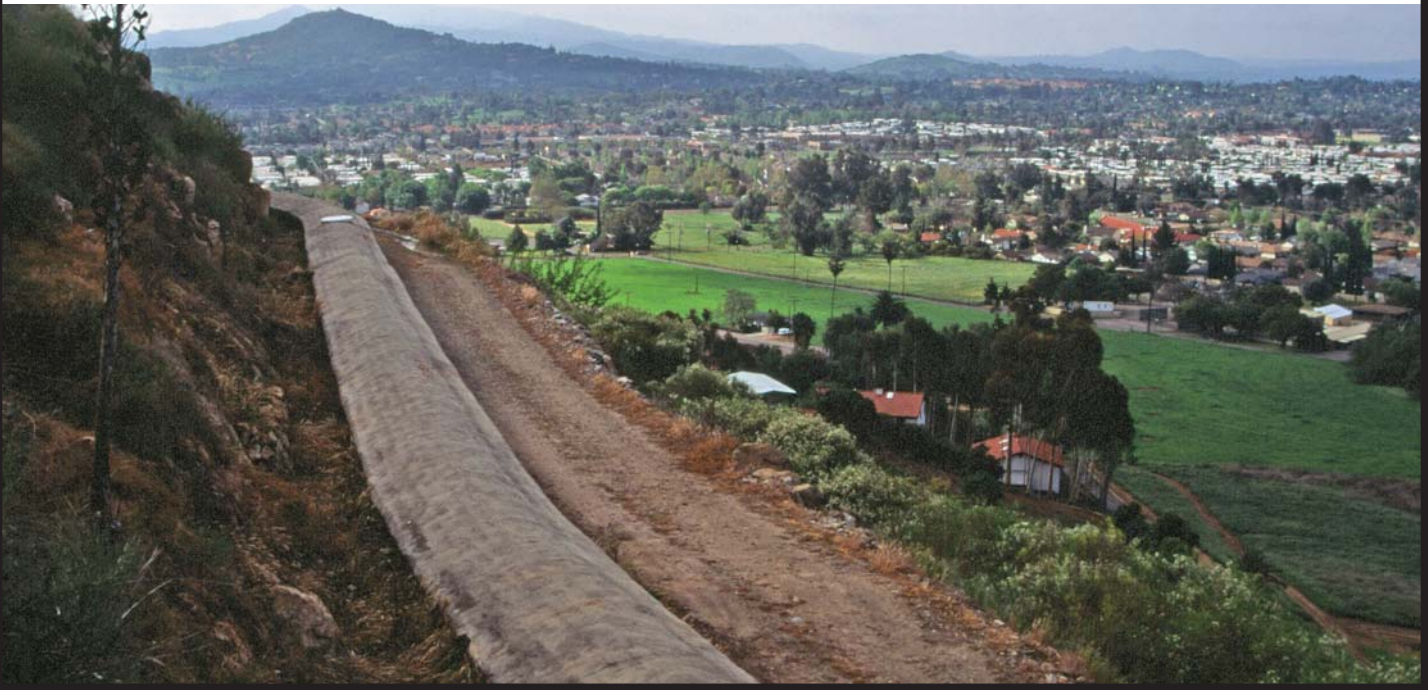




2018 ANNUAL REPORT



PROVIDING RELIABLE WATER SERVICE
SINCE 1923



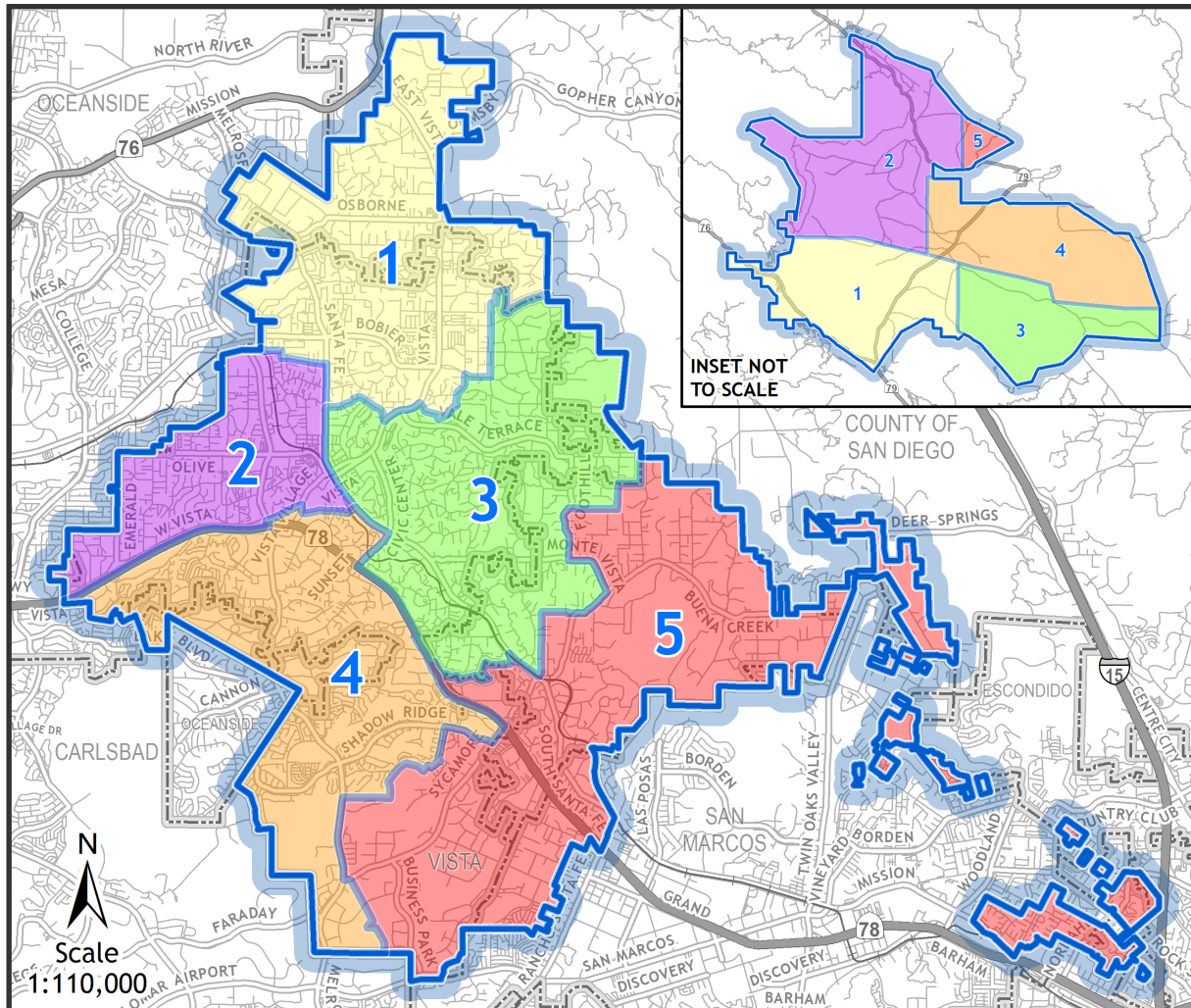


Cover photos: VID Flume - Local Water Transportation Structure
Top: Picture of the Flume being constructed in the 1920's
Bottom: Picture of the modern day completed Flume






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Division Boundary Map



DIVISION BOUNDARIES AND DIRECTORS

 1 Marty Miller	 3 Paul E. Dorey	 5 Jo MacKenzie
 2 Richard L. Vásquez	 4 Patrick H. Sanchez	

Vista Irrigation District serves more than 135,000 people through approximately 28,600 residential and business connections in Vista and portions of Escondido, Oceanside, San Marcos and unincorporated areas of San Diego County.

Vista Irrigation District

Board of Directors

Marty Miller
Division 1



Richard L. Vásquez
Division 2



Paul E. Dorey
Division 3



Patrick H. Sanchez
Division 4



Jo MacKenzie
Division 5



Board meetings are generally held on the first and third Wednesday of each month. Standing committees meet on an as needed basis. Meetings are held at the District office. Meetings are open to the public, and agendas are posted the Friday prior to the scheduled meeting. For further information about a meeting, or to request a copy of an agenda or staff report, please contact the Board Secretary at (760) 597-3128.

A Message from the Board President



Paul E. Dorey,
2018 Board President
Director, Division 3

“The District’s number one priority is to ensure that safe and reliable water is available to the residents and businesses in our service area.”

~ Paul Dorey

The past year was filled with many accomplishments, including the replacement of over two miles of aging water mains and the completion of upgrades to other critical infrastructure as well as recognitions for financial prudence, governance and transparency by state and national associations. The District also extended its best wishes in retirement to a number of long-term employees, including its General Manager, Eldon Boone.

In its continuing efforts to maintain and improve storage capacity, the District completed the rehabilitation of upper Edgehill (HP) Reservoir, the structural evaluation of Buena Creek (HB) and Pechstein reservoirs and entered into an agreement for the planning, design, and environmental services related to the replacement of the lower Edgehill (E) Reservoir. The District conducted comprehensive fire hydrant flow tests, which concluded that its water distribution system is robust. The District also made upgrades to its system monitoring equipment, allowing staff to make water system adjustments more efficiently.

