



**Vallecitos Water District**  
**Annual Financial Report**  
**Fiscal Years Ended June 30, 2009 and 2008**



**Vallecitos Water District**  
**Annual Financial Report**  
**Fiscal Years Ended June 30, 2009 and 2008**

*Board of Directors as of June 30, 2009:*

Trish Hannan –President

Margaret E. Ferguson – Vice-President

Darrell Gentry – Director

James W. Poltl – Director

Tim Shell – Director

William W. Rucker – General Manager

**Vallecitos Water District**  
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**For the Years Ended June 30, 2009 and 2008**

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# **Financial Section**





Charles Z. Fedak, CPA, MBA  
Paul J. Kaymark, CPA

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An Accountancy Corporation

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## Independent Auditor's Report

Board of Directors  
Vallecitos Water District  
San Marcos, California

We have audited the accompanying financial statements of the Vallecitos Water District (District) as of and for the years ended June 30, 2009 and 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the Vallecitos Water District as of June 30, 2009 and 2008, and the respective changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 25, 2009 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The supplemental information section is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements, and in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

September 25, 2009  
Cypress, California

*Charles Z. Fedak, CPA*  
An Accountancy Corporation

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**Vallecitos Water District**  
***Management's Discussion and Analysis***  
**For the Years Ended June 30, 2009 and 2008**

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, 2009. 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, 2009, the following highlights impacted, or have the potential to impact, the finances of the District.

- On November 12, 2008, the District received \$7.9 million in proceeds from a variable rate tax-exempt private placement loan with Union Bank of California to partially finance the District's share of the expansion at the Encina Wastewater Authority's treatment plant. The rate is tied to the LIBOR index and as of June 30, 2009 was 1.59%.
- Capital spending on the Encina Wastewater Authority's (EWA) treatment plant expansion during the year amounted to \$4.9 million. The project was completed the following year. Total capital spending for the year amounted to \$9.4 million compared to \$27.3 million in the prior year, and \$50.6 million two years prior.
- Operating expenses increased by \$2.6 million due to higher start-up treatment costs at the District's wastewater treatment plant as well as higher costs at EWA, fewer costs being capitalized due to the lack of new development, and increasing wholesale water costs.
- Interest payments on long-term debt increased from \$1.5 million in the prior year to \$3.2 million in the 2008/09 fiscal year, the first full year of debt service payments after the 2007 conversion to fixed rate debt.
- During the fiscal year ended June 30, 2009, new development contributed \$2.7 million in capital assets and cash to be used to fund planned capital facilities, compared to \$3.7 million in the prior year, \$8.5 million two years prior, and \$9.7 million three years prior.
- Interest earnings for 2008/09 totaled \$0.7 million compared to \$1.5 million in 2007/08 due to declining yields and a declining investment portfolio balance.
- The District added 181 active meters during the fiscal year ended June 30, 2009 – a 0.9% increase, compared to 409 meters (a 2.1% increase) in the prior year, and 371 meters (a 1.9% increase) two years prior. The City of San Marcos issued building permits for 1,344 residential units in 2005, 447 in 2006, 273 in 2007, 55 in 2008, and 138 through September 2009.
- On June 24, 2009, the District adopted two years of rate increases – effective July 1, 2009, 9.7% sewer increase, a 15.3% ready-to-serve increase, and a drought rate structure with additional tiers and accelerated rates in higher tiers to encourage conservation and cover costs associated with high usage (conservation, wholesale surcharges, etc.) and to cover the loss from lower demands. A 6% sewer and 15.3 % ready-to-serve increase will be effective starting July 1, 2010. The commodity rate will increase mostly due to pass through escalating wholesale costs.
- The District's Board of Directors declared a Stage 2 drought alert and a 10% mandatory demand reduction effective July 1, 2009. Customers responded by reducing demand by 28% in July and August 2009.

**Vallecitos Water District**  
**Management's Discussion and Analysis**  
**For the Years Ended June 30, 2009 and 2008**

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

**Statements of Net Assets**

The Statements of Net Assets present the District's financial position (assets and liabilities) as of June 30, 2009, and 2008. Assets in excess of liabilities (Net Assets) were \$236,577,523 and \$239,818,042 as of June 30, 2009, and 2008, respectively. In accordance with generally accepted accounting principles, capital assets acquired through purchase or construction by the District are recorded at historical cost. Capital assets contributed by development are recorded at fair value or developers' construction cost.

**Statements of Revenues, Expenses, and Changes in Net Assets**

The Statements of Revenues, Expenses, and Changes in Net Assets present the District's results of operations for the years ended June 30, 2009, and 2008. Revenues are recognized (recorded) when water or services are provided, and expenses are recognized when incurred. Operating revenues and expenses are related to the District's core activities (providing water and related services, wastewater services, and processing and delivering recycled water). Non-operating revenues and expenses (e.g. interest income, interest expenses, etc.) are not directly related to the core activities of the District. The operating loss for the year ended June 30, 2009, of \$5,954,479 is combined with net non-operating revenues of \$55,793 and capital contributions of \$2,658,167 to arrive at the decline in net assets of \$3,240,519. The decrease in net assets is subtracted from beginning net assets of \$239,818,042 to arrive at ending net assets of \$236,577,523 as of June 30, 2009.

	<u>2008/09</u>	<u>2007/08</u>
Operating income / (loss)	\$ (5,954,479)	(3,171,779)
Nonoperating revenues / (expenses)	55,793	3,850,503
Capital contributions	<u>2,658,167</u>	<u>3,709,193</u>
Change in net assets	(3,240,519)	4,387,917
Beginning net assets	<u>239,818,042</u>	<u>235,430,125</u>
Ending net assets	<u>\$236,577,523</u>	<u>\$239,818,042</u>

**Statements of Cash Flows**

The Statements of Cash Flows presents the amounts of cash provided or used by the District's operating, financing, and investing activities. Every cash flow has been categorized into one of the following activities: operating, non-capital financing, capital and related financing, or investing. The total of these categories for the year ended June 30, 2009, represents the increase in cash and cash equivalents of \$3,469,808, which is combined with beginning cash and cash equivalents of \$11,242,636, to arrive at ending cash and cash

equivalents of \$14,712,444. Investments in the California Local Agency Investment Fund, San Diego County Investment Pool, open-ended money market mutual funds, and commercial paper and agency obligations with original

Beginning cash & cash equivalents	\$ 11,242,636
Increase in cash & cash equivalents	3,469,808
Ending cash & cash equivalents	<u>\$ 14,712,444</u>

maturities of 90 days or less are the only cash equivalents held by the District at June 30, 2009. As of June 30, 2009, the ending cash and cash equivalents are represented on the Statements of Net Assets as follows:

	<u>2008/09</u>	<u>2007/08</u>
Unrestricted cash & cash equivalents	\$ 11,861,648	8,416,402
Cash & cash equivalents restricted - current	<u>2,850,796</u>	<u>2,826,234</u>
Total cash & cash equivalents	<u>\$ 14,712,444</u>	<u>\$ 11,242,636</u>

**Vallecitos Water District**  
**Management's Discussion and Analysis**  
**For the Years Ended June 30, 2009 and 2008**

**ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS**

During the fiscal year ended June 30, 2009, the decrease in total assets of \$741,723 and the increase in total liabilities of \$2.5 million resulted in a decrease in net assets of \$3.2 million.

The District secured \$7.9 million in loan proceeds to fund a portion of its share of the expansion of the Encina Wastewater Authority's treatment plant (EWA) and restore funds expended for the project in previous years. The loan and sources of funds from property taxes, capital facility fees, operating activities, and other sources helped fund \$4.5 million in EWA, \$2.3 million for the District's Meadowlark reclamation facility expansion, \$5.6 million for the construction and acquisition of other capital assets, and \$4.7 million in debt service. These projects provide for needed capacity, replacement, and operating efficiencies that will result in long-term cost savings to the District. The following table summarizes how these capital projects and debt service were financed during the year.

Sources (in millions)		Uses (in millions)	
Loan proceeds	\$ 7.9	Capital construction and acquisition	\$ 9.4
Property taxes	2.7	Debt service	4.7
Capital facility fees	1.8	Increase in cash and investment balances	0.6
Operating activities	1.4		
Investment earnings	0.7		
Annexation fees and other receipts	0.2		
	<u>\$14.7</u>		<u>\$14.7</u>

The operating loss of \$5,954,479 includes a non-cash depreciation expense of \$7,097,658. Depreciation is the systematic allocation of a capital asset's cost to expense over a specified period of time. Depreciation on contributed assets, for which the District never realized cash outflows, is also included in the \$7.1 million of depreciation. Accounting pronouncements do not recognize that operating losses of growth agencies created by depreciation on contributed assets have no negative impact on financial performance. The District has established reserve floors for the replacement of aging infrastructure.

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). The rate on the loan at June 30, 2009, was 1.59%.

The District's Meadowlark Reclamation facility expansion (from 2.25 to 5 MGD) and 40 million gallon Twin Oaks reservoir were put into service during the year ended June 30, 2009. This caused a shift of \$62.3 million from work in process to depreciable capital assets as well as a material increase in depreciation expense.

**CURRENT-TO-PRIOR YEAR ANALYSIS**

**Analysis of Net Assets**

As noted in the table on the following page, the most significant changes in financial position are from the \$8 million private placement loan incurred to finance some of the EWA expansion. Long-term liabilities increased and net assets invested in capital assets declined because of the new debt and more depreciation. Two major projects, the Twin Oaks reservoir and the Meadowlark Reclamation Facility expansion, previously in work-in progress and not being depreciated were placed in service causing an increase in depreciation and decrease in net assets invested in capital assets. The prior year's current liabilities included significant accounts payable for the EWA expansion and other capital projects. The same payables were much less at the end of the 2009 fiscal year.

