 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.

I. Federal and State Capital and Operating Grants

If a grant agreement were approved and eligible expenditures were incurred, the amount is recorded as a capital or operating grant receivable on the Statement of Net Position and as capital grant contribution or operating grant revenue, as appropriate, on the Statement of Revenues, Expenses and Changes in Net Position.

J. 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 |

K. 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.

L. 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.

M. Prepaid Expenses

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

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

N. Restricted Assets

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

O. 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 |

P. 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.

Q. Construction Deposits

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

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, 2014 the District expensed \$2,672,296 of interest incurred and capitalized \$249,813 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.

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

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. 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>2014</u> | <u>2013</u> |
|--------------------------------------|----------------------|----------------------|
| Cash and cash equivalents | \$ 14,592,877 | \$ 8,105,509 |
| Restricted cash and cash equivalents | 3,019,370 | 7,262,759 |
| Investments | <u>25,887,495</u> | <u>23,788,976</u> |
| Total Cash and Investments | <u>\$ 43,499,742</u> | <u>\$ 39,157,244</u> |

Cash and Investments consist of the following:

| | <u>2014</u> | <u>2013</u> |
|---|----------------------|----------------------|
| Cash on hand | \$ 1,700 | \$ 1,700 |
| Deposits with financial institutions (over draft) | 5,021,555 | 3,601,393 |
| Investments | <u>38,476,487</u> | <u>35,554,151</u> |
| Total cash and investments | <u>\$ 43,499,742</u> | <u>\$ 39,157,244</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 |
| U.S. Government Sponsored Entities | 5 years | 60% | 20% |
| Commercial Paper | 270 days | 20% | 10% |
| Certificates of Deposit | 4 years | 20% | 5% |
| Repurchase Agreements | 1 year | 10% | 10% |
| Local Government Investment Pools | N/A | 40% | 20% |
| 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% | FDIC limit |
| Savings Accounts | N/A | 10% | 10% |

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 \$893,328 and \$955,352 as of June 30, 2014 and 2013, 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 any time without penalty. SDCPIF does not impose a maximum investment limit; however, the District’s investment policy limits investment in SDCPIF to 20% of the District’s total portfolio.

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes in market interest rates. The District manages interest rate risk by limiting terms of investment as noted in the Authorized Investment Type on page 22. 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, 2014, are as follows:

| Investment Type | Total | Remaining Maturity (in Months) | | |
|--|----------------------|--------------------------------|-------------------|-------------------|
| | | 12 Months Or Less | 13 - 24 Months | 25 - 60 Months |
| Federal Farm Credit Banks | \$ 3,290,787 | 504,690 | 675,742 | 2,110,355 |
| Federal Home Loan Bank | 6,271,338 | 251,258 | - | 6,020,080 |
| Federal Home Loan Mortgage Association | 3,854,933 | - | 534,330 | 3,320,603 |
| Federal National Mortgage Association | 4,569,289 | - | 499,290 | 4,069,999 |
| Commerical Paper | 3,497,230 | 3,497,230 | - | - |
| Local Agency Investment Fund (LAIF) | 8,916,541 | 8,916,541 | - | - |
| San Diego County Investment Pool | 5,057,000 | 5,057,000 | - | - |
| Held by bond trustee: | | | | |
| Money market funds | 3,019,369 | 3,019,369 | - | - |
| Total | \$ 38,476,487 | 21,246,088 | 1,709,362 | 15,521,037 |

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, 2014 were as follows:

| Investment Types | Total | Minimum Legal Rating | Rating as of Year End | | | |
|--|----------------------|----------------------------|-----------------------|------------------|------------------|------------------|
| | | | AAA | AA+ | A1 | Not Rated |
| Federal Farm Credit Banks | \$ 3,290,787 | N/A | 3,290,787 | - | - | - |
| Federal Home Loan Bank | 6,271,338 | AA+ | 6,271,338 | - | - | - |
| Federal Home Loan Mortgage Corporation | 3,854,933 | AA+ | 3,854,933 | - | - | - |
| Federal National Mortgage Association | 4,569,289 | AA+ | 4,569,289 | - | - | - |
| Commercial Paper | 3,497,230 | N/A | - | - | 3,497,230 | - |
| Local Agency Investment Fund (LAIF) | 8,916,541 | N/A | - | - | - | 8,916,541 |
| San Diego County Investment Pool | 5,057,000 | N/A | 5,057,000 | - | - | - |
| Held by bond trustee: | | | | | | |
| Money market funds | 3,019,369 | N/A | - | 3,019,369 | - | - |
| Total | \$ 38,476,487 | | 23,043,347 | 3,019,369 | 3,497,230 | 8,916,541 |

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 at June 30, 2014 are as follows:

| Issuer | Investment Type | Reported Amount |
|--|------------------------------------|-----------------|
| Federal Farm Credit Banks | U.S. Government Sponsored Entities | \$ 3,290,787 |
| Federal Home Loan Bank | U.S. Government Sponsored Entities | \$ 6,271,338 |
| Federal Home Loan Mortgage Association | U.S. Government Sponsored Entities | \$ 3,854,933 |
| Federal National Mortgage Association | U.S. Government Sponsored Entities | \$ 4,569,289 |

3. Accounts Receivable

The balance at June 30, consists of the following:

| | <u>2014</u> | <u>2013</u> |
|---|---------------------|---------------------|
| Accounts receivable - water and wastewater sales and services | \$ 6,143,492 | \$ 6,793,266 |
| Allowance for uncollectible accounts | (38,658) | (38,807) |
| Accounts receivable - water sales, net | <u>\$ 6,104,834</u> | <u>\$ 6,754,459</u> |

Property Tax Receivable

Taxes and assessments receivable of \$104,034 and \$100,242 have been reduced by an allowance for estimated uncollectible taxes of \$4,617 and \$4,812 at June 30, 2014 and 2013, respectively.