The District received honors that included, for the eleventh year in a row, the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association for the District’s Comprehensive Annual Financial Reports for the fiscal year 2017. The District received recognition from the Association of California Water Agencies Joint Powers Insurance Authority for the District’s successes in reducing its claims and associated losses in the liability insurance pooled program. The District also obtained Gold Level recognition in Special District Governance from the Special District Leadership Foundation for showing its commitment to good governance, transparency, prudent fiscal policies and sound operating practices.

The Board selected Brett Hodgkiss to become the 13th General Manager in the District’s 95-year history. He began working for the District as the Administrative Services Manager in 2001 and was promoted to Assistant General Manager in 2016. Prior to working at the District, Mr. Hodgkiss was the Administrative Services Manager at the Cambria Community Services District located on the central coast of California and spent eight years in administrative positions at the City of Encinitas.

The District’s number one priority is to ensure that safe and reliable water is available to the residents and businesses in our service area. The District strives to minimize service disruptions by maintaining and replacing critical infrastructure and with prudent and strategic planning. I encourage you to contact the District to offer insights and suggestions to help us better serve you; I am confident you will find that Mr. Hodgkiss as well as the rest our District staff are dedicated and passionate about what they do and are eager to assist you, our valued customer.

A Message from the General Manager



Brett L. Hodgkiss
General Manager

“Vista Irrigation District provides water to more than 135,000 people... our dedicated employees take to heart this huge responsibility and endeavor to provide that our customers will always have safe water delivered to their taps.”

~ Brett Hodgkiss

For over 95 years, Vista Irrigation District has been providing its customers with a reliable supply of high quality water. Those living and doing business in the communities we serve can be sure we are committed to doing what it takes to deliver reliable water service at a fair price now and in the future. Keeping that commitment requires knowledgeable and skilled employees as well as a commitment from the governing Board of Directors to make investments today to secure and deliver safe, reliable water in the future.

Vista Irrigation District provides water to more than 135,000 people in the city of Vista and portions of Escondido, Oceanside, San Marcos and unincorporated areas of San Diego County. Day in and day out, our dedicated employees take to heart this huge responsibility and endeavor to provide that our customers will always have safe water delivered to their taps.

We take all steps necessary to safeguard your water supply, conducting thousands of tests for a multitude of drinking water constituents each year. These tests ensure your water meets safe drinking water standards. As reported in our 2018 Consumer Confidence Report, your water met or exceeded all Federal and State safe drinking water standards.

Vista Irrigation District continued to implement an aggressive capital improvement program, replacing aging pipelines and rehabilitating reservoirs. We also prepared an update to our Water Master Plan, which provides a comprehensive review of our water supply and distribution system and identified system improvements necessary to meet existing and future demand conditions. In the coming year, the District will be conducting a water supply planning study to assist in evaluating and managing our water resources.

Each of the above activities are designed to enhance Vista Irrigation District’s ability to serve its customers now and into the future. I encourage you to contact us to learn more about Vista Irrigation District and its operations. I look forward to working with our customers, employees and Board of Directors to continually improve the services that we provide and ensure that the Vista Irrigation District delivers reliable, high quality drinking water to residences and businesses each and every day.

SAN DIEGO COUNTY WATER AUTHORITY REPORT

The San Diego County Water Authority is the region's wholesale water provider and is responsible for the construction and maintenance of regional water storage and delivery and treatment infrastructure providing water to 24 member agencies, including Vista Irrigation District.



Brought To You By Water

San Diego County residents live in one of the most idyllic climates, enjoying endless sunshine and little rain. With a thriving \$220 billion economy, near perfect weather year-round, miles of beautiful beaches to the west, snow-capped mountains and majestic deserts to the east, the dynamic city of San Diego to the south and world-class attractions, San Diegans have it all. The San Diego County Water Authority (Water Authority) wants residents to know it's all *Brought to You By Water*.



What San Diegans love most about our region, including the high quality of life and flourishing economy, is fueled by a safe and reliable water supply. Last year, the Water Authority collaborated with its 24 member agencies and regional organizations, such as the San Diego Zoo, Stone and Karl Strauss breweries, General Dynamics NASSCO, Qualcomm, Del Rey Avocado and other local businesses to share the importance of regional water reliability. The Water Authority launched *Brought to You By Water*, an outreach and education program aimed at conveying the importance of safe and reliable water supplies to everyday lives and the local economy in summer 2018.

Each season, a different sector of the local economy was highlighted. *Brought to You By Water* kicked off the campaign with summertime events featuring an enormous beach ball celebrating regional tourism; the fall brought the focus to manufacturing; the ever-growing local craft beer and coffee brewing industry was highlighted in winter; and spring 2019 will focus on local agriculture. The Water Authority and its member agencies participated in regional events for each sector as well as produced television commercials, promoted social media and photo contests and brought the value of water center stage.



The Water Authority's *Brought to You By Water* campaign has highlighted a variety of the region's top sectors – including tourism, manufacturing and agriculture – that have been made possible by the substantial investments in water supply reliability by the Water Authority and its 24 member agencies. According to the Water Authority, direct investments in water infrastructure, such as the construction of pipelines, dams, or treatment plants, ripple throughout the entire economy by creating new jobs, expanding business opportunities, and growing industries such as tourism, healthcare, technology and defense. Those industries provide tens of thousands of jobs that help make San Diego County one of the top places to live, work and play.

The Water Authority encourages residents to learn more about how the San Diego lifestyle is *Brought to You By Water* by visiting <https://b2ubyh2o.org>. *Brought to You By Water* helps underscore the importance of continued investments in the pumps, pipelines, projects and people who deliver more than 450,000 acre-feet of water per year San Diegans need for everything from washing hotel towels and making craft brews to hosting various festivals and growing produce.



LOCAL STUDENTS WIN AWARDS

In 2018, Vista Irrigation District presented awards to three fourth-grade students and three high school seniors from the local community as winners of two separate District-sponsored contests.

Local Fourth-Graders Get Water Smart

Each year, Vista Irrigation District, in conjunction with other North County water agencies, sponsors a poster contest promoting water conservation education. The poster contest, which targets students in the fourth-grade, is designed to promote understanding of water issues in elementary schools. The theme of the contest was “Be Water Smart”.

In 2018, the District received 169 entries from students in its service area. Pictured to the right are the top three contest winner’s entries. *William Gimbel* from Tri-City Christian School won first place in the District’s contest. *Andrea Mercado* from Alamosa Park Elementary School was the District’s second place winner, and *Arielle Nolan* from Tri-City Christian School was the District’s third place winner. The top three winners received prizes and their artwork was included in the North County Water Agencies’ 2019 Water Awareness Calendar, available free of charge at the District office.



First Place Calendar Contest Winner
William Gimbel, Tri-City Christian



Second Place Calendar Contest Winner
Andrea Mercado, Alamosa Park

High School Seniors Learn About Water Supply Challenges

Vista Irrigation District also sponsors a scholarship contest. The purpose of the scholarship contest, which is open to high school seniors living or attending school within the District’s service area, is to increase the knowledge and awareness of water related issues impacting Vista Irrigation District. The District received six applications.

Dylan Soto from Vista High School received first place honors for his entry in the 2018 scholarship contest. *Maggie Cincotta* and *Bryce Thayer*, both from Mission Vista High School, were runners-up in the contest.



Third Place Calendar Contest Winner
Arielle Nolan, Tri-City Christian

Congratulations to all our 2018 winners!



California Moves Forward With New State Water-Use Efficiency Standards

On May 31, 2018, then Governor Jerry Brown signed Senate Bill 606 and Assembly Bill 1668, a pair of water-use efficiency measures intended to help California better prepare for droughts. The new regulations target water-use efficiency standards for water agencies, like Vista Irrigation District (District), and will not regulate individual customer use. Both measures require water agencies to set water use targets, which over time will dictate how much water a water agency may distribute throughout an entire service area.

What Are the New State Water-Use Efficiency Standards?

The new regulations set indoor household water use to 55 gallons per person per day (GPCD) by 2025, lowering the standards to 50 GPCD by 2030. The GPCD indoor target is one piece of a complex calculation designed to set overall (both indoor and outdoor) residential water use objectives. Performance measures will also be put in place for businesses. The residential water use objectives will be combined with the performance measures for businesses to set a water agency's target. The new targets will replace existing standards, established in 2009 of reducing statewide per capita water use by 20 percent by 2020. Over the next few years, the State, in conjunction with water agencies and other stakeholder groups, will develop outdoor water use standards to create comprehensive water-efficiency targets.

INDOOR STANDARD
(Water Code §10609.4)

Residential Indoor Standard:

- 55 GPCD until 2025
- 52.5 GPCD from 2025 to 2030
- 50 GPCD after 2030.

- DWR, in coordination with the State Water Board, will conduct investigations and they may jointly recommend a standard to the Legislature
- The indoor standard will be the great of the recommendation or the statutorily provided GPCD



www.water.ca.gov
www.dwr.ca.gov

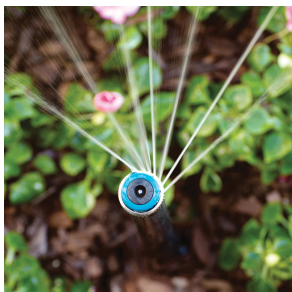
How Will I Be Impacted By the Regulations?