**Vallecitos Water District**  
**Management's Discussion and Analysis**  
**For the Years Ended June 30, 2009 and 2008**

CURRENT-TO-PRIOR YEAR ANALYSIS (Continued)

Analysis of Net Assets (continued)

Vallecitos Water District's Net Assets				
	2009	2008	Change	
			Amount	%
Cash and investments	\$ 23,775,462	\$ 23,109,529	\$ 665,933	2.9%
Capital assets	285,383,098	286,296,154	(913,056)	-0.3%
Other assets	8,698,624	9,193,224	(494,600)	-5.4%
Total Assets	<u>317,857,184</u>	<u>318,598,907</u>	<u>(741,723)</u>	-0.2%
Current liabilities	10,203,187	14,114,919	(3,911,732)	-27.7%
Noncurrent liabilities	71,076,474	64,665,946	6,410,528	9.9%
Total Liabilities	<u>81,279,661</u>	<u>78,780,865</u>	<u>2,498,796</u>	3.2%
<b>Net Assets</b>				
Invested in capital assets, net of related debt	215,170,547	219,709,279	(4,538,732)	-2.1%
Restricted	-	169,836	(169,836)	-100.0%
Unrestricted	<u>21,406,976</u>	<u>19,938,927</u>	<u>1,468,049</u>	7.4%
Total Net Assets	<u>\$ 236,577,523</u>	<u>\$ 239,818,042</u>	<u>\$ (3,240,519)</u>	-1.4%

Vallecitos Water District Selected Financial Ratios		
	2009	2008
Current ratio	2.95	2.05
Quick ratio	2.80	1.97
Capital assets-to-Long-term liabilities	4.02 / 1	4.43 / 1
Debt-to-equity	1 / 2.91	1 / 3.04

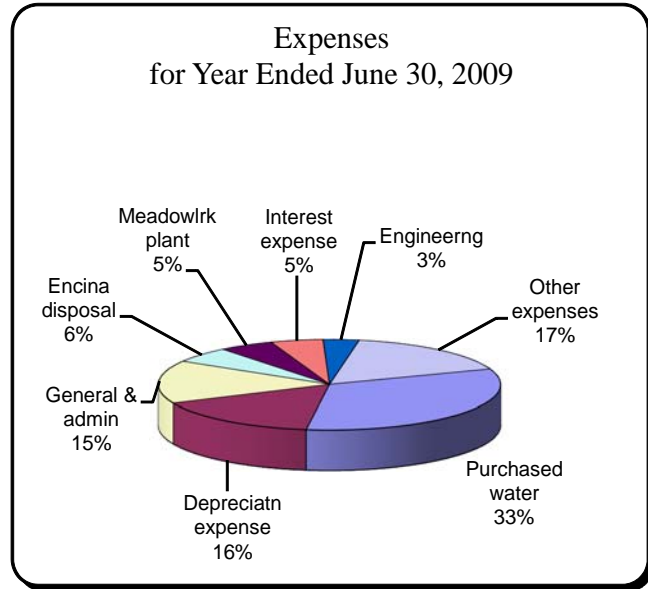
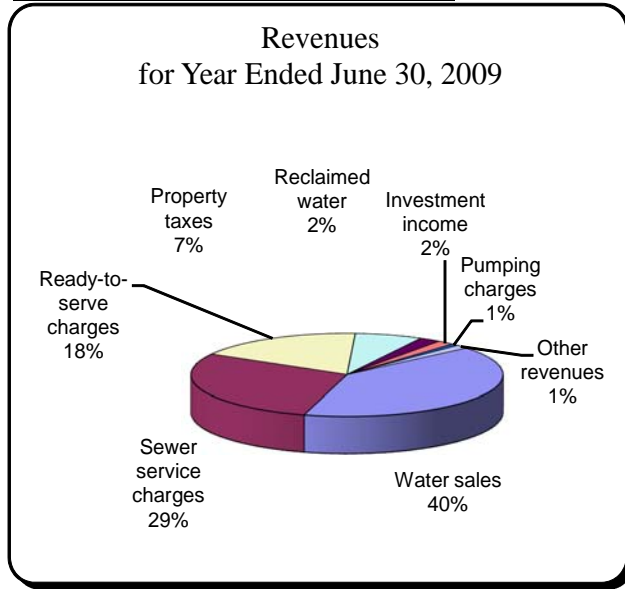
The table at the left illustrates how effectively the District can meet its current obligations, and the margin of safety to creditors. The current ratio (current assets divided by current liabilities) indicates that the District can pay 2.95 times its current debt from current assets. However, some current assets are not easily, or will never be, converted to cash (e.g. inventories and prepaid insurance). The quick

ratio, quick assets (cash, liquid investments, accounts receivable) divided by current liabilities, measures how effectively the District can meet current obligations with assets that are readily convertible to cash. The District can pay 2.8 times its current obligations with assets readily convertible to cash. The District's increased current and quick ratios indicate a high degree of solvency and a strong current position. The capital-assets-to-long-term-liabilities ratio indicates that for every dollar of debt the District has \$4.02 in capital assets (infrastructure, land, building, vehicles, equipment, furniture, etc.). 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 \$2.91 of net assets (equity). The slight decrease in these ratios is a trade-off to the stronger current position.

**Vallecitos Water District**  
**Management's Discussion and Analysis**  
**For the Years Ended June 30, 2009 and 2008**

CURRENT-TO-PRIOR YEAR ANALYSIS (Continued)

**Analysis of Revenues and Expenses**



A comparative analysis of revenues and expenses is presented below. Significant and unanticipated variances from the prior year are discussed on the following page.

	Vallecitos Water District's Revenues and Expenses			
	For Fiscal Year:		Change	
	2009	2008	Amount	%
Water sales	\$ 15,538,356	\$ 15,310,847	\$ 227,509	1.5%
Wastewater service charges	11,061,701	10,090,243	971,458	9.6%
Ready-to-serve charges	6,746,058	6,405,368	340,690	5.3%
Property taxes	2,685,570	2,984,878	(299,308)	-10.0%
Investment income	667,485	1,470,087	(802,602)	-54.6%
Other revenues	1,645,323	1,902,409	(257,086)	-13.5%
<b>Total Revenues</b>	<b>38,344,493</b>	<b>38,163,832</b>	<b>180,661</b>	<b>0.5%</b>
Purchased water	14,480,887	13,917,279	563,608	4.0%
Depreciation expense	7,097,658	5,933,135	1,164,523	19.6%
General and administrative	6,796,343	8,045,234	(1,248,891)	-15.5%
Encina disposal	2,517,278	2,102,114	415,164	19.7%
Meadowlark plant	2,291,535	1,535,912	755,623	49.2%
Interest expense	2,190,675	1,073,596	1,117,079	104.1%
Engineering	1,497,011	907,457	589,554	65.0%
Other expenses	7,371,792	3,970,381	3,401,411	85.7%
<b>Total Expenses</b>	<b>44,243,179</b>	<b>37,485,108</b>	<b>6,758,071</b>	<b>18.0%</b>
Income / (Loss) before contributions	(5,898,686)	678,724	(6,577,410)	na
Capital contributions	2,658,167	3,709,193	(1,051,026)	-28.3%
<b>Change in Net Assets</b>	<b>(3,240,519)</b>	<b>4,387,917</b>	<b>(7,628,436)</b>	<b>-173.9%</b>
Beginning Net Assets	239,818,042	235,430,125	4,387,917	1.9%
Ending Net Assets	<b>\$ 236,577,523</b>	<b>\$ 239,818,042</b>	<b>(3,240,519)</b>	<b>-1.4%</b>

**Vallecitos Water District**  
***Management's Discussion and Analysis***  
**For the Years Ended June 30, 2009 and 2008**

CURRENT-TO-PRIOR YEAR ANALYSIS (Continued)

**Analysis of Revenues and Expenses (continued)**

The composition of revenues and expenses for the 2008/09 fiscal year is graphically illustrated on the preceding page. 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.

- The \$1 million increase in wastewater service charges was anticipated due to an increase in customers and rates (10% effective in July of 2008).
- Declining property values attributed to a 10% decrease in property taxes.
- Investment earnings decreased by \$0.8 million due to a declining investment portfolio balance and falling interest rates.
- Other revenues include annexation fees and pumping charges. Annexation fees declined by \$0.2 million as development slowed to almost nothing during the year. Pumping charges decreased by more than \$0.1 million due to the mandatory 30% cutback for agricultural customers, many of which are in designated pump zones.
- Depreciation expense increased by \$1.2 million because of the Twin Oaks reservoir and the Meadowlark treatment plant expansion being placed into service.
- General and administrative expenses decreased while other functional expenses increased, such as Meadowlark plant, engineering, transmission and distribution, collections and conveyance. Effective January 1, 2009, half way through the fiscal year, the new accounting system went online enabling more accurate posting to specific cost centers rather than posting shared costs to general and administrative expense.
- The start up of the Meadowlark treatment plant caused more resources to be expended than anticipated. Additional costs were incurred for chemicals, outside services, and pump-arounds.
- The interest expense increase was due to less interest being capitalized (recorded to assets in construction) during the 08/09 fiscal year as compared to interest being capitalized in the 07/08 fiscal year and a full year of debt service payments on the \$64 million in COPs converted to fixed rates in July of fiscal year 2007/08. Interest expense also increased for the \$7.9 million loan from Union Bank in November 2008.
- Engineering expenses increased because less engineering staff time was posted to capital projects during the slow-down in development.
- Other expenses include the increase or decrease in book value of the District's investment in EWA. Prior year costs reflect an increase in the book value on the District's investment in EWA of \$0.2 million. The book value of the investment in EWA is EWA's net assets times the District's ownership percentage. The current year reflects a decrease in book value of the investment in EWA of \$1.2 million. Other expenses also increased due to less overhead being absorbed with less development, full staffing of the sewer collection crews and extraordinary efforts to meet stringent regulatory requirements, increased efforts by customer service staff to address customer concerns regarding the new billing system, mandatory conservation, and increased rates, and more accurate costing to functional expense categories rather than being general and administrative expense.
- Capital contributions decreased due to reduced development during the year.