4. Capital Assets

Changes in capital assets for 2014 are as follow:

| | Balance 2013 | Additions/ Transfers | Deletions/ Transfers | Balance 2014 |
|--|-------------------------|---------------------------------|---------------------------------|-------------------------|
| Capital Assets, Not Depreciated | | | | |
| Land | \$ 4,761,505 | \$ - | \$ - | \$ 4,761,505 |
| Construction-in-process | 12,492,200 | 10,363,390 | (3,301,585) | 19,554,005 |
| Total Capital Assets, Not Depreciated | <u>17,253,705</u> | <u>10,363,390</u> | <u>(3,301,585)</u> | <u>24,315,510</u> |
| Capital Assets, Being Depreciated | | | | |
| Water transmission and distribution system | 187,395,706 | 1,473,235 | (8,993) | 188,859,948 |
| Wastewater system | 115,092,483 | 696,280 | | 115,788,763 |
| Buildings | 15,252,215 | 48,212 | | 15,300,427 |
| Transportation equipment | 3,793,371 | 564,957 | (12,807) | 4,345,521 |
| Field and shop equipment | 10,309,062 | 375,441 | (14,165) | 10,670,338 |
| Office equipment | 2,473,211 | 30,253 | (54,171) | 2,449,293 |
| Total Capital Assets, Being Depreciated | <u>334,316,048</u> | <u>3,188,378</u> | <u>(90,136)</u> | <u>337,414,290</u> |
| Less Accumulated Depreciation: | | | | |
| Water transmission and distribution system | (53,915,109) | (4,260,663) | 6,677 | (58,169,095) |
| Wastewater system | (32,956,065) | (2,104,435) | - | (35,060,500) |
| Buildings | (8,641,371) | (1,265,316) | - | (9,906,687) |
| Transportation equipment | (2,637,122) | (336,872) | 12,807 | (2,961,187) |
| Field and shop equipment | (7,169,877) | (569,609) | 14,165 | (7,725,321) |
| Office equipment | (1,517,268) | (193,095) | 54,171 | (1,656,192) |
| Total Accumulated Depreciation | <u>(106,836,812)</u> | <u>(8,729,990)</u> | <u>87,820</u> | <u>(115,478,982)</u> |
| Total Capital Assets, Being Depreciated, net | <u>227,479,236</u> | <u>(5,541,612)</u> | <u>(2,316)</u> | <u>221,935,308</u> |
| Total Capital Assets, net | <u>\$ 244,732,941</u> | <u>\$ 4,821,778</u> | <u>\$ (3,303,901)</u> | <u>\$ 246,250,818</u> |

In 2014, major capital assets additions during the year included vehicles, sewer and water mains, manholes, sewer buildings and improvements, and valves and fire hydrants.

Depreciation expense for the ended June 30, 2014 was \$8,729,990 and is included in Depreciation and Amortization expense on the Statement of Revenues, Expense and Changes in Net Position.

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>2013</u> | <u>2014</u> |
|---|----------------------|----------------------|
| <i>District Financed</i> | | |
| SM interceptor - SM Blvd/Discovery | \$ 7,806,534 | \$ 12,891,967 |
| Wulff Reservoir/Pressure Reducing Station | 1,155,491 | 1,188,362 |
| San Elijo Road Facilities | 641,279 | 641,279 |
| Linda Vista Sewer Upgrade | 320,942 | 620,150 |
| Meadowlark Tank #3 | 488,961 | 488,961 |
| San Elijo Hills Pump Station Project | 91,498 | 340,602 |
| Rock Springs Sewer Replacement | 154,340 | 259,256 |
| MRF Solids Force Main Replacement | 121,588 | 224,003 |
| Aeration Panel Membranes | - | 185,648 |
| Secondary skimmer controls | 162,532 | - |
| Encina Land Parallel Outfall | 138,591 | 138,880 |
| Primary Skimmer Controls (3) | - | 114,050 |
| Telescoping Valve Control | - | 103,996 |
| 205070 - Flow Monitoring Station | 58,374 | 102,471 |
| Mountain Belle Pump Station & Pipeline Design | 99,350 | 99,350 |
| Water & Sewer Master Plan | - | 96,168 |
| Lift Station No 1 Pump Improvements | 44,528 | 89,479 |
| Mahr Reservoir Aeration | - | 78,559 |
| Mrf Nutrient Removal Study | - | 65,243 |
| Environmental Mitigation Property | 59,646 | 59,646 |
| Mobile Maximo | - | 56,402 |
| Coggan Pump Station - Hydro Tank Replacement | 54,079 | - |
| Refurbish 3-Stage Vertical Turbine Eff Pump | - | 53,617 |
| Supplemental Chlorine Injection Sys | - | 49,891 |
| Land Outfall Clearing & Access Rd | - | 46,229 |
| Sluice Gate Dam | - | 45,938 |
| Scada Radio Antenna Masts Fy12/13 | - | 41,556 |
| Effluent Chlorine Analyzer @ T.O. Res | 40,984 | - |
| Desalinated Water Connection | - | 37,075 |
| 204484 - Pavement and Access Roads | 34,742 | - |
| Coggan Pump Station Flow Meter | - | 31,526 |
| Old Questhaven Sewer Replacement | 718 | 718 |
| Subtotal - District Financed | <u>11,474,177</u> | <u>18,151,022</u> |
| <i>Developer Financed</i> | | |
| High Point Hydropneum | 93,073 | 98,634 |
| San Elijo Hills K Lower Unit 19 | 80,302 | - |
| San Elijo Hills K Lower Unit 18 | 76,134 | - |
| Palos Vista Estates | 59,394 | 59,545 |
| San Elijo Hills V2 West | 54,924 | - |
| Palomar Station | 24,119 | 59,505 |
| SEH PH 3 PA T U - 205626 | - | 51,257 |
| Seh Ph 5 Pa S Ip U3 - | - | 29,839 |
| Seh Ph5 Pa S U4 - San | - | 23,524 |
| Fairfield Inn - Carlsbad | - | 20,975 |
| Odor Control Study | - | 20,228 |
| Seh Ph5 Pa S U5 - San | - | 16,823 |
| San Marcos Creek Improvement Plan | 15,513 | 16,244 |
| Developer Impact Fee Study | 15,985 | - |
| Grand Avenue City | 14,879 | 14,879 |
| Autumn Drive and Buelow Park | 14,206 | 14,206 |
| Pump Station Meadowlark | 9,617 | 9,617 |
| Civic Center Market Place | 8,764 | 8,764 |
| Subtotal - Developer Financed | <u>466,910</u> | <u>444,040</u> |
| Various Other Projects | <u>551,113</u> | <u>958,943</u> |
| Total | <u>\$ 12,492,200</u> | <u>\$ 19,554,005</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, 2014, the Member Agencies have the following approximate ownership interest:

| | |
|------------------------------|-----|
| City of Vista | 25% |
| City of Carlsbad | 24% |
| Buena Sanitation District | 7% |
| Vallecitos Water District | 23% |
| Leucadia Wastewater District | 17% |
| City of Encinitas | 4% |

The latest available financial statements of EWA, dated June 30, 2013 and 2012, are available directly from EWA (6200 Avenida Encinas, Carlsbad, California 92009), and show the following:

| | <u>2013</u> | <u>2012</u> |
|-------------------------------------|-----------------------|-----------------------|
| Total assets | \$ 126,543,408 | \$ 126,498,731 |
| Total liabilities | <u>2,608,176</u> | <u>2,981,429</u> |
| Total net position | <u>\$ 123,935,232</u> | <u>\$ 123,517,302</u> |
| Increase (decrease) in net position | <u>\$ 417,930</u> | <u>\$ (917,397)</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, 2014, the following amounts are due to the District:

| <u>Fiscal Year</u> | <u>Principal Amount</u> |
|---------------------|-------------------------|
| 2015 | \$ 120,203 |
| 2016 | 126,813 |
| 2017 | 133,788 |
| 2018 | <u>141,144</u> |
| Total | 521,948 |
| Current Portion | <u>(120,203)</u> |
| Non-current Portion | <u>\$ 401,745</u> |

7. 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 Position (see note 8).

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

| | <u>2014</u> | <u>2013</u> |
|--|------------------|------------------|
| Deferred charges from debt retirement | \$ 77,001 | \$ 77,001 |
| Accumulated amortization | (26,522) | (23,552) |
| Deferred charges from debt retirement, net | <u>\$ 50,479</u> | <u>\$ 53,449</u> |

8. 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.

The Series 2005A COPs are payable solely from the net revenues of the District’s water and sewer systems as defined in the 2005 Certificates of Participation. The Certificates are due in annual installments from July 1, 2008 to July 1, 2035 bearing interest at 4.00% to 5.50%. This debt contains a rate covenant which requires the District to maintain annual net revenues of at least 115% of the annual debt service. In Fiscal Year 2014 the District was in compliance with this rate covenant.

8. Long-Term Debt (Continued)

2005 Certificates of Participation (Continued)

The balance at June 30, 2014 net of unamortized premiums, discounts and deferred charges is as follows:

| | Balance 2013 | Additions | Payments/ Deletions | Balance 2014 |
|----------------------------|-------------------------|------------------|--------------------------------|-------------------------|
| 2005 Series A COP | \$ 56,975,000 | \$ - | \$ 1,565,000 | \$ 55,410,000 |
| Add: Bond Premium | 1,354,636 | - | 58,897 | 1,295,739 |
| Less: Unamortized Discount | (355,795) | - | (15,469) | (340,326) |
| Less: Deferred charges | (53,449) | - | (2,970) | (50,479) |
| Total | <u>57,920,392</u> | <u>\$ -</u> | <u>\$ 1,605,458</u> | <u>56,314,934</u> |
| Less: Current Portion | <u>(1,565,000)</u> | | | <u>(1,635,000)</u> |
| Long-Term Portion | <u>\$ 56,355,392</u> | | | <u>\$ 54,679,934</u> |

Annual debt service payments are as follows:

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.

| Fiscal Year | Principal | Interest | Total |
|---------------------------|----------------------|----------------------|----------------------|
| 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 | 1,910,000 | 2,459,325 | 4,369,325 |
| 2019 | 1,985,000 | 2,359,563 | 4,344,563 |
| 2020-2024 | 11,800,000 | 10,068,514 | 21,868,514 |
| 2025-2029 | 15,225,000 | 6,631,250 | 21,856,250 |
| 2030-2034 | 14,120,000 | 2,835,419 | 16,955,419 |
| 2035-2036 | 5,210,000 | 263,747 | 5,473,747 |
| Total | <u>55,410,000</u> | <u>\$ 32,569,269</u> | <u>\$ 87,979,269</u> |
| Less current portion | <u>(1,635,000)</u> | | |
| Total non-current portion | <u>\$ 53,775,000</u> | | |

8. Long-Term Debt (Continued)

2012 Certificates of Participation

On December 5, 2012, the Board of Directors of the Vallecitos Water District authorized the issuance of debt. The District received \$7.1 million of proceeds at a 1.98% fixed interest rate over the ten year life of the loan. The proceeds will support the San Marcos Sewer Interceptor and Linda Vista Sewer Line projects.