These laws do not impose individual mandates or fines on homeowners or businesses. The new state regulations create targets for water agencies who will have discretion in how they achieve these targets, taking into account local conditions, such as climate and water resources.



How Can I Be More Water Efficient?

The District offers a number of programs, in conjunction with its water wholesale suppliers, the Metropolitan Water District of Southern California and San Diego County Water Authority, to help customers increase water-use efficiency, including free WaterSmart Checkups and commercial and residential rebates. Visit the District's website at <https://www.widwater.org/water-conservation> or contact Water Conservation staff at (760) 597-3160 for ideas on how to manage your water consumption.



Rotating Sprinkler Nozzle Rebates



Hi-Efficiency Clothes Washer Rebates



Rain Barrel Rebates



Premium Hi-Efficiency Toilet Rebates

What is Vista Irrigation District doing?

As the State moves forward with developing and implementing indoor and outdoor water-use efficiency standards and performance measures for businesses, the District will be monitoring the State's progress and advocating for flexibility on behalf of its customers. As was learned during the last drought, a one-size-fits-all, statewide approach to implementing water-use efficiency standards doesn't work because each region has different weather conditions, water supply sources and demand characteristics; letting local water agencies work with their customers to achieve a goal/target works best. Just as it has done in the past, the District will reach out and work with its customers to meet these challenges and implement water-use efficiency measures that ensure the availability of a reliable water supply now and into the future.

WATER SUPPLY FACTS

WATER SOURCES

Vista Irrigation District's original source of water, dating back to 1926, was from Lake Henshaw. The lake was later purchased by the District, along with the 43,000 acre Warner Ranch, in 1946. However, drought conditions and population growth eventually caused the District to look for other sources of water. In 1954, the District became a member of the San Diego County Water Authority to take advantage of water imported from the Colorado River and Northern California.



Imported Water Source: Bay Delta

Over the last three decades, typically, 30 percent of the District's water has come from Lake Henshaw and 70 percent has come from purchased water sources, including the Colorado River, desalinated seawater and the Sacramento River/San Joaquin River Delta in Northern California. In fiscal year 2018, 18 percent of the District's water came from Lake Henshaw, an increase of 13 percent from the previous year. With the completion of repairs and upgrades to the Vista Flume, the channel used to deliver water from Lake Henshaw to the District's distribution system, in July 2017, the District was again able to take advantage of its local supply.



Local Water Source: Lake Henshaw
Photo credit: J. Sherwood

WATER QUALITY

Vista Irrigation District takes all steps necessary to safeguard its water supply. Each year staff conducts more than 12,000 tests for over 75 drinking water contaminants, ensuring that the District's water met or exceeded all Federal and State safe drinking water standards.

In July of each year, the District makes available its Consumer Confidence Report, also known as the Water Quality Report. The report provides a snapshot of the quality of water provided during the past year. Included are details about what is in your water and how it compares to prescribed standards. It also provides answers to commonly asked questions, such as "what affects the taste of my water?"

The District is committed to providing its customers with information about drinking water because informed customers are the District's best customers. If customers have questions or concerns about water quality, they may contact the District and speak with the water distribution supervisor.

2018 CONSUMER CONFIDENCE REPORT

VD tests the drinking water quality for many constituents as required by State and Federal regulations. This report shows the results of our monitoring for the period of January 1, 2017 through December 31, 2017.

WHAT'S THIS REPORT ABOUT?

We are pleased to present our Consumer Confidence Report (CCR), also known as the Water Quality Report. We take all steps necessary to safeguard your water supply, conducting more than 12,000 tests for over 75 drinking water contaminants. This report provides a snapshot of the quality of water we provided last year. Included are details about what is in your water, how it compares to prescribed standards, and how it compares to state standards. We are committed to providing you with information because informed customers are our best customers.

IF YOU HAVE ANY QUESTIONS OR CONCERNS REGARDING THE INFORMATION PRESENTED IN THIS REPORT, PLEASE CONTACT DEAN FARIS, WATER DISTRIBUTION SUPERVISOR AT (760) 937-3143. THIS REPORT IS ALSO AVAILABLE ON OUR WEBSITE UNDER THE PUBLICATIONS TAB AT WWW.VIDWATER.COM.

WHERE DOES MY WATER COME FROM?

The Vista Irrigation District (VID) uses four sources for your drinking water. The first one is local water, which originates from the watershed and well fields located near Lake Henshaw. VID owns the 43,000-acre Warner Ranch which encompasses the lake and monitors activities that could contaminate it. Water from Lake Henshaw is transferred to Lake Wohlford via a canal originally constructed in the 1930s. Once the water reaches the Escondido-Vista Water Treatment Plant (EWVTP), it is treated and disinfected to protect you against microbial contaminants. The second water source is the Colorado River. The third source is from Northern California. The latter two, called imported water, are delivered to San Diego County and ultimately to VID via the Metropolitan Water District of Southern California (MWD) and the San Diego County Water Authority (SDCWA). Imported water may be treated at EWVTP, Water Authority's Twin Oaks Valley Water Treatment Plant in San Marcos, Coachella's Robert A. Wever Filtration Plant, or MWD's Skinner Treatment Plant in Riverside County. The fourth source is desalinated seawater from the Chula Vista "Blue" Lines Desalination Plant.

Distorted California Water Information Map
1. Local Water Source - Lake Henshaw
2. Imported Water Source - Colorado River Aqueduct
3. Imported Water Source - Colorado River Aqueduct
4. Desalinated Seawater - Chula Vista Desalination Plant

Este informe contiene información muy importante sobre su agua potable. Comuníquese con Vista Irrigation District para obtener una copia de este reporte en Español. Llame al (760) 937-3143.

2017 WATER QUALITY MONITORING RESULTS								
Parameter	Units	Federal or State MCL (MRDL)	PHG (MCLG) (MRDLG)	Range Average	Treatment Plant Effluents			DLR
					Escondido-Vista Water Treatment Plant	Skinner, Twin Oaks Valley, & Wever Water Treatment Plants Combined Effluents	Carlsbad Desalination Plant	
Inorganic Constituents - Primary Standards								
Arsenic (As)	ug/L	10	0.004	Range Average	ND 2.00	2.00 ND	ND	2 Erg g/lts per day
Fluoride (F) Treatment Related	mg/L	2	1	Range Average	0.69 - 0.83 0.78	0.5 - 0.9 0.47	0.55 - 0.90 0.746	0.1 Erg wat
Nitrate (N)	mg/L	10	10	Range Average	ND - 0.44 0.3	0.2 - 0.4 0.4	ND	0.4 Res use
Inorganic Constituents - Secondary Standards (Aesthetic Standards)								
Aluminum (Al)	ug/L	200	NS	Range Average	ND ND	53 - 450 115	ND	50 Res prec eros
Color	units	15	NS	Range Average	1 - 1 1	ND - 3 1.00	ND	- Dec natl, mat

Excerpts from the 2018 Consumer Confidence Report (CCR). The 2019 CCR will be available July 1, 2019.

WATER SUPPLY FACTS

WATER INFRASTRUCTURE



*Pictured:
Mainline Replacement on Rosario in Vista*

Replacement of aging infrastructure has always been a high priority for the District. In 1995, the Board of Directors initiated an on-going Main Replacement Program (Program) with the goal of replacing aging pipelines before they reach the end of their useful life and become a maintenance liability. The formalized Program has allowed pipe replacements to be prioritized based on a variety of factors, including age of line, pipe material, leak history, and input from District crews who evaluate every line's condition at the time repairs are being made.

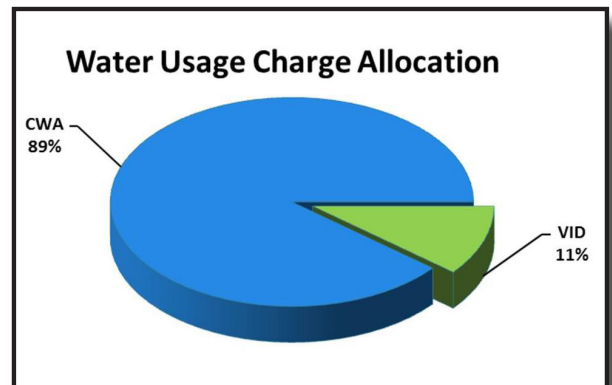
Since its inception, the District has allocated \$27.1 million to this Program, which has allowed the replacement of 32.5 miles of older pipe ranging in size from 4 to 20 inches. This year over 12,400 feet (or nearly 2.5 miles) of pipeline was installed or replaced. The Board of Directors approved another \$2.75 million for this Program as part of the budget for fiscal year 2019.

The District's continued investments in the Main Replacement Program as well as system upgrades and other infrastructure improvements, including the rehabilitation and replacement of reservoirs, help the District meet its goal of providing a reliable and high quality water supply to its customers.