**Vallecitos Water District**  
**Management's Discussion and Analysis**  
**For the Years Ended June 30, 2009 and 2008**

**RESTRICTIONS, COMMITMENTS, AND LIMITATIONS**

2008 Union Bank Tax-Exempt Private Placement Loan

On November 12, 2008, the District received \$7.9 million in proceeds from a variable rate tax-exempt private placement loan from Union Bank of California to fund a portion of EWA's treatment plant expansion. The District's share in solids capacity at EWA increased from 7.5 million gallons per day (MGD) to 10.5 MGD. The variable rate on the loan is indexed to LIBOR with the District's option to periodically change the LIBOR period and associated rate (adjusted by the bank's formula for a tax-exempt borrowing). Principal payments of \$200,000 are due every March 31<sup>st</sup> and September 30<sup>th</sup>. Interest payments are due at the end of the LIBOR period chosen by the District. The District is currently in a six-month LIBOR period started on June 12, 2009, with an annual interest rate of 1.59%. Total debt service paid in fiscal year 08/09 related to the loan was \$288,329. The outstanding principal balance at June 30, 2009, of \$7.8 million is subordinate to existing certificates of participation.

2005 Certificates of Participation

The District pays debt service semi-annually on certificates issued as variable-rate in 2005 and converted to a fixed rate of 4.736% (total-all-in-cost) in 2007. The January 1<sup>st</sup> payment of interest only is \$1.5 million and the July 1<sup>st</sup> principal and interest payment is \$2.9 million. Total debt service paid in fiscal year 08/09 related to the loan was \$4.4 million. The outstanding principal balance at June 30, 2009, was \$62.5 million. The net revenue requirement is 1.15 times the total debt service of the District. The District's 2008/09 net revenue was 1.36 times debt service.

Capital Facility Fees

The District collects capital facility fees from new development and increased demands from existing customers, maintains the collected fees in separate funds (one for water and one for wastewater), and uses the funds exclusively to provide capacity to serve new development and fund future construction of facilities identified in the District's Master Plan. As of June 30, 2009, the balances of cash and investments held in the capacity funds were \$1,571,002 for water and \$4,822,609 deficit balance for wastewater. (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 the 2009 fiscal year end:

Project Description	2009/10 Budget	Spent Through	
		June 30, 2009	Remaining
San Marcos interceptor sewer line	16,150,000	3,350,972	12,799,028
Meadowlark Tank #3	4,463,000	300,196	4,162,804
Mountain Belle pump station and pipeline	3,860,000	99,159	3,760,841
Discovery Street sewer	2,390,000	386,329	2,003,671

The budget amounts above indicate the amount anticipated for completion of the projects. For some of these projects the District has only committed to the design phase through contractual obligations, and the construction has not yet been through the bidding process. Details are provided in the District's 2009-10 Budget on these and several other committed projects less than \$1 million in scope.

**Vallecitos Water District**  
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**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.

Meadowlark treatment plant	\$ 33,788,918
Twin Oaks reservoir	28,523,591
Meters	2,290,832
Sewer lift stations	1,642,931
Water service lines	1,143,700
Vehicles	542,953
Water transmission and distribution mains	457,271

The \$62.5 million in re-issued COPs and the \$7.8 million loan balance are the only long-term debts owed by the District.

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

The District considered the following economic factors in establishing 2009/10 budget amounts and rates:

- Slowed but continued growth - the District anticipates adding 96 meters and three additional employment positions in the 2010 fiscal year,
- Continued mandatory cut-backs on water demand,
- Increases to wholesale water rates,
- Increased requirements related to regulatory compliance,
- The need to maintain and replace aging infrastructure, and
- The need to stay technologically current.

As a result of these factors, the 2009/10 budget includes:

- Increased water sales and water costs due to rate increases,
- Increased water sales and water costs tempered by reduced demands from mandatory conservation and agricultural cutbacks,
- Increased wastewater service charges from an adopted 10% increase in rates effective July 1, 2009, to cover costs incurred to comply with increasing regulations,
- A 9% increase in salaries and benefits due to additional hires, cost of living adjustments, step increases, and anticipated increases in benefit costs, and
- \$54.8 million in budgeted capital expenditures.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

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

# **Basic Financial Statements**

**Vallecitos Water District**  
**Statements of Net Assets**  
**June 30, 2009 and 2008**

<i>Assets</i>	<b>2009</b>	<b>2008</b>
<b>Current Assets:</b>		
Cash and cash equivalents (note 2)	\$ 11,861,648	\$ 8,416,402
Restricted cash and cash equivalents (note 2)	2,850,796	2,826,234
Investments (note 2)	8,555,518	10,376,949
Accounts receivable:		
Water and wastewater sales and services, net (note 3)	3,583,478	4,238,347
Taxes and assessments (note 3)	1,091,134	1,138,596
From other governmental entities	577,954	586,567
Other	59,498	239,184
Accrued interest receivable	133,842	177,132
Current portion of note receivable (note 6)	91,971	87,176
Inventories	1,033,855	529,503
Prepaid expenses	260,409	261,768
<b>Total current assets</b>	<b>30,100,103</b>	<b>28,877,858</b>
<b>Non-current assets:</b>		
Restricted investments (note 2)	507,500	1,489,944
Restricted accrued interest receivable	-	8,997
Restricted capital facility fees receivable	46,014	36,990
Note receivable from City of San Marcos, net of current portion (note 6)	943,273	1,035,246
Debt issuance costs, net (note 7)	668,269	635,294
Deferred charges from debt retirement, net (note 8)	208,927	218,424
Investment in Encina Wastewater Authority capital assets (note 5)	35,343,836	33,621,939
Capital assets not being depreciated (note 4)	15,538,901	80,310,079
Net capital assets being depreciated (note 4)	234,500,361	172,364,136
<b>Total non-current assets</b>	<b>287,757,081</b>	<b>289,721,049</b>
<b>Total assets</b>	<b>317,857,184</b>	<b>318,598,907</b>
<b><i>Liabilities</i></b>		
<b>Current liabilities:</b>		
Accounts payable	4,661,838	8,277,118
Accrued compensation	1,206,093	1,291,046
Construction & service deposits	1,084,464	1,720,861
Accrued interest payable from restricted assets	1,545,792	1,570,894
Current portion of long term debt (note 9)	1,705,000	1,255,000
<b>Total current liabilities</b>	<b>10,203,187</b>	<b>14,114,919</b>
<b>Non-current liabilities:</b>		
Deposit from San Marcos Unified School District	189,400	189,400
Other post employment benefits obligation, net	1,074,521	715,565
Loan payable, net of current portion	7,400,000	-
Certificates of participation, net of amortized discount & current portion (note 9)	62,412,553	63,760,981
<b>Total non-current liabilities</b>	<b>71,076,474</b>	<b>64,665,946</b>
<b>Total liabilities</b>	<b>81,279,661</b>	<b>78,780,865</b>
<b><i>Net Assets</i></b>		
Invested in capital assets, net of related debt (note 10)	215,170,547	219,709,279
Restricted for future capital facilities	-	169,836
Unrestricted (note 11)	21,406,976	19,938,927
<b>Total net assets</b>	<b>\$ 236,577,523</b>	<b>\$ 239,818,042</b>

See accompanying notes to the financial statements

**Vallecitos Water District**  
**Statements of Revenues, Expenses and Changes in Net Assets**  
**For the Years Ended June 30, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
<b>Operating revenues:</b>		
Water sales	\$ 15,538,356	\$ 15,310,847
Wastewater service charges	11,061,701	10,090,243
Ready-to-serve charges	6,746,058	6,405,368
Reclaimed water sales	841,056	736,828
Pumping charges	284,176	414,050
Other services and abatements	434,536	494,483
<b>Total operating revenues</b>	<u>34,905,883</u>	<u>33,451,819</u>
<b>Operating expenses:</b>		
Purchased water	14,480,887	13,917,279
General and administrative	6,796,343	8,045,234
Encina disposal	2,517,278	2,102,114
Meadowlark wastewater treatment plant	2,291,535	1,535,912
Transmission and distribution	1,004,251	843,345
Engineering	1,497,011	907,457
Customer accounts	824,632	630,716
Pumping	476,873	475,798
Collection and conveyance	1,156,900	762,177
Buildings and grounds	498,643	432,557
Equipment and vehicles	384,714	312,816
Meter reading and repairs	338,364	145,972
Tanks and reservoirs	394,375	284,093
Water quality and treatment	255,824	167,816
Information technology	496,417	304,967
Other wastewater operating expenses	286,869	217,887
Other water operating expenses	317,913	327,548
<b>Total operating expenses</b>	<u>34,018,829</u>	<u>31,413,688</u>
Operating income before overhead absorption	887,054	2,038,131
Overhead absorption	256,125	723,225
Operating Income before depreciation and amortization	1,143,179	2,761,356
Depreciation and amortization	<u>(7,097,658)</u>	<u>(5,933,135)</u>
<b>Operating loss</b>	<u>(5,954,479)</u>	<u>(3,171,779)</u>
<b>Non-operating revenues (expenses):</b>		
Property taxes	2,685,570	2,984,878
Investment income	667,485	1,470,087
Annexation fees	60,394	257,048
Change in Encina Joint Venture assets	(1,192,142)	226,015
Interest expense	(2,190,675)	(1,073,597)
Other, net	25,161	(13,928)
<b>Total non-operating revenues and expenses</b>	<u>55,793</u>	<u>3,850,503</u>
<b>Income (loss) before contributions</b>	(5,898,686)	678,724
Capital contributions	<u>2,658,167</u>	<u>3,709,193</u>
<b>Change in net assets</b>	(3,240,519)	4,387,917
<b>Net assets, beginning of year</b>	<u>239,818,042</u>	<u>235,430,125</u>
<b>Net assets, end of year</b>	<u>\$ 236,577,523</u>	<u>\$ 239,818,042</u>