Changes in long-term debt amounts for the 2014 fiscal year were as follows:

| | <u>2013</u> | <u>Additions</u> | <u>Deletions</u> | <u>2014</u> |
|-----------------------|---------------------|------------------|------------------|---------------------|
| 2012 COPS | \$ 7,100,000 | \$ - | \$ 645,000 | \$ 6,455,000 |
| Less: Current Portion | <u>(645,000)</u> | | | <u>(660,000)</u> |
| Long-Term Portion | <u>\$ 6,455,000</u> | | | <u>\$ 5,795,000</u> |

Annual debt service payments are as follows:

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------------|---------------------|-------------------|---------------------|
| 2015 | \$ 660,000 | \$ 121,275 | \$ 781,275 |
| 2016 | 673,000 | 108,078 | 781,078 |
| 2017 | 688,000 | 94,604 | 782,604 |
| 2108 | 702,000 | 80,843 | 782,843 |
| 2019 | 741,000 | 66,558 | 807,558 |
| 2020-2023 | <u>2,991,000</u> | <u>119,998</u> | <u>3,110,998</u> |
| Totals | 6,455,000 | <u>\$ 591,356</u> | <u>\$ 7,046,356</u> |
| Less current portion | (660,000) | | |
| Total non-current portion | <u>\$ 5,795,000</u> | | |

8. 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% (1.033% at June 30, 2014). Principal payments of \$200,000 plus interest are payable semi-annually and maturing in 2028.

Loan payables for the year ended June 30, 2014 is as follows:

| | <u>Balance 2013</u> | <u>Additions</u> | <u>Payments/ Deletions</u> | <u>Balance 2014</u> |
|-----------------------|-------------------------|------------------|--------------------------------|-------------------------|
| 2008 UBOC Loan | \$ 6,200,000 | \$ - | \$ 400,000 | \$ 5,800,000 |
| Less: Current Portion | <u>(400,000)</u> | | | <u>(400,000)</u> |
| Long-Term Portion | <u>\$ 5,800,000</u> | | | <u>\$ 5,400,000</u> |

Annual debt service payments are as follows:

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest*</u> | <u>Total</u> |
|---------------------------|---------------------|-------------------|---------------------|
| 2015 | \$ 400,000 | \$ 59,749 | \$ 459,749 |
| 2016 | 400,000 | 58,938 | 458,938 |
| 2017 | 400,000 | 57,807 | 457,807 |
| 2018 | 400,000 | 56,320 | 456,320 |
| 2019 | 400,000 | 54,437 | 454,437 |
| 2020-2024 | 2,000,000 | 226,893 | 2,226,893 |
| 2025-2029 | <u>1,800,000</u> | <u>91,040</u> | <u>1,891,040</u> |
| Total | 5,800,000 | <u>\$ 605,184</u> | <u>\$ 6,405,184</u> |
| Less current portion | <u>(400,000)</u> | | |
| Total non-current portion | <u>\$ 5,400,000</u> | | |

* - Interest rate of 1.033% used for future years is interest rate set by Union Bank on 9/30/2014 for effective dates 3/31/2014-9/30/2014.

9. Net Position

a. Net Investment In Capital Assets

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

| | <u>2014</u> | <u>2013</u> |
|--|-----------------------|-----------------------|
| Investment in Encina Wastewater Authority capital assets | \$ 34,161,875 | \$ 32,850,882 |
| Capital assets not being depreciated | 24,315,511 | 17,253,705 |
| Net capital assets being depreciated | 221,935,307 | 227,479,236 |
| Certificates of participation - current portion | (2,295,000) | (2,210,000) |
| Loan payable - UBOC - current portion | (400,000) | (400,000) |
| Certificates of participation - noncurrent portion | (60,474,934) | (58,536,127) |
| Loan payable - UBOC - noncurrent portion | <u>(5,400,000)</u> | <u>(5,800,000)</u> |
| Total net investment in capital assets | <u>\$ 211,842,759</u> | <u>\$ 210,637,696</u> |

b. Restricted Net Position

Restricted net position at June 30, consists of the following:

| | <u>2014</u> | <u>2013</u> |
|--|---------------------|---------------------|
| Restricted for debt service | \$ 1,588,760 | \$ 1,513,430 |
| Restricted for future capital projects | <u>56,412</u> | <u>22,985</u> |
| Total restricted net position | <u>\$ 1,645,172</u> | <u>\$ 1,536,415</u> |

c. Unrestricted Net Position

Unrestricted net position at June 30, consists of the following:

| | <u>2014</u> | <u>2013</u> |
|----------------------------------|-----------------------|-----------------------|
| Non-spendable net position: | | |
| Inventories | \$ 1,115,354 | \$ 975,560 |
| Prepaid expenses | 2,084,889 | 2,469,895 |
| Total non-spendable net position | <u>3,200,243</u> | <u>3,445,455</u> |
| Spendable net position: | | |
| Unrestricted | <u>39,420,630</u> | <u>34,131,852</u> |
| Total spendable net position | <u>39,420,630</u> | <u>34,131,852</u> |
| Total unrestricted net position | <u>\$ 42,620,873</u> | <u>\$ 37,577,307</u> |
| Total net position | <u>\$ 256,108,804</u> | <u>\$ 249,751,418</u> |

10. 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 January 1, 2013, the District pays 4% of the contributions. For employees hired after January 1, 2013, under the California Employee’s Pension Reform Act (PEPRA) provisions, the contribution rate for plan members in the CalPERS 2.0% at 62 Risk Pool Retirement Plan is 6.25% of their annual covered salary. 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, 2014 was 15.724%. The District is required to contribute the actuarially determined remaining amounts necessary to fund the 3.0% at age 60 retirement plan benefits for its classic members and 2.0% at age 62 for its new members (employees hired after December 31, 2012) under the PEPRA provisions. 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, 2014, the District’s annual pension cost and actual contribution was \$1,184,618. The required contribution for the fiscal year ended June 30, 2014 was determined as part of the June, 30 2011 actuarial valuation.