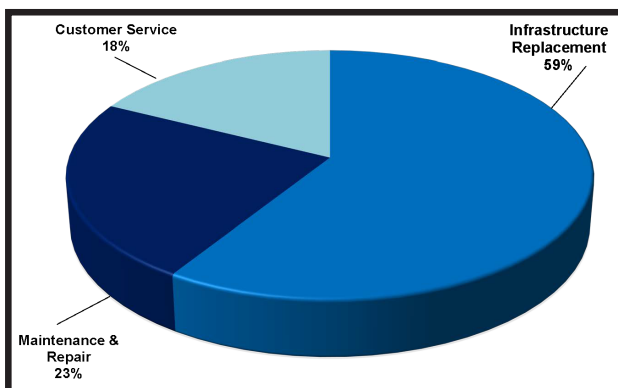
WATER RATES AND CHARGES

Approximately 11% of the revenue generated by water usage charges is utilized by Vista Irrigation District to cover operating and maintenance expenses. The remaining 89% is used to pay the San Diego County Water Authority (Water Authority) for water purchases.

The Water Authority is responsible for supplying water to 24 member agencies within San Diego County. Not simply a water provider, the Water Authority is also responsible for the construction and maintenance of regional storage, delivery and treatment infrastructure necessary to ensure the reliable delivery of water to local water agencies like Vista Irrigation District.



VID Service Charge Components



Vista Irrigation District's service charge helps pay the District's fixed costs, which exist regardless of the amount of water pumped and delivered. Fixed costs continue without regard to the amount of water that a customer uses, and are sometimes called "readiness-to-serve" charges because they are incurred as part of keeping the water system ready to deliver water to any customer at a moment's notice. The largest component of the service charge recovers the cost of replacing the District's aging water system infrastructure.



For more information about Vista Irrigation District's water supply as well as an electronic copy of the latest Consumer Confidence Report visit the District's website, www.vidwater.org. Additionally, you can find out more information about District services, rates, water conservation, and recent announcements. Customers can also download publications, such as the District's direct payment program application and engineering standard specifications and drawings.

Employee Service



30 Years

Jim Green



20 Years

Yolanda Salazar



15 Years

Abe Gomez



Rick Martinez



Mark Meza



Luis Ramos



Kris Sliffe



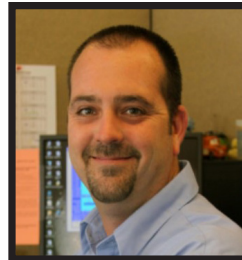
Marian Schmidt



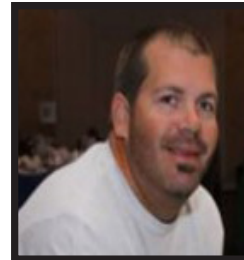
Annually the Board of Directors recognizes employees who have reached major milestones in their careers with the District. Longevity is a hallmark of Vista Irrigation District and this year was no exception. The pictured employees received service awards commemorating their dedicated service with the District.

10 Years

Greg Bryant



Pat Smith



Jeanette Bradshaw

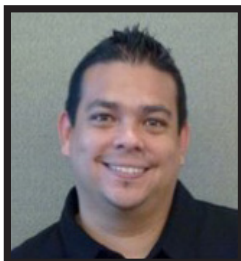


5 Years

Ryan Carlson



Eric Contreras



Chris Craghead



Steve Frey



Jeff McKinley





District Demographics

DISTRICT DEMOGRAPHICS

Distribution System

This table shows the District's treated water storage capacity by reservoir. The elevation numbers represent each reservoir's height above mean sea level.

RESERVOIR	SIZE AND TYPE	EXISTING CAPACITY	FLOOR ELEVATIONS	TOP WATER ELEVATIONS
		(Million Gallons)	(Feet)	(Feet)
Lupine Hills	Prestressed Concrete – 137' Dia. – 31' High	3.4	537.0	568.0
Pechstein	Prestressed Concrete – 355' Dia. - 27' High	20.0	810.0	837.0
Deodar	Prestressed Concrete - 86' Dia. - 30' High	1.3	869.0	899.0
San Luis Rey	Concrete - 156' x 136' x 25' High	3.1	540.0	565.0
Virginia Pl. (A)	Concrete - 100' Dia. - 13' High	0.8	695.0	708.0
Summit Trail (C)	Concrete - 100' Dia. - 13' High	0.8	625.0	638.0
Edgehill (E)	Concrete - 96' Dia. - 12' High	1.5	741.0	753.0
Cabrillo Cir. (E-1)	Concrete - 90' Dia. - 13' High	0.6	546.0	559.0
Rockhill (MD)	Concrete - 55' Dia. - 10' High	0.2	886.0	896.0
Edgehill (HP)	Prestressed Concrete – 160' Dia. – 32' High	4.7	943.0	975.0
Buena Creek (HB)	Prestressed Concrete – 160' Dia. – 30' High	4.5	951.0	981.0
Elevado (H)	Prestressed Concrete – 160' Dia. – 36' High	5.4	774.0	810.0
Total		46.3		

Water Transmission Facilities

Escondido Canal and Intake	Carrying Capacity: 50 CFS	VID rights = 1/2
Vista Main Canal (Flume)	Carrying Capacity: 30 CFS	Twelve miles of conduit from the Escondido-Vista Water Treatment Plant to Pechstein Reservoir

Water Meters

This table shows the total number of meters in service by the use type.

Residential (Single and Multi-Family)	24,268
Commercial/Industrial	1,584
Irrigation	934
Agricultural	568
Fire Service (Fire Sprinklers)	1,244
Governmental	90
Total	28,688

VID Pipelines

This table shows miles of pipeline in the District's distribution system by size and material type.

4" to 12" AC	246 miles
14" to 36" AC	17 miles
2.5" to 12" PVC	97 miles
14" to 24" PVC	3 miles
4" to 12" Steel	38 miles
14" to 36" Steel	25 miles
All other materials larger than 4"	3 miles
Total	429 miles

Water Equivalents

- 1 Acre Foot equals 325,900 gallons
- 1 Acre Foot equals 43,560 cubic feet
- 1 Cubic Foot equals 7.48 gallons
- 1 Cubic Foot per Second (CFS) equals 449 gallons per minute and in 24 hours equals 1.983-acre feet

DISTRICT DEMOGRAPHICS

Performance of Distribution Systems

(Fiscal Year 2017–2018)

This table shows water delivered to the District (from purchased and local sources) versus how much was delivered to customers. Losses encompass water that was delivered to the District but not sold to customers. Water losses can be attributable to a number of factors, including pipeline leaks and breaks, theft, hit fire hydrants and fire suppression activities.

	<u>Acre Feet</u>	
	<u>Water In</u>	<u>Water Out</u>
Local Water Received at Escndido-Vista Water Treatment Plant (Henshaw Water)	3,174	
Received from San Diego Aqueduct (Purchased)	14,857	
Metered to VID users		16,929
Losses		1,102
Total	18,031	18,031

Lake Henshaw Properties

Warner Ranch:

43,402 acres (68 square miles)

Semi-Hydraulic Earth Fill Dam:

Height 110 feet, Length 1,950 feet

Groundwater Development:

16 active production wells and
91,000 feet of conduit

Reservoir (Lake Henshaw):

51,774 acre feet capacity;
2,219 acres in area, 203 square mile
watershed

Lake Henshaw Performance

This table presents an annual accounting of various sources of inflows, such as run-off and pumped water from the Warner Basin aquifer, and outflows of water from the lake.

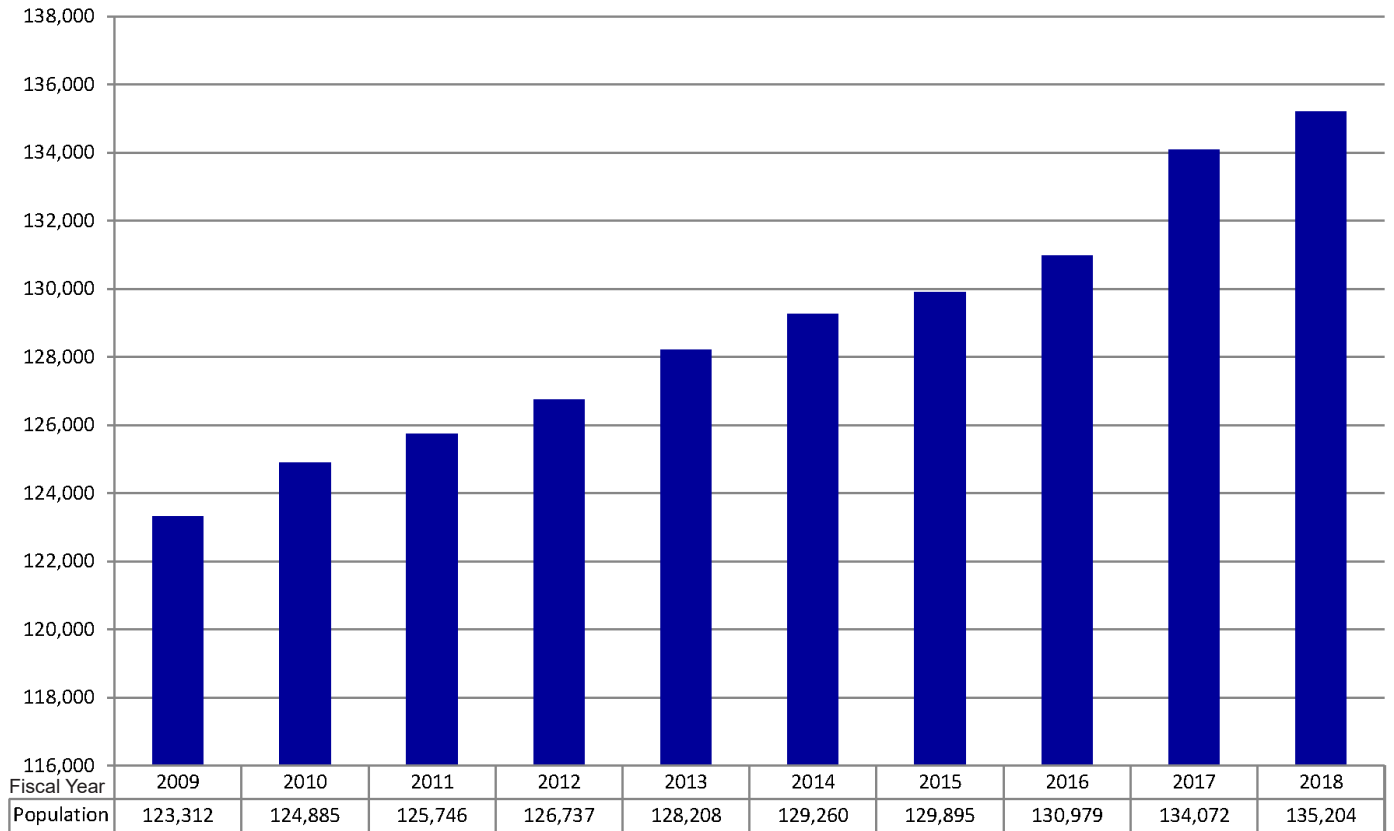
	<u>Acre Feet</u>
Total Storage July 1, 2017	11,602
Less Release	(6,383)
Less Evaporation	(5,040)
Less Spill	0
Plus Pumped Water	2,640
Plus (minus) other gains/(losses)	887
Total Storage July 1, 2018	3,706