See accompanying notes to the financial statements

**Vallecitos Water District**  
**Statements of Cash Flows**  
**For the Years Ended June 30, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Receipts from water and wastewater customers	\$ 35,749,051	\$ 32,912,452
Payments for water	(14,815,212)	(13,707,820)
Payments for services and supplies	(6,534,659)	(4,341,953)
Payments for employee wages, benefits and related costs	(13,027,530)	(12,059,817)
Net cash provided by operating activities	<u>1,371,650</u>	<u>2,802,862</u>
Cash Flows from non-capital financing activities:		
Receipts from taxes and assessments	<u>2,733,032</u>	<u>2,779,108</u>
Net cash provided by non-capital financing activities	<u>2,733,032</u>	<u>2,779,108</u>
Cash flows from capital and related financing activities:		
Receipts from annexation fees	91,002	257,048
Acquisition and construction of utility plant	(4,467,662)	(17,479,876)
Proceeds from note payable	7,941,552	-
Proceeds from certifications of participation	-	1,550,018
Principal paid on long term debt	(1,455,000)	(1,475,000)
Interest payments on long-term debt	(3,208,034)	(1,530,230)
Investment in Encina Wastewater Authority	(4,925,505)	(9,813,212)
Capacity fees received	<u>1,777,952</u>	<u>2,579,775</u>
Net cash used by capital and related financing activities	<u>(4,245,695)</u>	<u>(25,911,477)</u>
Cash flows from investing activities:		
Purchase of investments	(9,491,763)	(19,854,267)
Proceeds from sale, call and maturity of investments	12,314,767	32,576,646
Interest received	700,639	1,826,925
Collections on note receivable from City of San Marcos	<u>87,178</u>	<u>82,636</u>
Net cash used by investing activities	<u>3,610,821</u>	<u>14,631,940</u>
Net increase/(decrease) in cash and cash equivalents	3,469,808	(5,697,567)
Cash and cash equivalents, beginning of year	<u>11,242,636</u>	<u>16,940,203</u>
Cash and cash equivalents, end of year	<u>\$ 14,712,444</u>	<u>\$ 11,242,636</u>
Reconciliation of cash and cash equivalents to statement of net assets:		
Cash and cash equivalents	\$ 11,861,648	\$ 8,416,402
Restricted cash and cash equivalents - current	<u>2,850,796</u>	<u>2,826,234</u>
Total cash and cash equivalents	<u>\$ 14,712,444</u>	<u>\$ 11,242,636</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Net cash provided by operating activities:		
Operating loss	\$ (5,954,479)	\$ (3,171,779)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation & amortization expense	7,097,658	5,933,135
Changes in operating assets and liabilities:		
Accounts receivable from water and wastewater sales and services	654,869	(178,989)
Accounts receivable from other governmental entities	8,613	(251,949)
Accounts receivable - other	179,686	(108,429)
Inventories	(504,352)	26,022
Prepaid expenses	1,359	(143,198)
Accounts payable	(385,707)	272,077
Accrued compensation	(84,953)	61,982
Other post employment benefits obligation, net	<u>358,956</u>	<u>363,990</u>
Net cash provided by operating activities	<u>\$ 1,371,650</u>	<u>\$ 2,802,862</u>
Non-cash investing capital and financing activities:		
Contributions of assets by developers	<u>\$ 359,730</u>	<u>\$ 758,080</u>
Amortization related to long-term debt	<u>\$ 32,185</u>	<u>\$ 32,186</u>
Unrealized appreciation (depreciation) of investments	<u>\$ (19,133)</u>	<u>\$ 109,044</u>

**Vallecitos Water District**  
**Notes to the Basic Financial Statements**  
**For the Years Ended June 30, 2009 and 2008**

**(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 criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Statements No. 14, *The Financial Reporting Entity*, and No. 39, *Determining Whether Certain Organizations Are Component Units* (an amendment of No. 14). The District is the primary governmental unit based on the foundation of a separately elected governing board that is elected by the citizens in a general popular election. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District is financially accountable if it appoints a voting majority of the organization's governing body and: 1) It is able to impose its will on that organization, or 2) There is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

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

**B. Basis of Accounting and Measurement Focus**

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). Revenues and expenses are recognized on the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place.

Operating revenues and expenses, such as water sales and water purchases, 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.

**C. Financial Reporting**

The District's basic financial statements are presented in conformance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34). This statement established revised financial reporting requirements for state and local governments throughout the United States for the purpose of enhancing the understandability and usefulness of financial reports.

**Vallecitos Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended June 30, 2009 and 2008**

**(1) Reporting Entity and Summary of Significant Accounting Policies, continued**

**C. Financial Reporting, continued**

GASB No. 34 and its related GASB pronouncements provide for a revised view of financial information and restructure the format of financial information provided prior to its adoption. A statement of net assets replaces the balance sheet and reports assets, liabilities, and the difference between them as net assets, not equity. A statement of revenues, expenses and changes in net assets replaces both the income statement and the statement of changes in retained earnings and contributed capital. GASB No. 34 also requires that the statement of cash flows be prepared using the direct method. Under the direct method, cash flows from operating activities are presented by major categories.

Under GASB No. 20, enterprise funds, such as the District, have the option of consistently following or not following pronouncements issued by the Financial Accounting Standards Board (FASB) subsequent to November 30, 1989. The District has elected not to follow FASB standards issued after that date, unless such standards are specifically adopted by GASB.

**D. Assets, Liabilities, and Net Assets**

**1. Use of Estimates**

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

**2. Cash and Cash Equivalents**

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

**3. 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.

**4. 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.

**5. Federal and State Capital and Operating Grants**

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

**Vallecitos Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended June 30, 2009 and 2008**

**(1) Reporting Entity and Summary of Significant Accounting Policies, continued**

**D. Assets, Liabilities, and Net Assets, continued**

**6. 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

**7. 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.

**8. 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.

**9. Prepaid Expenses**

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

**10. Restricted Assets**

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

**11. Capital Assets**

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets 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

**Vallecitos Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended June 30, 2009 and 2008**

**(1) Reporting Entity and Summary of Significant Accounting Policies, continued**

**D. Assets, Liabilities, and Net Assets, continued**

**12. 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 current year capital expenditures incurred by EWA. Ownership percentages are determined by joint agreements at the time the assets are acquired.

**13. Deferred Charges**

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

**14. Compensated Absences**

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

**15. Construction Advances and Deposits**

Construction advances represent deposits received in aid of construction, which are refundable if the applicable construction does not take place. Construction advances are transferred to contributed capital when the applicable construction project is completed.

**16. Net Assets**

The financial statements utilize a net assets presentation. Net assets are categorized as follows:

- **Net Investment in Capital Assets** – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by any debt outstanding against the acquisition, construction or improvement of those assets.
- **Restricted Net Assets** – This component of net assets consists of constraints placed on net assets use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted Net Assets** – This component of net assets consists of net assets that do not meet the definition of *restricted* or *net investment in capital assets*.

**E. 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.

**F. 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.

**G. 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.

**H. 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.

**Vallecitos Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended June 30, 2009 and 2008**

**(2) Cash and Investments**

Cash and investments as of June 30, are classified in the accompanying financial statements as follows

	<u>2009</u>	<u>2008</u>
Cash and cash equivalents	\$ 11,861,648	8,416,402
Restricted cash and cash equivalents – current portion	2,850,796	2,826,234
Investments – current portion	8,555,518	10,376,949
Restricted investments	<u>507,500</u>	<u>1,489,944</u>
Total Cash and Investments	<u>\$ 23,775,462</u>	<u>23,109,529</u>

Cash and investments as of June 30, consist of the following:

	<u>2009</u>	<u>2008</u>
Cash on hand	\$ 1,700	1,700
Deposits with financial institutions	34,212	267,518
Investments	<u>23,739,550</u>	<u>22,840,311</u>
Total cash and investments	<u>\$ 23,775,462</u>	<u>23,109,529</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. Agency Securities	5 years	60%	25%
Commerical Paper	270 days	20%	10%
Certificates of Deposit	4 years	20%	FDIC limit
Repurchase Agreements	1 year	10%	10%
San Diego County Pooled Investment Funds	N/A	20%	20%
Local Agency Investment Fund (LAIF)	N/A	60%	None
California Asset Management Program	N/A	30%	25%
State and Local Agency Bonds	5 years	20%	20%
FDIC - Backed Medium - Term Notes	4 years	20%	20%
Savings Accounts	N/A	10%	10%

**Vallecitos Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended June 30, 2009 and 2008**

**(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 \$151,538 and \$401,132 as of June 30, 2009 and 2008, respectively. Of the bank balances, up to \$250,000 as of June 30, 2009 and \$100,000 as of June 30, 2008, 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.

**Vallecitos Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended June 30, 2009 and 2008**

**(2) Cash and Investments, continued**

***San Diego County Pooled Investment Fund***

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

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

***Interest Rate Risk***

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value 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 18. 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, 2009, are as follows:

<u>Investment Type</u>	<u>Total</u>	<u>Remaning Maturity (in Months)</u>		
		<u>12 Months Or Less</u>	<u>13 to 24 Months</u>	<u>25-60 Months</u>
Federal Farm Credit Banks	\$ 1,039,685	-	503,280	536,405
Federal Home Loan Bank	2,034,375	2,034,375	-	-
Federal Home Loan Mortgage Corporation	2,014,355	510,960	501,605	1,001,790
Federal National Mortgage Association	2,020,630	504,065	1,516,565	-
Certificates of Deposit	449,973	449,973	-	-
Corporate Notes	1,504,000	-	504,260	999,740
Local Agency Investment Fund (LAIF)	8,010,821	8,010,821	-	-
San Diego County Investment Pool	3,814,915	3,814,915	-	-
Held by bond trustee:				
Money market funds	2,850,796	2,850,796	-	-
Total	\$ 23,739,550	18,175,905	3,025,710	2,537,935

**Vallecitos Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended June 30, 2009 and 2008**

**(2) Cash and Investments, continued**

Maturities of investments at June 30, 2008, are as follows:

<u>Investment Type</u>	<u>Total</u>	<u>Remaining Maturity (in Months)</u>		
		<u>12 Months Or Less</u>	<u>13 to 24 Months</u>	<u>25-60 Months</u>
U.S. Treasury bills	\$ 994,425	994,425	-	-
Federal Home Loan Bank	3,058,600	1,020,315	2,038,285	-
Federal Home Loan Mortgage Corporation	1,508,400	-	1,508,400	-
Federal National Mortgage Association	3,032,040	2,023,910	1,008,130	-
Certificates of Deposit	299,950	299,950	-	-
Commercial paper	2,951,995	2,951,995	-	-
Local Agency Investment Fund (LAIF)	6,619,337	6,619,337	-	-
San Diego County Investment Pool	1,549,639	1,549,639	-	-
Held by bond trustee:				
Money market funds	2,825,925	2,825,925	-	-
Total	<u>\$ 22,840,311</u>	<u>18,285,496</u>	<u>4,554,815</u>	<u>-</u>