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

| | |
|---------------------------|---|
| Valuation Date | June 30, 2011 |
| Actuarial Cost Method | Entry Age Normal Cost Method |
| Amortization Method | Level Percent of Payroll |
| Average Remaining Period | 19 Years as of the Valuation Date |
| Asset Valuation Method | 15 Year Smoothed Market |
| Actuarial Assumptions: | |
| Investment Rate of Return | 7.50% (Net of Administrative Expenses) |
| Projected Salary Increase | 3.30% to 14.20% Depending on Age, Service, and Type of Employment |
| Inflation | 2.75% |
| Payroll Growth | 3.00% |
| Individual Salary Growth | A merit scale varying by duration of employment coupled with an assumed annual inflation component of 2.75% 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.

10. Defined Benefit Pension Plan (Continued)

Annual Pension Costs (continued)

Three Year Trend Information for PERS

| <u>Fiscal Year</u> | <u>Annual Pension Cost (APC)</u> | <u>Percentage of APC Contributed</u> | <u>Net Pension Obligation</u> | <u>APC Percentage of Payroll</u> |
|---------------------------|---|---|--------------------------------------|---|
| 2012 | \$ 1,045,353 | 100% | - | 13.477% |
| 2013 | \$ 1,064,666 | 100% | - | 15.100% |
| 2014 | \$ 1,184,618 | 100% | - | 15.498% |

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.

11. 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. At June 30, 2014, there were twenty-nine retired employees who met these eligibility requirements and are therefore receiving the benefits. The post-retirement health care benefits are financed on a pay as you go basis.

The total expense incurred for these benefits for retired employees for the year ended June 30, 2014 and 2013 was \$357,639 and \$385,258, respectively.

Plan Description

The District administers the Other Post-Employment Benefit Plan (OPEB), a multi-employer defined benefit plan.

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

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

11. Other Post-Employment Benefits Plan (Continued)

Plan Description (Continued)

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

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

Eligible retirees may enroll in any of the plans the District offers through the ACWA Program. The activity and liability from the OPEB plan are included in these financial statements.

Funding Policy

The District’s Resolution No. 788, established the authority for the plan and provides that the District will pay 100% of the cost of the OPEB plan. Resolution No. 1389 authorized the District to establish and maintain an irrevocable trust to fund OPEB and seek reimbursement from the trust to cover current retiree benefit premiums which are paid by the District on a pay-as-you-go basis. The District began funding the trust in March of 2012.

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>2014</u> | <u>2013</u> |
|---|------------------|------------------|
| Annual required contribution | \$ 387,648 | \$ 435,652 |
| Interest on net post employment benefits payable obligation | - | - |
| Adjustment to annual required contribution | - | - |
| | <hr/> | <hr/> |
| Annual post employment benefits payable obligation cost (expense) | 387,648 | 435,652 |
| Contributions made: | | |
| Retired employees post employment medical benefits payments | (375,729) | (437,904) |
| | <hr/> | <hr/> |
| Increase (decrease) in net post employment benefits payable obligation | 11,919 | (2,252) |
| Post employment benefits payable, net - beginning of year | 18,090 | 20,342 |
| | <hr/> | <hr/> |
| Post employment benefits payable, net - end of year | <u>\$ 30,009</u> | <u>\$ 18,090</u> |

Funded Status of the Plan

The most recent valuation (dated January 1, 2013) includes an Actuarial Accrued Liability of \$4,707,625 and an Unfunded Actuarial Accrued Liability of \$1,896,023. The covered payroll (annual payroll of active employees covered by the plan) for the year ended June 30, 2014 is \$7,445,301. The ratio of the unfunded actuarial liability to annual payroll covered is 25.47%. 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.

11. 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, 2012 | \$ 595,722 | 486.98% | \$ 20,342 |
| June 30, 2013 | \$ 435,652 | 100.52% | \$ 18,090 |
| June 30, 2014 | \$ 387,648 | 96.93% | \$ 30,009 |

Actuarial Methods and Assumptions

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

The District’s valuation uses the Projected Unit Credit actuarial cost method to project the Annual Required Contribution and a 7% discount rate. The high rate of annual health care cost increases experienced in recent years is assumed to gradually decrease, 16.3% in 2014 and 10.0% in 2015. A level dollar amortization of the Unfunded Actuarial Accrued Liability is used over a closed 30-year period.

12. 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, 2014, 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.

12. 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, 2014 and 2013. 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, 2014 and 2013.

13. 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, 2014.