* Computed Runoff plus Rainfall, Conserved Evaporation, and Bank Storage.

DISTRICT DEMOGRAPHICS

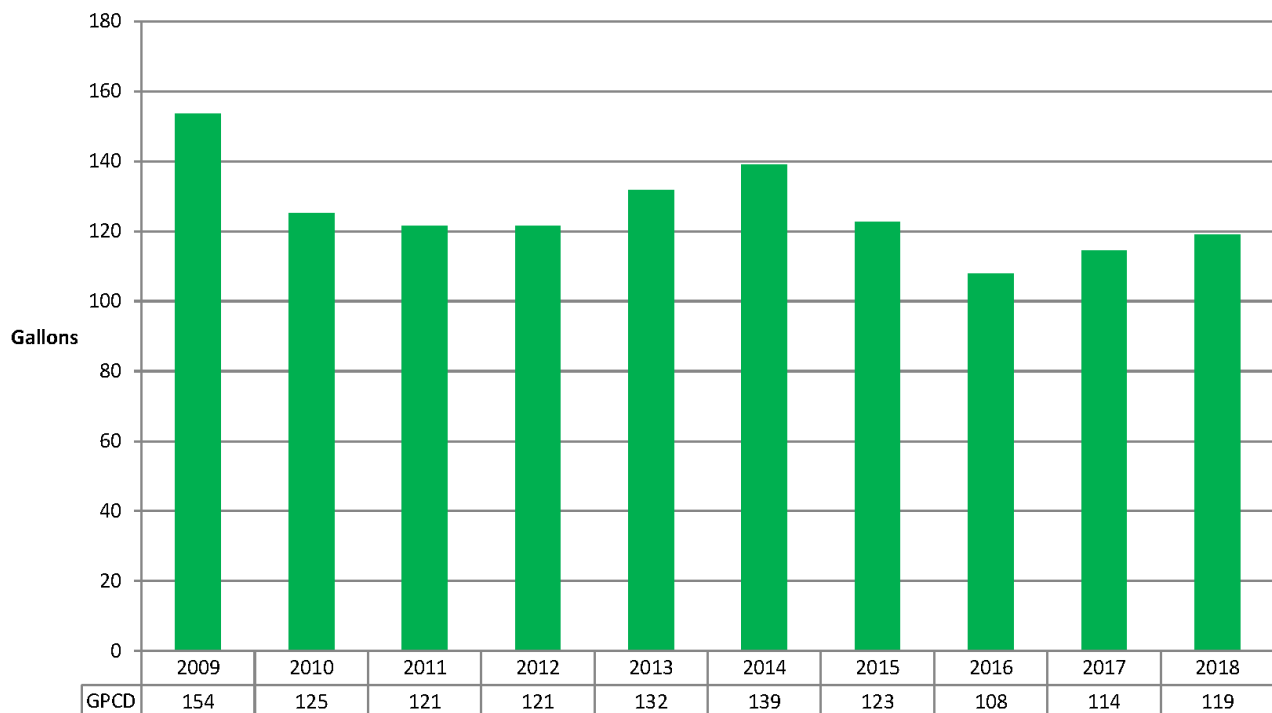
Population

The graph depicts population growth within the District's service area, which is comprised of the city of Vista as well as portions of San Marcos, Escondido, Oceanside and unincorporated areas of the county. Source: San Diego Association of Governments.



Average Daily Water Use Per Person

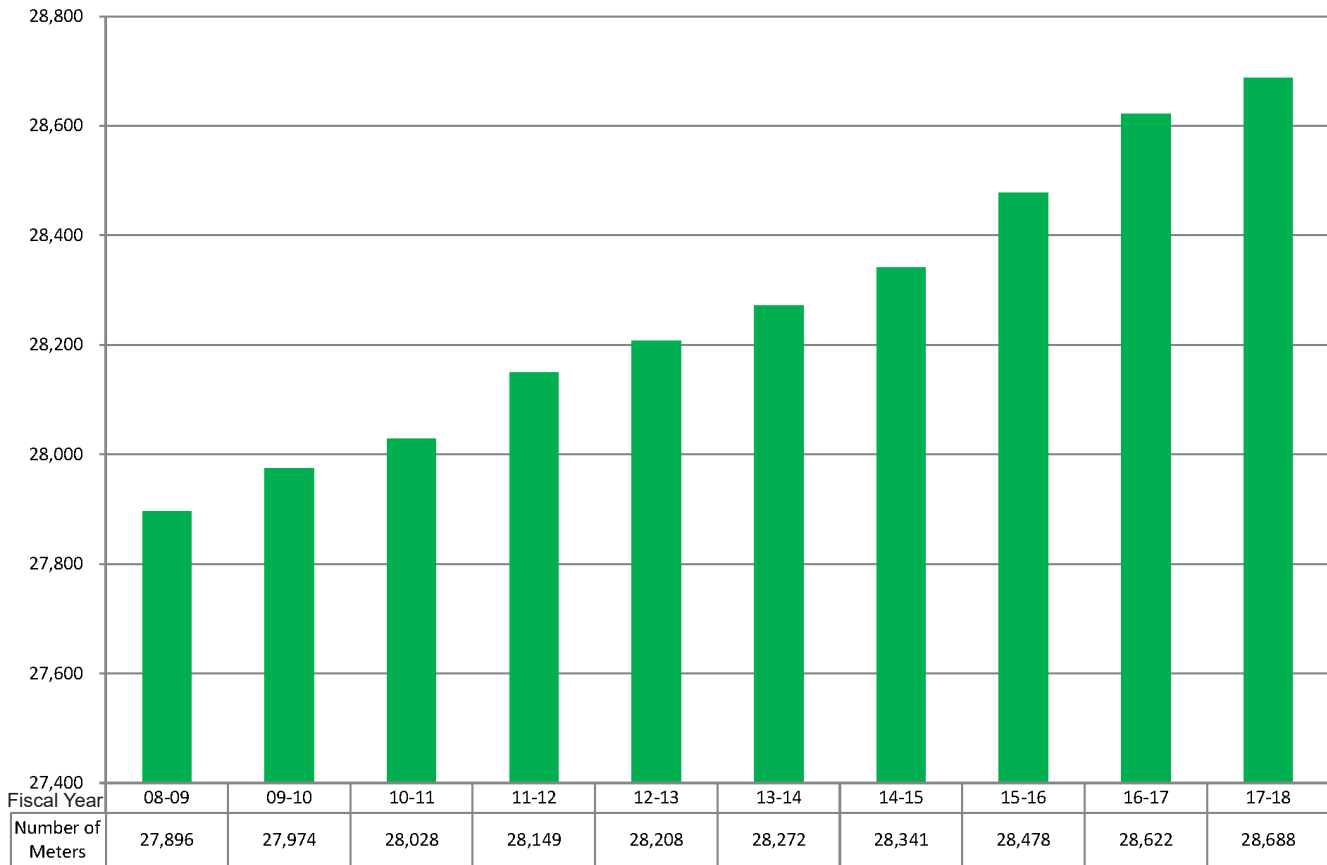
SBX 7-7 requires retail water agencies to achieve a 20% reduction in per capita water use by December 31, 2020 (referred to as "20 X 2020"). The District's 2020 target is 142 GPCD. The District's estimated daily per capita water use in 2018 was 119 gallons per capita per day (GPCD), which is 23 GPCD less than its 2020 target.