***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 actual rating as of year end for each investment type.

Credit ratings of investments as of June 30, 2009 were as follows:

<u>Investment Types</u>	<u>Total</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rated as of Year End</u>		
				<u>AAA</u>	<u>AA+</u>	<u>Not Rated</u>
Federal Farm Credit Banks	\$ 1,039,685	N/A	-	1,039,685	-	-
Federal Home Loan Bank	2,034,375	AA+	-	2,034,375	-	-
Federal Home Loan Mortgage Corporation	2,014,355	AA+	-	2,014,355	-	-
Federal National Mortgage Association	2,020,630	AA+	-	2,020,630	-	-
Certificates of Deposit	449,973	N/A	-	449,973	-	-
Corporate Notes	1,504,000	A1	-	1,504,000	-	-
Local Agency Investment Fund (LAIF)	8,010,821	N/A	-	-	-	8,010,821
San Diego County Investment Pool	3,814,915	N/A	-	-	-	3,814,915
Held by bond trustee:						
Money market funds	2,850,796	N/A	2,850,796	-	-	-
	<u>\$ 23,739,550</u>		<u>2,850,796</u>	<u>9,063,018</u>	<u>-</u>	<u>11,825,736</u>

**Vallecitos Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended June 30, 2009 and 2008**

**(2) Cash and Investments, continued**

Credit ratings of investments as of June 30, 2008 were as follows:

Investment Types	Total	Minimum Legal Rating	Exempt From Disclosure	Rated as of Year End		
				AAA	AA+	Not Rated
U.S. Treasury bills	\$ 994,425	N/A	994,425	-	-	-
Federal Home Loan Bank	3,058,600	AA+	-	3,058,600	-	-
Federal Home Loan Mortgage Corporation	1,508,400	AA+	-	1,508,400	-	-
Federal National Mortgage Association	3,032,040	AA+	-	3,032,040	-	-
Certificates of Deposit	299,950	N/A	-	299,950	-	-
Commercial paper	2,951,995	AA+	-	-	2,951,995	-
Local Agency Investment Fund (LAIF)	6,619,337	N/A	-	-	-	6,619,337
San Diego County Investment Pool	1,549,639	N/A	-	1,549,639	-	-
Held by bond trustee:						
Money market funds	2,825,925	N/A	2,825,925	-	-	-
	<u>\$ 22,840,311</u>		<u>3,820,350</u>	<u>9,448,629</u>	<u>2,951,995</u>	<u>6,619,337</u>

**Concentration of Credit Risk**

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

Issuer	2009		2008	
	Reported Amount	Portfolio Percentage	Reported Amount	Portfolio Percentage
Federal Home Loan Bank	\$ 2,034,375	9%	3,058,600	13%
Federal National Mortgage Association	2,020,630	9%	3,032,040	13%
Federal Home Loan Mortgage Corp	2,014,355	8%	1,508,400	7%
Federal Farm Credit Banks	1,039,685	4%	-	0%

**(3) Accounts Receivable**

The balance at June 30, consists of the following:

	2009	2008
Accounts receivable – water and wastewater sales and services	\$ 3,597,328	4,261,607
Allowance for uncollectible accounts	(13,850)	(23,260)
Accounts receivable – water sales, net	<u>\$ 3,583,478</u>	<u>4,238,347</u>

**Property Tax Receivable**

Taxes and assessments receivable of \$1,091,134 and \$1,138,596 have been reduced by an allowance for estimated uncollectible taxes of \$14,791 and \$17,485 at June 30, 2009 and 2008, respectively.

**Vallecitos Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended June 30, 2009 and 2008**

**(4) Capital Assets**

Changes in capital assets for 2009 were as follows:

	<u>Balance 2008</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2009</u>
Non-depreciable assets:				
Land	\$ 4,744,508	-	-	4,744,508
Construction-in-process	<u>75,565,571</u>	<u>120,356,420</u>	<u>(185,127,598)</u>	<u>10,794,393</u>
Total non-depreciable assets	<u>80,310,079</u>	<u>120,356,420</u>	<u>(185,127,598)</u>	<u>15,538,901</u>
Depreciable assets:				
Water transmission and distribution system	143,604,722	32,415,391	(12,031)	176,008,082
Wastewater system	69,281,405	35,755,025	-	105,036,430
Buildings	14,898,399	-	-	14,898,399
Transportation equipment	2,712,792	542,953	-	3,255,745
Field and shop equipment	9,905,106	238,591	-	10,143,697
Office equipment	<u>1,153,335</u>	<u>286,544</u>	<u>-</u>	<u>1,439,879</u>
Total depreciable assets	<u>241,555,759</u>	<u>69,238,504</u>	<u>(12,031)</u>	<u>310,782,232</u>
Accumulated depreciation and amortization:				
Water transmission and distribution system	(34,142,107)	(3,836,597)	7,404	(37,971,300)
Wastewater system	(23,358,037)	(1,717,250)	-	(25,075,287)
Buildings	(3,128,248)	(482,245)	-	(3,610,493)
Transportation equipment	(1,717,797)	(269,550)	-	(1,987,347)
Field and shop equipment	(5,953,158)	(720,454)	-	(6,673,612)
Office equipment	<u>(892,276)</u>	<u>(71,556)</u>	<u>-</u>	<u>(963,832)</u>
Total accum depr. and amort.	<u>(69,191,623)</u>	<u>(7,097,652)</u>	<u>7,404</u>	<u>(76,281,871)</u>
Total depreciable assets, net	<u>172,364,136</u>	<u>62,140,852</u>	<u>(4,627)</u>	<u>234,500,361</u>
Total capital assets, net	<u>\$ 252,674,215</u>	<u>182,497,272</u>	<u>(185,132,225)</u>	<u>250,039,262</u>

In 2009, major capital assets additions during the year include the Meadowlark Treatment Plant Expansion and the Twin Oaks Reservoir. A significant portion of the District's transmission and distribution systems mains and pipelines rehabilitation were constructed by the District and transferred out of construction-in-process upon completion of these various projects.

**Vallecitos Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended June 30, 2009 and 2008**

**(4) Capital Assets, continued**

Changes in capital assets for 2008 were as follows:

	<u>Balance 2007</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2008</u>
Non-depreciable assets:				
Land	\$ 4,674,034	70,474	-	4,744,508
Construction-in-process	<u>74,144,173</u>	<u>17,800,593</u>	<u>(16,379,195)</u>	<u>75,565,571</u>
Total non-depreciable assets	<u>78,818,207</u>	<u>17,871,067</u>	<u>(16,379,195)</u>	<u>80,310,079</u>
Depreciable assets:				
Water transmission and distribution system	136,404,221	7,275,009	(74,508)	143,604,722
Wastewater system	66,185,578	3,095,827	-	69,281,405
Buildings	14,898,399	-	-	14,898,399
Transportation equipment	2,645,268	67,524	-	2,712,792
Field and shop equipment	7,121,336	2,783,770	-	9,905,106
Office equipment	<u>1,116,742</u>	<u>86,031</u>	<u>(49,438)</u>	<u>1,153,335</u>
Total depreciable assets	<u>228,371,544</u>	<u>13,308,161</u>	<u>(123,946)</u>	<u>241,555,759</u>
Accumulated depreciation and amortization:				
Water transmission and distribution system	(31,065,669)	(3,114,426)	37,988	(34,142,107)
Wastewater system	(21,753,675)	(1,604,362)	-	(23,358,037)
Buildings	(2,799,589)	(328,659)	-	(3,128,248)
Transportation equipment	(1,453,907)	(263,890)	-	(1,717,797)
Field and shop equipment	(5,356,501)	(596,657)	-	(5,953,158)
Office equipment	<u>(867,131)</u>	<u>(25,145)</u>	<u>-</u>	<u>(892,276)</u>
Total accum depr. and amort.	<u>(63,296,472)</u>	<u>(5,933,139)</u>	<u>37,988</u>	<u>(69,191,623)</u>
Total depreciable assets, net	<u>165,075,072</u>	<u>7,375,022</u>	<u>(85,958)</u>	<u>172,364,136</u>
Total capital assets, net	<u>\$ 243,893,279</u>	<u>25,246,089</u>	<u>(16,465,153)</u>	<u>252,674,215</u>

In 2008, major capital assets additions during the year include the Phase V expansion at Encina Wastewater Authority, North Twin Oaks Reservoir #2, City of Carlsbad road improvement projects, sewer mains, Meadowlark Treatment Plant Expansion, Enterprise Resource Planning System and North Twin Oaks reservoirs. A significant portion of the District's transmission and distribution systems mains and pipelines rehabilitation were constructed by the District and transferred out of construction-in-process upon completion of these various projects.