Condensed Statement of Net Position

| | 2014 | | | 2013 |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| | Water | Sewer | Total | Total |
| Assets: | | | | |
| Current assets | \$ 22,258,256 | \$ 30,655,012 | \$ 52,913,268 | \$ 50,875,071 |
| Non-current assets | 936,934 | 812,742 | 1,749,676 | 2,266,958 |
| Capital assets, net | 145,064,264 | 135,348,429 | 280,412,693 | 277,583,823 |
| Total assets | 168,259,454 | 166,816,183 | 335,075,637 | 330,725,852 |
| Liabilities: | | | | |
| Current liabilities | 8,007,127 | 5,054,763 | 13,061,890 | 12,349,952 |
| Non-current liabilities | 27,189,241 | 38,715,702 | 65,904,943 | 68,628,482 |
| Total liabilities | 35,196,368 | 43,770,465 | 78,966,833 | 80,978,434 |
| Net Position: | | | | |
| Net investment in capital assets | 117,053,782 | 94,788,977 | 211,842,759 | 210,637,696 |
| Restricted for future capital facilities | 13,496 | 42,916 | 56,412 | 22,985 |
| Restricted for debt service | 833,850 | 754,910 | 1,588,760 | 1,513,430 |
| Unrestricted | 15,161,961 | 27,458,912 | 42,620,873 | 37,577,307 |
| Total net position | \$ 133,063,089 | \$ 123,045,715 | \$ 256,108,804 | \$ 249,751,418 |

14. Segment Information (Continued):

Condensed Statement of Revenues, Expenses and Changes in Net Position

| | 2014 | | | 2013 |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| | Water | Sewer | Total | Total |
| Revenues | | | | |
| Operating Revenues | \$ 38,532,143 | \$ 16,750,506 | \$ 55,282,649 | \$ 51,404,536 |
| Non-Operating Revenues | 1,884,011 | 1,904,269 | 3,788,280 | 3,547,360 |
| Total Revenues | <u>40,416,154</u> | <u>18,654,775</u> | <u>59,070,929</u> | <u>54,951,896</u> |
| Expenses: | | | | |
| Operating Expenses | 33,283,213 | 10,264,153 | 43,547,366 | 41,373,769 |
| Depreciation and Amortization | 5,371,169 | 3,789,328 | 9,160,497 | 8,955,356 |
| Non-Operating Expenses | 1,424,737 | 1,583,843 | 3,008,580 | 4,904,792 |
| Total Expenses | <u>40,079,119</u> | <u>15,637,324</u> | <u>55,716,443</u> | <u>55,233,917</u> |
| Net Income/(Loss) before Capital Contributions | 337,035 | 3,017,451 | 3,354,486 | (282,021) |
| Capital Contributions | 1,097,734 | 1,905,166 | 3,002,900 | 8,484,563 |
| Change in Net Position | 1,434,769 | 4,922,617 | 6,357,386 | 8,202,542 |
| Total Net Position, Beginning of Year | <u>131,628,319</u> | <u>118,123,099</u> | <u>249,751,418</u> | <u>241,548,876</u> |
| Net position, end of year | <u>\$ 133,063,088</u> | <u>\$ 123,045,716</u> | <u>\$ 256,108,804</u> | <u>\$ 249,751,418</u> |

Condensed Statement of Cash Flows

| | 2014 | | | 2013 |
|--|---------------------|----------------------|----------------------|----------------------|
| | Water | Sewer | Total | Total |
| Net cash provided (used) by: | | | | |
| Operating activities | \$ 5,916,124 | \$ 6,645,641 | \$ 12,561,765 | \$ 9,628,426 |
| Non-capital financing activities | 1,636,966 | 1,437,012 | 3,073,978 | 4,371,580 |
| Capital and related financing activities | (3,267,580) | (8,518,140) | (11,785,720) | 1,434,875 |
| Investing activities | (1,337,688) | (268,356) | (1,606,044) | (18,312,325) |
| Net cash provided | <u>2,947,822</u> | <u>(703,843)</u> | <u>2,243,979</u> | <u>(2,877,444)</u> |
| Cash and cash equivalents, beginning of year | <u>1,507,976</u> | <u>13,860,292</u> | <u>15,368,268</u> | <u>18,245,712</u> |
| Cash and cash equivalents, end of year | <u>\$ 4,455,798</u> | <u>\$ 13,156,449</u> | <u>\$ 17,612,247</u> | <u>\$ 15,368,268</u> |

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 \$2,171,128 in open construction contracts as of June 30, 2014. These include the following:

| Project Name | Total Approved Contract(s) | Spent Through June 30, 2014 | Remaining |
|---------------------------------------|-------------------------------|--------------------------------|---------------------|
| Meadowlark Tank 1 and 2 Refurbishment | \$ 467,581 | \$ 178,806 | \$ 288,775 |
| Linda Vista Sewer Upgrade | 1,882,353 | - | 1,882,353 |
| | <u>\$ 2,349,934</u> | <u>\$ 178,806</u> | <u>\$ 2,171,128</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 2012, 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 2013/2014 PERS employer contribution rate of 6.508%. The amount amortizable during fiscal year 2014/2015 \$430,506 is reported as current prepaid asset on the Statement of Net Position. The balance of \$1,291,519 which will be amortizable in years after fiscal year 2014/2015 is shown as the non-current asset Prepaid PERS Contribution on the Statement of Net Position.

REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2014

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) |
|--------------------------------|---|--|--|-----------------------|---------------------------|---|
| 6/30/2013 | \$ 2,635,608 | \$ 5,078,124 | \$ 2,442,516 | 51.90% | \$ 7,445,301 | 32.81% |
| 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% |

SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2014 AND 2013

VALLECITOS WATER DISTRICTSchedule of Operating Expenses - Water Division
For the Fiscal Years Ended June 30, 2014 and 2013

| | 2014 | 2013 |
|-------------------------------------|------------------|------------------|
| Purchased Water | \$ 24,145,579 | \$ 21,982,845 |
| Pumping: | | |
| Labor | 71,895 | 74,752 |
| Materials and supplies | 16,907 | 30,444 |
| Outside repair | 26,212 | 11,817 |
| Power | 237,788 | 208,578 |
| Total Pumping | <u>352,802</u> | <u>325,591</u> |
| Water Quality and Treatment: | | |
| Labor | 322,813 | 319,206 |
| Materials and supplies | 31,075 | 51,192 |
| Outside Repair | 76,152 | 40,075 |
| Power | 4,151 | - |
| Total Water Treatment | <u>434,191</u> | <u>410,473</u> |
| Tanks and Reservoirs: | | |
| Labor | 215,602 | 229,972 |
| Materials and supplies | 32,115 | 20,394 |
| Outside repair | 56,215 | 45,282 |
| Power | 4,098 | 3,712 |
| Total Tanks and Reservoirs | <u>308,030</u> | <u>299,360</u> |
| Transmission and Distribution: | | |
| Labor | 814,296 | 805,358 |
| Materials and supplies | 218,476 | 122,114 |
| Outside repair | 107,140 | 129,585 |
| Power | 8,913 | 8,327 |
| Total Transmission and Distribution | <u>1,148,825</u> | <u>1,065,384</u> |
| Services: | | |
| Labor | 75,461 | 69,653 |
| Materials and supplies | 31,831 | 34,093 |
| Outside repair | 26,630 | 24,572 |
| Total Services | <u>133,922</u> | <u>128,318</u> |
| Meters: | | |
| Labor | 550,572 | 506,748 |
| Materials and supplies | 31,147 | 40,787 |
| Outside repair | 33,065 | 13,739 |
| Total Meters | <u>614,784</u> | <u>561,274</u> |

VALLECITOS WATER DISTRICTSchedule of Operating Expenses - Water Division, continued
For the Fiscal Years Ended June 30, 2014 and 2013

| | <u>2014</u> | <u>2013</u> |
|------------------------------|------------------|------------------|
| Backflow Prevention: | | |
| Labor | 68,079 | 73,432 |
| Materials and supplies | 32 | 2,127 |
| Total Backflow Prevention | <u>68,111</u> | <u>75,559</u> |
| Customer Accounts: | | |
| Labor | 372,353 | 436,764 |
| Materials and supplies | 62,779 | 73,313 |
| Uncollectible accounts | 31,944 | 84,551 |
| Outside Repair | 17,903 | 22,254 |
| Total Customer Accounts | <u>484,979</u> | <u>616,882</u> |
| Equipment and Vehicles: | | |
| Labor, fuel and repairs | 244,321 | 222,480 |
| Materials and supplies | 40,115 | 58,694 |
| Total Equipment and Vehicles | <u>284,436</u> | <u>281,174</u> |
| Building and Grounds: | | |
| Labor | 186,856 | 195,385 |
| Materials and supplies | 79,411 | 50,900 |
| Outside Repair | 152,703 | 97,034 |
| Power | 22,776 | 26,209 |
| Total Building and Grounds | <u>441,746</u> | <u>369,528</u> |
| Engineering: | | |
| Labor | 1,132,373 | 1,172,516 |
| Materials and supplies | 18,607 | 7,839 |
| Outside Repair | 26,327 | 41,417 |
| Total Engineering | <u>1,177,307</u> | <u>1,221,772</u> |
| Safety: | | |
| Labor | 177,269 | 192,472 |
| Materials and supplies | 9,499 | 7,787 |
| Safety support | 8,133 | 14,754 |
| Total Safety | <u>194,901</u> | <u>215,013</u> |

VALLECITOS WATER DISTRICTSchedule of Operating Expenses - Water Division, continued
For the Fiscal Years Ended June 30, 2014 and 2013

| | <u>2014</u> | <u>2013</u> |
|------------------------------------|----------------------|----------------------|
| Information Technology | | |
| Labor | 296,828 | 275,835 |
| Travel | 1,501 | 1,817 |
| Dues and subscriptions | - | 1,750 |
| Meetings and seminars | 909 | 1,628 |
| Other materials and supplies | 33,383 | 39,521 |
| Phone | 17,660 | 21,390 |
| Equipment Rent | 22,388 | 25,891 |
| Outside Repair | 137,657 | 162,705 |
| Total Information Technology | <u>510,326</u> | <u>530,537</u> |
| General and Administration: | | |
| Salaries | 1,632,194 | 1,542,826 |
| Other taxes/benefits | 12,259 | 8,771 |
| Social security | 158,784 | 189,356 |
| Group insurance | 529,739 | 571,887 |
| Public employees' retirement | 351,699 | 336,005 |
| Workers' compensation insurance | 33,863 | 31,211 |
| District insurance | 163,014 | 156,919 |
| Director's expense | 44,020 | 42,107 |
| Director's fees | 28,543 | 32,614 |
| Public awareness | 98,292 | 92,752 |
| Travel | 14,982 | 6,333 |
| Postage | 1,530 | 4,559 |
| Office supplies | 27,882 | 36,344 |
| Dues and subscriptions | 61,308 | 62,958 |
| Meetings and seminars | 23,119 | 16,281 |
| Legal | 131,789 | 209,947 |
| Auditing | 15,055 | 16,125 |
| Outside services | 125,576 | 164,492 |
| Election and annexations | - | 4,392 |
| Other | 90,811 | (59,017) |
| Administrative credits transferred | (561,185) | (226,388) |
| Total General and Administration | <u>2,983,274</u> | <u>3,240,474</u> |
| Total Water Division Expenses | <u>\$ 33,283,213</u> | <u>\$ 31,324,184</u> |