DISTRICT DEMOGRAPHICS

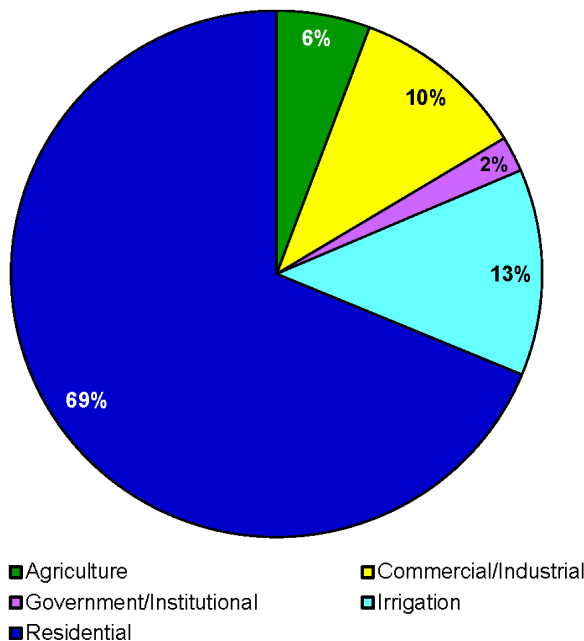
Meters in Use

This graph shows the increase in the number of meters in use over a ten year period.



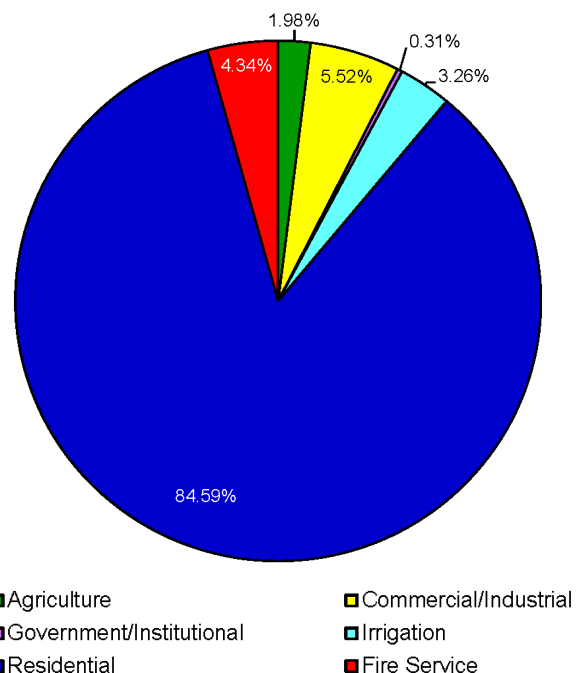
Water Delivered by Use Type

This graph shows how much water is delivered for different uses. As illustrated, a majority of the water delivered to District customers (69%) is for residential use. The balance is delivered for irrigation, commercial/industrial (business), agriculture and governmental/institutional (parks, libraries, schools) uses.



Meters in Service by Use Type

This graph shows meters in service by use. Almost 85% of the District's 28,688 meters are used to supply water to single-family residences.

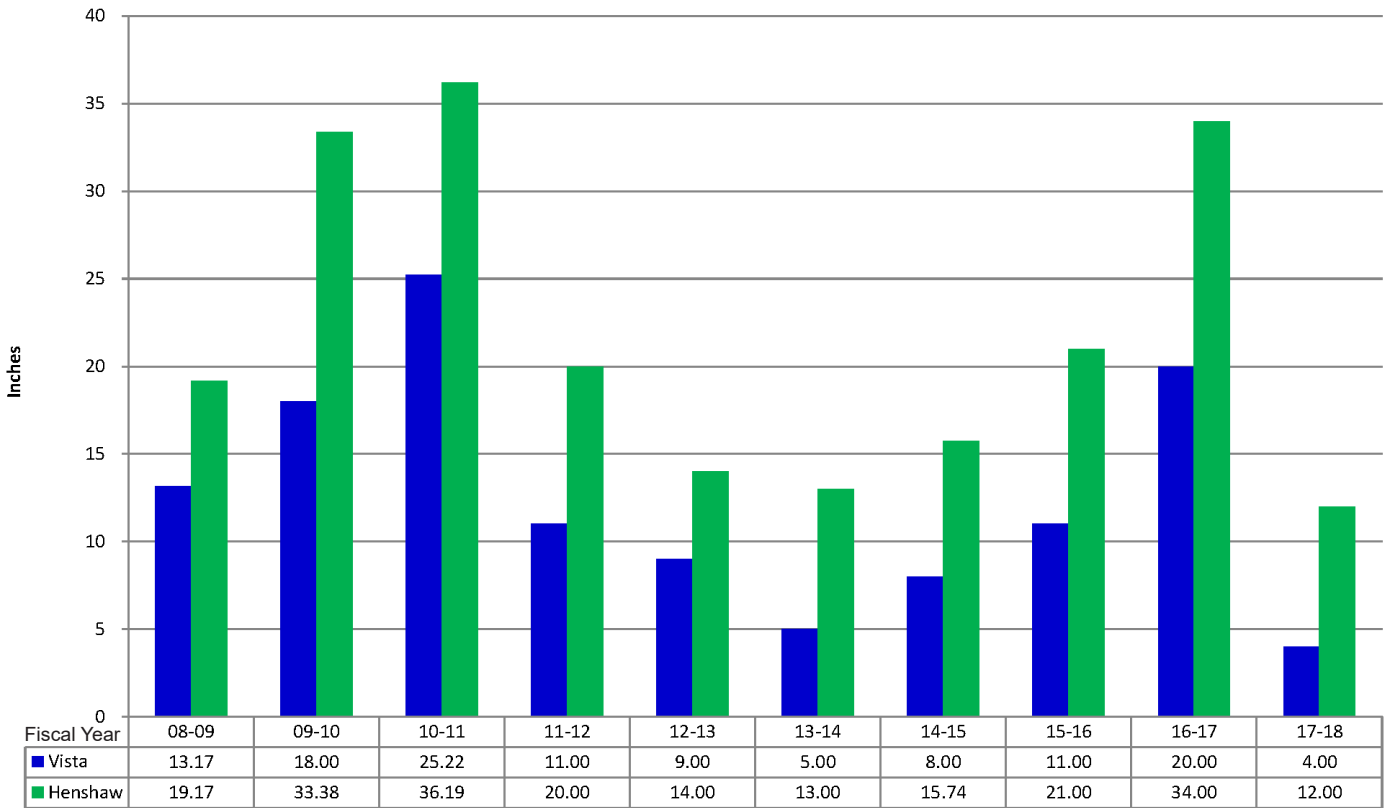


DISTRICT DEMOGRAPHICS

Rainfall

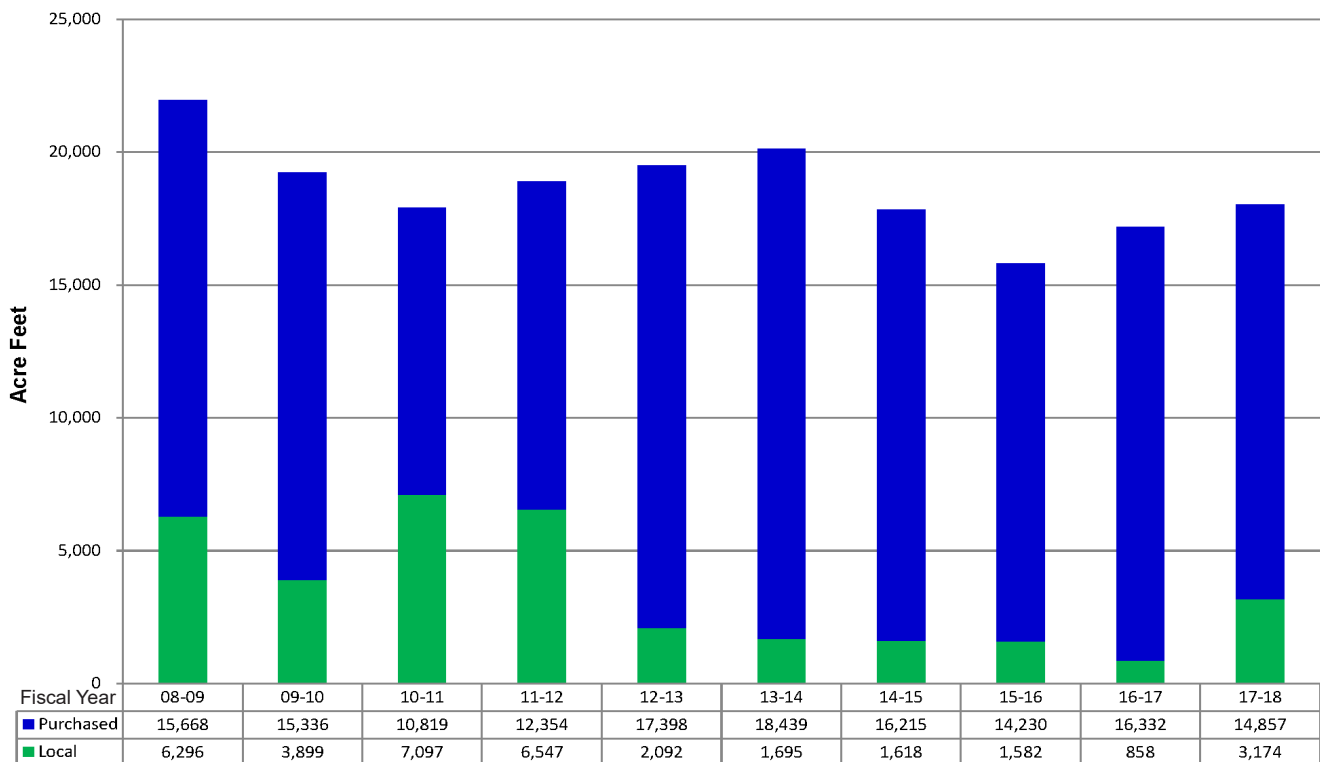
(July 1 - June 30)

This graph shows rainfall totals for Vista and the Lake Henshaw area over the past ten years.