**Vallecitos Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended June 30, 2009 and 2008**

**(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>2007</u>	<u>2008</u>	<u>2009</u>
<b>District Financed:</b>			
SM interceptor - SM Blvd/Discovery	\$ 3,317,754	3,323,653	3,350,972
40 mg Twin Oaks Reservoir	42,577	2,145,587	1,056,710
San Elijo Road Facilities	641,204	641,279	641,279
Finance & Customer Information Systems	303,323	733,626	640,131
ERP Phase II	-	151,064	495,631
Discovery St Sewer Replacement	121,592	254,986	386,329
Water & Sewer Master Plan	-	-	348,949
SDCWA N Access Road	-	-	348,639
Meadowlark Tank #3	244,671	300,043	300,196
Meadowlark Plant expansion design	-	-	158,677
Meadowlark Tank Refurbishment	79,546	106,880	110,457
24" Recycled Water Dist Main	-	-	109,554
Meadowlark Plant Expansion	28,551,828	32,248,741	-
Twin Oaks Reservoir	14,580,065	17,462,404	-
North Twin Oaks reservoir 2 & 3 San Marcos Mtn / Merriam Mtn	3,087,902	5,642,223	-
Twin Oaks reservoir number 2	3,455,664	3,472,808	-
Automated meter reading conversion	1,944,232	1,876,596	-
Lift Station #3	1,854,380	1,854,406	-
Wulff Reservoir	959,936	1,026,298	-
Vactor	-	326,167	-
MXU Installations	58,718	125,712	-
Facility/Maintenance data management system	2,236,337	105,044	-
Land outfall replacement 24" & 54" Laurels to Carillo Ranch	2,596,117	-	-
Wulff Pump Station - Upgrade	1,897,260	-	-
North Twin Oaks pump station upgrade	1,588,819	-	-
Miscellaneous road improvements	280,847	-	-
<b>Subtotal - District Financed</b>	<b>\$ 67,842,772</b>	<b>71,797,517</b>	<b>7,947,524</b>
<b>Developer Financed:</b>			
San Elijo Hills 1530 Zone Reservoir	\$ 145,020	145,265	145,265
Merriam Mtn / Stonegate WS Study	105,038	114,290	115,607
Rancho Santalina plan	43,704	577,340	-
Oceanside-Escondido rail project-railroad right of way & CSUSM loop	323,472	352,625	-
San Elijo PH 3 & 5 Onsite	92,976	145,912	-
Altmann Subdivision	106,127	106,127	-
La Costa Ridge 2.3 / 2.5 & Street Improvements	425,252	-	-
Las Posas widening - Las Posas drainage Grand to Mission	221,781	-	-
<b>Subtotal - Developer Financed</b>	<b>\$ 1,463,370</b>	<b>1,441,559</b>	<b>260,872</b>
<b>Various Other Projects</b>	<b>\$ 4,838,031</b>	<b>2,326,495</b>	<b>2,585,997</b>
<b>Total</b>	<b>\$ 74,144,173</b>	<b>75,565,571</b>	<b>10,794,393</b>

**Vallecitos Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended June 30, 2009 and 2008**

**(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, 2009, the Member Agencies have the following approximate ownership interest:

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

The latest available financial statements of EWA, dated June 30, 2009 and 2008, are available directly from EWA (6200 Avenida Encinas, Carlsbad, California 92009), and show the following:

	<u>2009</u>	<u>2008</u>
Total assets	\$ 129,616,982	106,498,723
Total liabilities	<u>7,773,645</u>	<u>6,441,743</u>
Total net assets	<u>\$ 121,843,337</u>	<u>100,056,980</u>
Increase(decrease) in net assets	<u>\$ 21,786,357</u>	<u>27,773,086</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, 2009, the following amounts are due to the District:

<u>Fiscal Year</u>	<u>Principal Amount</u>
2010	\$ 91,971
2011	97,029
2012	102,365
2013	107,996
2014	113,935
2015-2018	<u>521,948</u>
Total	1,035,244
Current portion	<u>(91,971)</u>
Non-current portion \$	<u><u>943,273</u></u>

**Vallecitos Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended June 30, 2009 and 2008**

**(7) Debt Issuance Costs**

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

The debt issuance costs, net balances are as follows:

The balance at June 30, consists of the following:	<u>2009</u>	<u>2008</u>
Bond issuance costs	\$ 635,294	657,983
Debt issuance costs	58,448	-
Accumulated amortization	<u>(25,473)</u>	<u>(22,689)</u>
Debt issuance costs, net	<u>\$ 668,269</u>	<u>635,294</u>

**(8) Deferred Charges from Debt Retirement**

The deferred charges from debt retirement balance relate to the defeasance costs of the District's 1998 Twin Oaks Certificates of Participation. The balance is being amortized over a twenty-six year period.

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

The balance at June 30, consists of the following:	<u>2009</u>	<u>2008</u>
Deferred charges from debt retirement	\$ 218,424	227,920
Accumulated amortization	<u>(9,497)</u>	<u>(9,496)</u>
Deferred charges from debt retirement, net	<u>\$ 208,927</u>	<u>218,424</u>

**(9) Long-term Debt**

***2005 Certificates of Participation***

On June 30, 2005, the District issued \$66,700,000 in Water and Wastewater Enterprise Certificates of Participation (Series 2005A COPs). The proceeds of the issue are being used to prepay the 1998 Twin Oaks Reservoir Certificates of Participation and to complete the construction of a second buried pre-stressed 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 bear interest at a variable rate with principal maturities from 2007 to 2036.

**Vallecitos Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended June 30, 2009 and 2008**

**(9) Long-term Debt, continued**

The balance at June 30, net of unamortized discount is as follows:

	<u>2008</u>	<u>Additions</u>	<u>Principal Pmts Amortization</u>	<u>2009</u>
2005 Series A COP	\$ 63,800,000	-	(1,255,000)	62,545,000
Add: Bond Premium	1,649,121	-	(58,897)	1,590,224
Less: Unamortized Discount	(433,140)	-	15,469	(417,671)
Total	<u>65,015,981</u>	<u>-</u>	<u>(1,298,428)</u>	<u>63,717,553</u>
Less: current portion	(1,255,000)			(1,305,000)
Long-term portion	<u>\$ 63,760,981</u>			<u>62,412,553</u>

Annual debt service payments are as follows:

<u>Fiscal Year</u>		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$	1,305,000	3,091,588	4,396,588
2011		1,360,000	3,039,388	4,399,388
2012		1,420,000	2,981,588	4,401,588
2013		1,485,000	2,921,238	4,406,238
2014		1,565,000	2,846,988	4,411,988
2015-2019		9,055,000	12,999,737	22,054,737
2020-2024		11,800,000	10,375,000	22,175,000
2025-2029		15,225,000	7,011,112	22,236,112
2030-2034		14,120,000	3,173,788	17,293,788
2035-2036		<u>5,210,000</u>	<u>394,000</u>	<u>5,604,000</u>
Total	\$	<u>62,545,000</u>	<u>48,834,427</u>	<u>111,379,427</u>
Less: current portion		<u>(1,305,000)</u>		
Non-current portion	\$	<u>61,240,000</u>		

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.

**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% (1.59% at June 30, 2009). Principal payments of \$200,000 plus interest are payable semi-annually and maturing in 2028.

**Vallecitos Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended June 30, 2009 and 2008**

**(9) Long-term Debt, continued**

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

The balance at June 30, net of unamortized discount is as follows:

	<u>2008</u>	<u>Additions</u>	<u>Principal Pmts</u>	<u>2009</u>
2008 UBOC loan	\$ -	8,000,000	(200,000)	7,800,000
Total	<u>-</u>	<u>8,000,000</u>	<u>(200,000)</u>	<u>7,800,000</u>
Less: current portion	-			(400,000)
Long-term portion	<u>\$ -</u>			<u>7,400,000</u>

Annual debt service payments are as follows:

<u>Fiscal Year</u>		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$	400,000	171,865	571,865
2011		400,000	171,865	571,865
2012		400,000	171,865	571,865
2013		400,000	171,865	571,865
2014		400,000	171,865	571,865
2015-2019		2,000,000	859,324	2,859,324
2020-2024		2,000,000	859,324	2,859,324
2025-2029		<u>1,800,000</u>	<u>759,070</u>	<u>2,559,070</u>
Total	\$	7,800,000	<u>3,337,042</u>	<u>11,137,042</u>
Less: current portion		<u>(400,000)</u>		
Non-current portion	\$	<u>7,400,000</u>		

**(10) Net Investment in Capital Assets**

The balance at June 30, consists of the following:

	<u>2009</u>	<u>2008</u>
Investment in Encina Wastewater Authority capital assets	\$ 35,343,836	33,621,939
Capital assets not being depreciated	15,538,901	80,310,079
Net capital assets being depreciated	234,500,363	172,364,136
Certificates of participation – current portion	(1,305,000)	(1,255,000)
Loan payable - UBOC - current portion	(400,000)	-
Portion of loan payable attributable to spent proceeds	(7,400,000)	-
Portion of COPs attributable to spent proceeds	<u>(61,107,553)</u>	<u>(65,331,875)</u>
Net investment in capital assets	<u>\$ 215,170,547</u>	<u>219,709,279</u>

**Vallecitos Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended June 30, 2009 and 2008**

**(11) Unrestricted Net Assets**

Unrestricted net assets are comprised of the following:

	<b>2009</b>	<b>2008</b>
Non-spendable net assets:		
Inventories	\$ 1,033,855	529,503
Prepaid expenses	260,409	261,768
Debt issuance costs, net of amortization	668,271	635,294
Deferred charges from debt retirement	208,927	218,424
Total non-spendable net assets	2,171,462	1,644,989
Spendable net assets:		
Unrestricted	19,235,514	18,293,938
Total spendable net assets	19,235,514	18,293,938
Total unrestricted net assets	\$ 21,406,976	19,938,927

**(12) Deferred Compensation Savings Plan**

For the benefit of its employees, the District participates in two 457 Deferred Compensation Programs (Programs). The purpose of these Programs is to provide deferred compensation for public employees that elect to participate in the Program. Generally, eligible employees may defer receipt of a portion of their salary until termination, retirement, death or unforeseeable emergency. Until the funds are paid or otherwise made available to the employee, the employee is not obligated to report the deferred salary for income tax purposes.

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. Accordingly, the District is in compliance with this legislation. Therefore, these assets are not the legal property of the District, and are not subject to claims of the District's general creditors. Market value of all plan assets held in trust by the District's two deferred compensation plans at June 30, 2009 and 2008 amounted to \$1,362,659 and \$1,377,958, respectively.

The District has implemented GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. Since the District has little administrative involvement and does not perform the investing function for this plan, the assets and related liabilities are not shown on the statement of net assets.

**(13) Defined Benefit Pension Plan**

***Plan Description***

The Agency 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.