VALLECITOS WATER DISTRICTSchedule of Operating Expenses - Wastewater Division
For the Fiscal Years Ended June 30, 2014 and 2013

| | <u>2014</u> | <u>2013</u> |
|-------------------------------|------------------|------------------|
| Collection System: | | |
| Labor | \$ 1,316,901 | \$ 1,341,673 |
| Materials and supplies | 92,688 | 60,457 |
| Chemicals | 174,336 | 149,310 |
| Outside repair | 52,995 | 84,309 |
| Power | 1,505 | 1,613 |
| Total Collection System | <u>1,638,425</u> | <u>1,637,362</u> |
| Lift Stations: | | |
| Labor | 103,000 | 81,460 |
| Materials and supplies | 10,662 | 9,923 |
| Chemicals | 24,524 | 12,813 |
| Outside repair | 14,901 | 25,864 |
| Power | 39,112 | 34,846 |
| Total Lift Stations | <u>192,199</u> | <u>164,906</u> |
| Peroxide Station: | | |
| Labor | 851 | 621 |
| Outside repair | 120 | 122 |
| Power | 198 | 199 |
| Total Peroxide Station | <u>1,169</u> | <u>942</u> |
| Industrial Waste: | | |
| Labor | 135,022 | 80,010 |
| Materials and supplies | 33,679 | 21,230 |
| Total Industrial Waste | <u>168,701</u> | <u>101,240</u> |
| Encina Disposal | <u>2,450,330</u> | <u>2,709,307</u> |
| Meadowlark Lift Station: | | |
| Labor | 52,221 | 71,306 |
| Materials and supplies | 8,109 | 9,579 |
| Chemicals | 240,099 | 211,969 |
| Outside repair | 7,944 | 30,989 |
| Power | 79,778 | 65,964 |
| Total Meadowlark Lift Station | <u>388,151</u> | <u>389,807</u> |

VALLECITOS WATER DISTRICTSchedule of Operating Expenses - Wastewater Division, continued
For the Fiscal Years Ended June 30, 2014 and 2013

| | <u>2014</u> | <u>2013</u> |
|------------------------------|------------------|------------------|
| Meadowlark Plant: | | |
| Labor | 907,801 | 842,614 |
| Materials and supplies | 269,229 | 188,870 |
| Chemicals | 611,456 | 471,442 |
| Outside repair | 293,474 | 372,086 |
| Power | 403,964 | 345,539 |
| Telephone | 3,247 | 2,856 |
| Total Meadowlark Plant | <u>2,489,171</u> | <u>2,223,407</u> |
| Mahr Reservoir: | | |
| Labor | 50,736 | 61,056 |
| Materials and supplies | 15,943 | 68,946 |
| Chemicals | 8,820 | |
| Outside repairs | 40,758 | 34,621 |
| Total Mahr Reservoir | <u>116,257</u> | <u>164,623</u> |
| Customer Accounts: | | |
| Labor | 250,831 | 188,855 |
| Materials and supplies | 57,560 | 47,811 |
| Uncollectible accounts | 15,567 | 17,828 |
| Outside Services | 16,868 | 14,903 |
| Total Customer Accounts | <u>340,826</u> | <u>269,397</u> |
| Equipment and Vehicles: | | |
| Labor, fuel and repairs | 69,179 | 112,033 |
| Materials and supplies | 40,213 | 32,171 |
| Fuel | 49,999 | 65,497 |
| Total Equipment and Vehicles | <u>159,391</u> | <u>209,701</u> |
| Buildings and Grounds: | | |
| Labor | 72,589 | 60,245 |
| Materials and supplies | 14,801 | 13,176 |
| Outside repair | 50,247 | 36,165 |
| Power | 20,775 | 17,523 |
| Total Buildings and Grounds | <u>158,412</u> | <u>127,109</u> |
| Engineering: | | |
| Labor | 506,119 | 481,587 |
| Materials and supplies | 98 | - |
| Outside repair | 15,175 | - |
| Total Engineering | <u>521,392</u> | <u>481,587</u> |

VALLECITOS WATER DISTRICTSchedule of Operating Expenses - Wastewater Division, continued
For the Fiscal Years Ended June 30, 2014 and 2013

| | <u>2014</u> | <u>2013</u> |
|------------------------------------|----------------------|----------------------|
| Safety: | | |
| Labor | 129,147 | 100,238 |
| Materials and supplies | 581 | 859 |
| Outside services | 4,203 | 6,344 |
| Total Safety | <u>133,931</u> | <u>107,441</u> |
| Information Technology | | |
| Labor | 193,311 | 141,247 |
| Materials and supplies | 48,466 | 46,062 |
| Outside services | 113,553 | 113,577 |
| Total Information Technology | <u>355,330</u> | <u>300,886</u> |
| General and Administration: | | |
| Salaries | 700,218 | 517,481 |
| Other taxes/benefits | 5,759 | 3,967 |
| Social security | 67,873 | 66,774 |
| Group insurance | 324,536 | 297,681 |
| Public employees' retirement | 141,620 | 122,171 |
| Workers' compensation insurance | 10,924 | 8,243 |
| District insurance | 143,953 | 104,613 |
| Director's fees | 21,479 | 26,519 |
| Travel | 16 | - |
| Office supplies | 12,456 | 11,594 |
| Dues and subscriptions | 203 | 318 |
| Meetings and seminars | 1,061 | - |
| Legal | 131,735 | 191,232 |
| Auditing | 14,465 | 8,550 |
| Outside services | 43,027 | 52,825 |
| Other | 10,202 | 750 |
| Administrative credits transferred | (479,059) | (250,851) |
| Total General and Administration | <u>1,150,468</u> | <u>1,161,867</u> |
| Total Wastewater Division Expenses | <u>\$ 10,264,153</u> | <u>\$ 10,049,582</u> |