Water Received

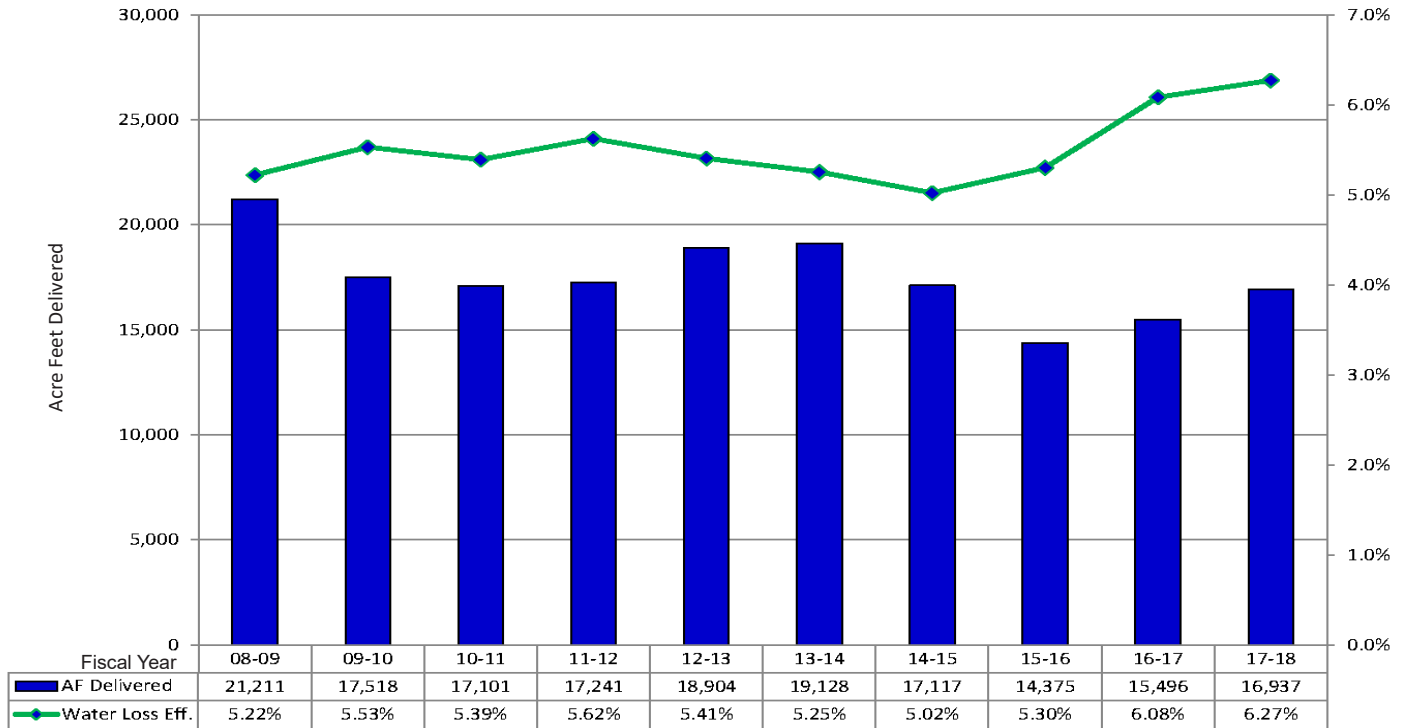
The District receives water from Lake Henshaw (local) and from Northern California, the Colorado River and desalinated sea water (purchased). This graph shows how much of each source was received in a given year.



DISTRICT DEMOGRAPHICS

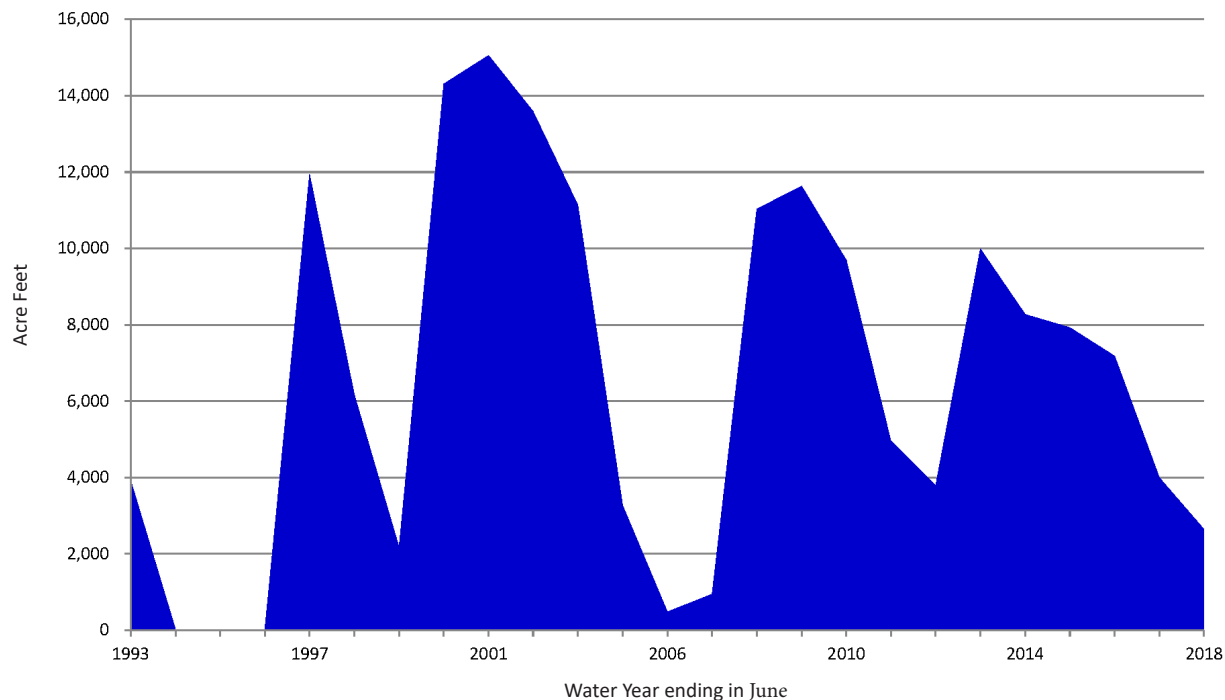
Distribution Efficiency

The Distribution Efficiency graph shows water delivered to customers (from purchased and local sources) which is represented by the blue bars. The green line shows historical water losses. Losses encompass water that was delivered to the District but not sold to customers. Water losses can be attributable to a number of factors, including pipeline leaks and breaks, under-registering meters, evaporation, theft, hit fire hydrants and fire suppression activities.



Water Pumped from Warner Basin (Yearly Totals)

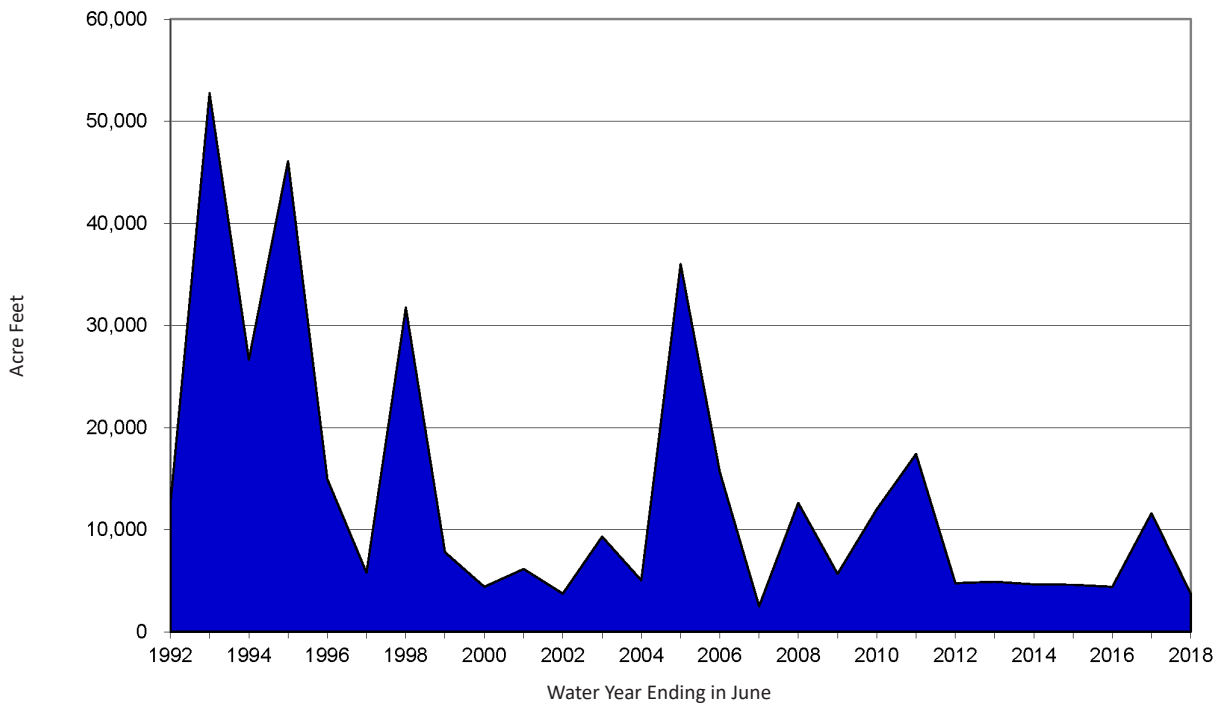
Lake Henshaw's water comes from run-off as well as pumped groundwater from the Warner Basin, which surrounds the lake. This graph shows pumped water totals from 1993 to 2018. Typically, pumped water is more heavily relied on during extended dry periods.