**Vallecitos Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended June 30, 2009 and 2008**

**(13) Defined Benefit Pension Plan, continued**

***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. The Agency makes these contributions required of Agency employees on their behalf and for their account. Also, the Agency is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The required employer contribution rates are equal to the annual pension costs (APC) percentage of payroll for fiscal years 2009, 2008 and 2007 as noted below. The contribution requirements of the plan members are established by State statute, and the employer contribution rate is established and may be amended by CalPERS. For fiscal years 2009, 2008 and 2007, the Agencies annual contributions for the CalPERS plan were equal to the Agencies required and actual contribution for each fiscal year as follows:

***Three Year Funding Information:***

<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>
2007	\$ 1,159,400	100%	-	19.688%
2008	1,163,896	100%	-	19.299%
2009	1,275,874	100%	-	18.692%

**(14) Post Employment Benefits**

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

The total expense incurred for these benefits for retired employees for the year ended June 30, 2009 and 2008 was \$136,877 and \$119,791, respectively.

***Other Post-Employment Benefits Obligation***

***Plan Description***

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

Employees are eligible OPEB participants upon reaching age 50 with a minimum five years of eligible PERS service with the District. Board members are also eligible to participate. Eligible retirees and board members may enroll in any of the plans available through the ACWA Program or in an Aetna HMO plan provided by the District. The District's Resolution #788 establishes the authority for the plan. The activity and liability from the OPEB plan are included in these financial statements.

**Vallecitos Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended June 30, 2009 and 2008**

**(14) Post Employment Benefits, continued**

***Funding Policy***

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

***Annual OPEB Cost***

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

The balance at June 30, consists of the following:	<b>2009</b>	<b>2008</b>
Annual required contribution	\$ 513,329	491,368
Interest on net post employment benefits payable obligation	28,623	14,063
Adjustment to annual required contribution	(46,159)	(21,650)
Annual post employment benefits payable obligation cost (expen:	495,793	483,781
Contributions made:		
Retired employees post employment medical benefit payments	(136,837)	(119,791)
<b>Increase in net post employment benefits payable obligation</b>	<b>358,956</b>	<b>363,990</b>
Post employment benefits payable, net – beginning of year	715,565	351,575
Post employment benefits payable, net – end of year	\$ 1,074,521	715,565

***Funded Status of the Plan***

The most recent valuation (dated July 1, 2006) includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of \$3,678,171. There are no plan assets because the District funds on a pay-as-you-go basis and maintains reserves equal to the remaining net OPEB obligation. The covered payroll (annual payroll of active employees covered by the plan) for the year ended June 30, 2009 is \$8,154,171. The ratio of the unfunded actuarial liability to annual payroll covered is 45%.

***Required Supplemental Information – Schedule of Funding Progress***

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/2009	\$ -	3,678,171	3,678,171	0.00%	\$ 8,154,171	45.11%

***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 Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2007	\$ 470,948	25.35%	\$ 351,575
June 30, 2008	484,730	24.91%	715,565
June 30, 2009	499,009	28.07%	1,074,521

**Vallecitos Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended June 30, 2009 and 2008**

**(14) Post Employment Benefits, continued**

***Actuarial Methods and Assumptions***

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

The District's valuation uses the Projected Unit Credit actuarial cost method to project the Annual Required Contribution and a 4% investment return assumption. The high rate of annual health care cost increases experienced in recent years is assumed to gradually decrease, 8% in 2009, 7% in 2010, 6% in 2011, and 5.5% in 2012. A level dollar amortization of the Unfunded Actuarial Accrued Liability is used over a closed 30-year period.

**(15) 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, 2009, 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 \$1,000,000, combined single limit at \$1,000,000 per occurrence. The District purchased additional excess coverage layers: \$45 million for general, auto and public officials liability, which increases the limits on the insurance coverage noted above.

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 \$50 million per occurrence, subject to a \$10,000 deductible per occurrence.
- Boiler and machinery coverage for the replacement cost up to \$50 million per occurrence, subject to various deductibles depending on the type of equipment.
- Public officials personal liability up to \$15 million each occurrence, with an annual aggregate of \$45 million per each elected/appointed official to which this coverage applies, subject to the terms, with a deductible of \$1,000 per claim.
- Workers' compensation insurance up to California statutory limits for all work related injuries/illnesses covered by California law.

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, 2009 and 2008. 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, 2009 and 2008.

**Vallecitos Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended June 30, 2009 and 2008**

**(16) Segment Information**

**Condensed Statement of Net Assets**

	<b>2009</b>			<b>2008</b>
	<b>Water</b>	<b>Sewer</b>	<b>Total</b>	<b>Total</b>
<b>Assets:</b>				
Current assets	18,793,498	10,979,438	29,772,936	28,877,858
Non-current assets	2,701,150	-	2,701,150	3,424,895
Capital assets, net	155,705,144	129,677,954	285,383,098	286,296,154
<b>Total assets</b>	<b>177,199,792</b>	<b>140,657,392</b>	<b>317,857,184</b>	<b>318,598,907</b>
<b>Liabilities:</b>				
Current liabilities	6,337,568	3,865,619	10,203,187	14,114,919
Non-current liabilities	37,507,502	33,568,972	71,076,474	64,665,946
<b>Total liabilities</b>	<b>43,845,070</b>	<b>37,434,591</b>	<b>81,279,661</b>	<b>78,780,865</b>
<b>Net assets:</b>				
Invested in capital assets, net of related debt	119,399,081	95,771,466	215,170,547	219,709,279
Restricted for future capital facilities	-	-	-	169,836
Unrestricted	13,955,641	7,451,335	21,406,976	19,938,927
<b>Total net assets</b>	<b>133,354,722</b>	<b>103,222,801</b>	<b>236,577,523</b>	<b>239,818,042</b>

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

	<b>2009</b>			<b>2008</b>
	<b>Water</b>	<b>Sewer</b>	<b>Total</b>	<b>Total</b>
<b>Revenues:</b>				
Operating revenues	22,963,840	11,942,043	34,905,883	33,451,819
Non-operating revenues	2,011,907	1,426,703	3,438,610	4,698,085
<b>Total revenues</b>	<b>24,975,747</b>	<b>13,368,746</b>	<b>38,344,493</b>	<b>38,149,904</b>
<b>Expenses:</b>				
Operating expenses	23,334,633	10,428,071	33,762,704	30,464,448
Depreciation and amortization	4,825,700	2,271,958	7,097,658	5,933,135
Non-operating expenses	1,895,512	1,487,305	3,382,817	1,073,597
<b>Total expenses</b>	<b>30,055,845</b>	<b>14,187,334</b>	<b>44,243,179</b>	<b>37,471,180</b>
<b>Net income/(loss) before capital contributions</b>	<b>(5,080,098)</b>	<b>(818,588)</b>	<b>(5,898,686)</b>	<b>678,724</b>
Capital contributions	816,520	1,841,647	2,658,167	3,709,193
<b>Change in net assets</b>	<b>(4,263,578)</b>	<b>1,023,059</b>	<b>(3,240,519)</b>	<b>4,387,917</b>
Net assets, beginning of year	137,618,300	102,199,742	239,818,042	235,430,125
Net assets, end of year	133,354,722	103,222,801	236,577,523	239,818,042

**Condensed Statement of Cash Flows**

	<b>2009</b>			<b>2008</b>
	<b>Water</b>	<b>Sewer</b>	<b>Total</b>	<b>Total</b>
<b>Net cash provided (used) by:</b>				
Operating activities	(301,549)	1,673,199	1,371,650	2,802,862
Non-capital financing activities	1,462,645	1,270,387	2,733,032	2,779,108
Capital and related financing activities	(1,156,758)	(3,088,937)	(4,245,695)	(25,911,477)
Investing activities	544,003	3,066,818	3,610,821	14,631,940
<b>Net cash provided</b>	<b>548,341</b>	<b>2,921,467</b>	<b>3,469,808</b>	<b>(5,697,567)</b>
Cash and cash equivalents, beginning of year	10,253,669	988,967	11,242,636	16,940,203
Cash and cash equivalents, end of year	10,802,010	3,910,434	14,712,444	11,242,636

**Vallecitos Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Years Ended June 30, 2009 and 2008**

**(17) Commitments and Contingencies**

***Construction Contracts***

The District has a variety of agreements with private parties relating to the installation, improvement or modification of water facilities and distribution systems within its service area. The financing of such construction contracts is being provided primarily from the District's replacement reserves and advances for construction. The District has committed to approximately \$1,744,366 in open construction contracts as of June 30, 2009. These include the following:

<u>Project Name</u>	<u>Contract[s]</u>	<u>Payment to Date</u>	<u>Balance</u>
24" Recycled Water Distribution Main	\$ 416,007	53,910	362,097
Discovery St. Sewer	1,382,269	-	1,382,269
	<u>\$ 1,798,276</u>	<u>53,910</u>	<u>1,744,366</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.

## **Supplementary Information Section**



**Vallecitos Water District**  
**Combining Schedule of Revenue, Expenses, and Changes in Net Assets**  
**For the Year Ended June 30, 2009 with Comparative Totals for the Year Ended June 30, 2008**

	<b>2009</b>			<b>2008 Total</b>
	<b>Water</b>	<b>Wastewater</b>	<b>Total</b>	
Operating Revenue	\$ 22,963,840	\$ 11,942,043	\$ 34,905,883	\$ 33,451,819
Operating Expenses:				
Water Division	23,334,633	-	23,334,633	21,783,404
Wastewater division	-	10,428,071	10,428,071	8,907,059
Depreciation	4,825,700	2,271,958	7,097,658	5,933,135
Total Operating Expenses	<u>28,160,333</u>	<u>12,700,029</u>	<u>40,860,362</u>	<u>36,623,598</u>
Operating Income (Loss)	<u>(5,196,493)</u>	<u>(757,986)</u>	<u>(5,954,479)</u>	<u>(3,171,779)</u>
Nonoperating Revenues:				
Property taxes	1,438,705	1,246,865	2,685,570	2,984,878
Investment income	521,240	146,245	667,485	1,470,087
Annexation fees	25,601	34,793	60,394	257,048
Other	26,361	-	26,361	-
Total Nonoperating Revenues	<u>2,011,907</u>	<u>1,427,903</u>	<u>3,439,810</u>	<u>4,712,013</u>
Nonoperating Expenses:				
Interest	1,895,512	295,163	2,190,675	1,073,597
Change in Encina Joint Venture	-	1,192,142	1,192,142	(226,015)
Other	-	1,200	1,200	13,928
Total Nonoperating Expenses	<u>1,895,512</u>	<u>1,488,505</u>	<u>3,384,017</u>	<u>861,510</u>
Capital Contributions	<u>816,520</u>	<u>1,841,647</u>	<u>2,658,167</u>	<u>3,709,193</u>
Total Change in Net Assets	<u>(4,263,578)</u>	<u>1,023,059</u>	<u>(3,240,519)</u>	<u>4,387,917</u>

**Vallecitos Water District**  
**Schedule of Operating Expenses – Water Division**  
**For the Years Ended June 30, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
Purchased Water	\$ 14,480,887	\$ 13,917,279
Pumping:		
Labor	112,916	83,856
Materials and supplies	14,535	21,563
Outside repair	6,467	12,706
Power	342,955	357,671
Total Pumping	<u>476,873</u>	<u>475,796</u>
Water Quality and Treatment:		
Labor	185,206	100,835
Materials and supplies	30,156	23,102
Outside Repair	40,235	43,388
Power	227	491
Total Water Treatment	<u>255,824</u>	<u>167,816</u>
Tanks and Reservoirs:		
Labor	311,786	183,886
Materials and supplies	25,438	34,872
Outside repair	47,945	60,724
Telemetry and power	9,206	4,613
Total Tanks and Reservoirs	<u>394,375</u>	<u>284,095</u>
Transmission and Distribution:		
Labor	674,716	540,493
Materials and supplies	173,224	107,558
Outside repair	147,598	139,653
Telemetry and power	8,713	55,642
Total Transmission and Distribution	<u>1,004,251</u>	<u>843,346</u>
Services:		
Labor	98,060	85,582
Materials and supplies	39,503	51,024
Outside repair	36,664	89,056
Total Services	<u>174,227</u>	<u>225,662</u>
Meters:		
Labor	314,107	132,462
Materials and supplies	23,067	9,992
Outside repair	1,190	3,519
Total Meters	<u>338,364</u>	<u>145,973</u>

Continued on next page

**Vallecitos Water District**  
**Schedule of Operating Expenses – Water Division, continued**  
**For the Years Ended June 30, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
Backflow Prevention:		
Labor	49,741	35,195
Materials and supplies	159	83
Total Backflow Prevention	<u>49,900</u>	<u>35,278</u>
Customer Accounts:		
Labor	426,851	337,287
Materials and supplies	88,335	87,271
Uncollectible accounts	61,735	51,682
Outside Repair	15,819	316
Total Customer Accounts	<u>592,740</u>	<u>476,556</u>
Equipment and Vehicles:		
Labor, fuel and repairs	105,637	200,931
Materials and supplies	158,425	42,196
Allocated to wastewater division	(49,528)	(96,675)
Total Equipment and Vehicles	<u>214,534</u>	<u>146,452</u>
Building and Grounds:		
Labor	201,299	216,503
Materials and supplies	59,378	45,461
Outside Repair	119,891	104,377
Power	46,890	66,216
Allocated to wastewater division	(90,996)	(169,474)
Total Building and Grounds	<u>336,462</u>	<u>263,083</u>
Engineering:		
Labor	1,146,489	796,435
Materials and supplies	16,702	32,135
Outside Repair	12,082	78,887
Allocated to wastewater division	(183,667)	(362,983)
Total Engineering	<u>991,606</u>	<u>544,474</u>
Safety:		
Labor	87,739	61,542
Materials and supplies	13,625	36,766
Safety support	15,011	12,517
Allocated to wastewater division	(22,589)	(44,217)
Total Safety	<u>93,786</u>	<u>66,608</u>

Continued on next page

**Vallecitos Water District**  
**Schedule of Operating Expenses – Water Division, continued**  
**For the Years Ended June 30, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
Information Technology		
Labor	193,830	135,392
Travel	439	-
Dues and subscriptions	240	-
Meetings and seminars	1,280	-
Other materials and supplies	40,557	53,264
Phone	13,085	-
Equipment rent	11,518	-
Outside Repair	142,800	116,310
Allocated to wastewater division	(71,758)	(121,951)
Total Information Technology	<u>331,991</u>	<u>183,015</u>
General and Administration:		
Salaries	1,466,680	2,151,654
Other taxes/benefits	11,418	30,895
Social security	578,719	866,123
Group insurance	1,213,633	1,602,921
Public employees' retirement	986,473	1,431,347
Workers' compensation insurance	44,822	79,464
District insurance	202,800	263,798
Director's expense	14,589	72,552
Director's fees	40,474	49,500
Public awareness	90,860	142,822
Travel	23,949	14,679
Postage	11,176	8,968
Telephone	10,348	33,511
Office supplies	55,075	59,267
Dues and subscriptions	73,122	62,891
Meetings and seminars	42,592	42,508
Office equipment repair	18,969	26,924
Legal	110,310	98,745
Auditing	23,541	22,095
Outside services	147,578	65,426
Election and annexations	3,935	1,762
Other	26,209	72,020
Administrative credits transferred	(107,587)	(466,081)
Allocated to wastewater division	(1,490,872)	(2,725,820)
Total General and Administration	<u>3,598,813</u>	<u>4,007,971</u>
Total Water Division Expenses	<u>\$ 23,334,633</u>	<u>\$ 21,783,404</u>

**Vallecitos Water District**  
**Schedule of Operating Expenses – Wastewater Division**  
**For the Years Ended June 30, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
Collection System:		
Labor	\$ 860,660	\$ 449,125
Materials and supplies	238,239	217,210
Outside repair	56,437	94,278
Power	1,564	1,564
Total Collection System	<u>1,156,900</u>	<u>762,177</u>
Lift Stations:		
Labor	83,367	60,496
Materials and supplies	29,758	6,106
Outside repair	6,084	9,424
Power	39,274	35,355
Total Lift Stations	<u>158,483</u>	<u>111,381</u>
Peroxide Station:		
Labor	11,387	8,305
Materials and supplies	481	1,860
Outside repair	126	-
Power	216	198
Telemetry	-	330
Total Peroxide Station	<u>12,210</u>	<u>10,693</u>
Industrial Waste:		
Labor	17,951	11,460
Materials and supplies	46,888	40,134
Total Industrial Waste	<u>64,839</u>	<u>51,594</u>
Encina Disposal	<u>2,517,278</u>	<u>2,102,114</u>
Meadowlark Lift Station:		
Labor	88,322	43,515
Materials and supplies	75,689	10,935
Outside repair	39,615	29,617
Power	48,301	40,460
Total Meadowlark Lift Station	<u>251,927</u>	<u>124,527</u>

Continued on next page

**Vallecitos Water District**  
**Schedule of Operating Expenses – Wastewater Division**  
**For the Years Ended June 30, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
Meadowlark Plant:		
Labor	673,864	397,625
Materials and supplies	692,087	555,002
Outside repair	191,299	102,516
Power	369,591	308,967
Telephone	6,782	4,691
Telemetry	-	479
Total Meadowlark Plant	<u>1,933,623</u>	<u>1,369,280</u>
Mahr Reservoir:		
Labor	64,112	22,064
Materials and supplies	26,824	14,707
Outside repairs	15,049	5,333
Total Mahr Reservoir	<u>105,985</u>	<u>42,104</u>
Customer Accounts:		
Labor	148,496	84,945
Materials and supplies	28,300	29,206
Uncollectible accounts	50,199	40,009
Outside services	4,897	-
Total Customer Accounts	<u>231,892</u>	<u>154,160</u>
Equipment and Vehicles:		
Labor, fuel and repairs	50,687	69,689
Materials and supplies	69,965	-
Allocated from water division	49,528	96,675
Total Equipment and Vehicles	<u>170,180</u>	<u>166,364</u>
Buildings and Grounds:		
Labor	51,603	-
Materials and supplies	2,596	-
Outside repair	123	-
Power	16,863	-
Allocated from water division	90,996	169,474
Total Buildings and Grounds:	<u>162,181</u>	<u>169,474</u>
Engineering:		
Labor	321,738	-
Allocated from water division	183,667	362,983
Total Engineering	<u>505,405</u>	<u>362,983</u>
Safety:		
Labor	25,908	-
Materials and supplies	14	-
Outside services	2,826	-
Allocated from water division	22,589	44,217
Total Safety	<u>51,337</u>	<u>44,217</u>

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**Vallecitos Water District**  
**Schedule of Operating Expenses – Wastewater Division**  
**For the Years Ended June 30, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
Information Technology		
Labor	77,019	-
Outside services	15,649	-
Allocated from water division	71,758	121,951
Total Information Technology	<u>164,426</u>	<u>121,951</u>
General and Administration:		
Salaries	792,202	148,268
Other taxes/benefits	4,110	3,732
Social security	141,905	164,139
Group insurance	287,389	258,327
Public employees' retirement	214,582	232,603
Workers' compensation insurance	6,494	20,747
District insurance	40,710	-
Director's fees	14,251	-
Travel	246	162
Dues and subscriptions	2,262	2,649
Meetings and seminars	5,846	998
Legal	54,737	-
Auditing	1,014	-
Outside services	13,036	171
Other	20,287	13,568
Transfer from water division	1,490,872	2,725,820
Administrative credits transferred	(148,538)	(257,144)
Total General and Administration	<u>2,941,405</u>	<u>3,314,040</u>
Total Wastewater Division Expenses	<u>\$ 10,428,071</u>	<u>\$ 8,907,059</u>

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# **Report on Internal Controls and Compliance**





Charles Z. Fedak, CPA, MBA  
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## **Independent Auditor's Report on Internal Control Over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

Board of Directors  
Vallecitos Water District  
San Marcos, California

We have audited the basic financial statements of the Vallecitos Water District (District) as of and for the year ended June 30, 2009 and 2008, and have issued our report thereon dated September 25, 2009. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### ***Internal Control Over Financial Reporting***

In planning and performing our audits, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control. Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.

September 25, 2009  
Cypress, California

*Charles Z. Fedak, CPA*  
*An Accountancy Corporation*