DISTRICT DEMOGRAPHICS

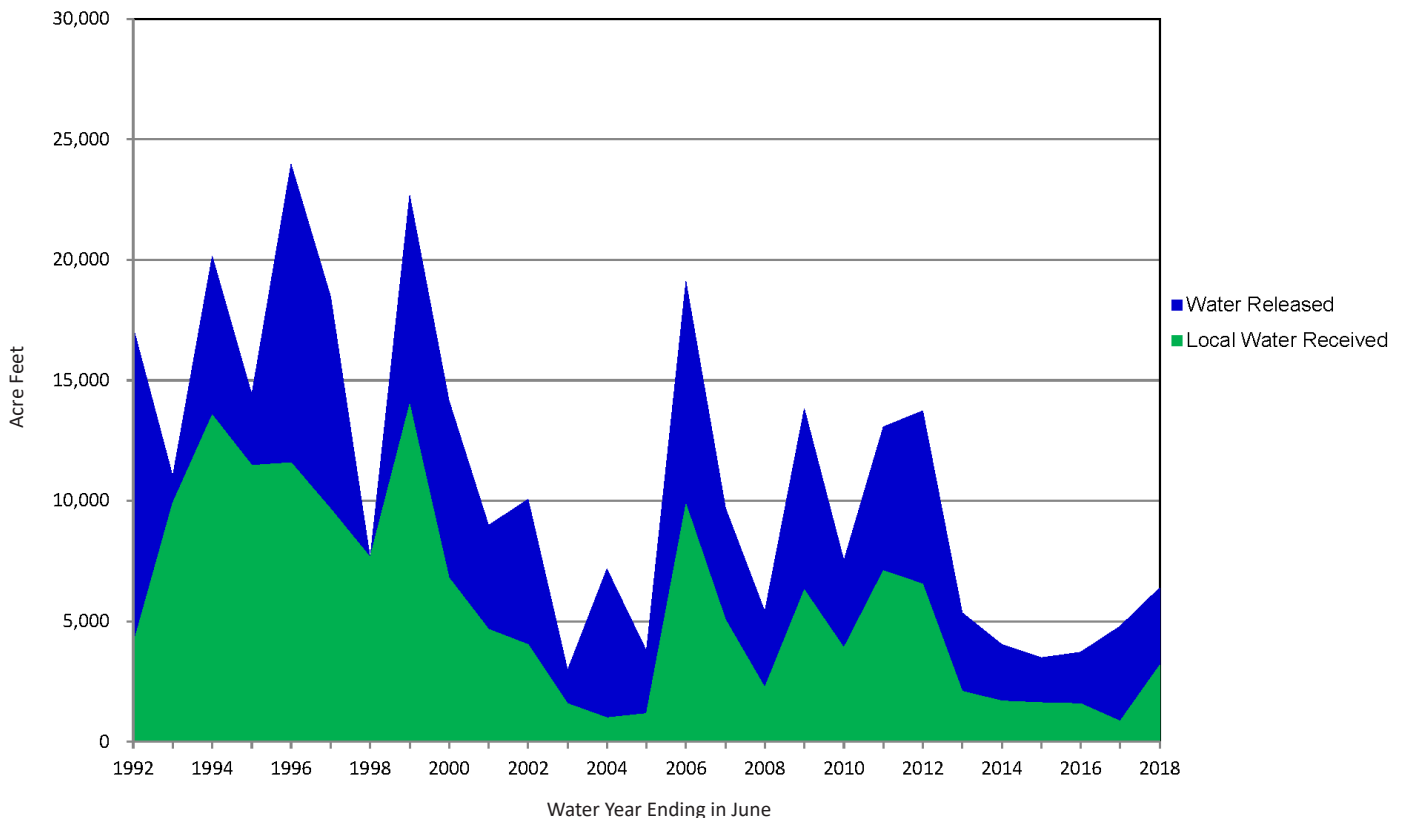
Water Stored in Lake Henshaw

Lake Henshaw's storage capacity is 51,774 acre feet. As depicted in the graph, the lake has been full once in the last 25 years; the last time the lake was full was 1993.



Water Released from Lake Henshaw versus Local Water Received

This graph compares water released from Lake Henshaw with local water received by the District. Typically, the amount of water received is less than the amount of water released because, by contract, the District must release a percentage of water to the City of Escondido and the Rincon Band of the Mission Indians.





DISTRICT FINANCIALS

Management's Discussion and Analysis

For the Year End June 30, 2018

Our discussion and analysis of the Vista Irrigation District's financial performance provides an overview of the District's financial activities for the year ended June 30, 2018. Please read it in conjunction with the District's financial statements which begin on page 26. This annual financial report consists of two parts -- Management's Discussion and Analysis (this section) and the Financial Statements.

Financial Statements

The District's financial statements include four components:

- Statement of Net Position
- Statement of Revenues, Expenses and Changes in Net Position
- Statement of Cash Flows
- Notes to Financial Statements

The statement of net position includes all of the District's assets, deferred outflows, liabilities and deferred inflows, with the difference reported as net position. Net Position is displayed in two categories:

- Net investment in capital assets
- Unrestricted

The statement of net position provides the basis for evaluating the capital structure of the District and assessing its liquidity and financial flexibility.

The statement of revenues, expenses and changes in net position presents information which shows how the District's net position changed during each year. All of the year's revenues and expenses are recorded when the underlying transaction occurs, regardless of the timing of the related cash flows. The statement of revenues, expenses and changes in net position measures the success of the District's operations during the year and determines whether the District has recovered its costs through user fees and other charges.

The statement of cash flows provides information regarding the District's cash receipts and cash disbursements during the year. This statement reports cash activity in four categories:

- Operating
- Noncapital financing
- Capital and related financing
- Investing

This statement differs from the statement of revenues, expenses and changes in net position by only accounting for transactions that result in cash receipts or cash disbursements.

Management's Discussion and Analysis

For the Year End June 30, 2018

The notes to the financial statements provide a description of the accounting policies used to prepare the financial statements and present material disclosures required by accounting principles generally accepted in the United States of America that are not otherwise present in the financial statements.

Financial Highlights

- Overall, operating revenues increased 7.0%, while operating expenses increased 1.0%.
- The District realized a \$5.3 million operating gain during the current fiscal year primarily due to increased water sales and higher water rates. Costs of purchased water were lower in the current year, due to less imported water activity, as a result of increased availability of local water.
- The District recorded a \$1.0 million prior period adjustment to increase the June 30, 2017 net position balance, as a result of an unbilled revenue accrual adjustment.
- The District implemented GASB Statement No. 75 during the current fiscal year, which requires the establishment of other post-employment benefits (OPEB) liability, deferred outflows/inflows of resources, and retiree health insurance expense according to the Statement's provisions. This resulted in a \$4.8 million prior period adjustment to decrease the June 30, 2017 net position balance, as well as the recording of \$0.5 million in net OPEB liability.

Financial Analysis of the District

Net Position - The District's overall net position increased \$7.4 million between fiscal years 2017 and 2018, from \$105.3 to \$112.7 million, primarily due to increased water sales. The net investment in capital assets increased \$4.7 million in 2018 which reflects the excess of net capital additions over the current year depreciation and dispositions.

Vista Irrigation District's Net Position (In Millions of Dollars)

	2018	2017 Restated
Current assets	\$ 43.2	\$ 34.8
Capital assets	94.6	89.9
Total Assets	137.8	124.7
Deferred outflows of resources	6.8	5.7
Current liabilities	13.2	8.9
Noncurrent liabilities	17.1	14.9
Total Liabilities	30.3	23.8
Deferred inflows of resources	1.6	1.3
Net Position:		
Net investment in capital assets	94.6	89.9
Unrestricted	18.1	15.4
Total Net Position	\$ 112.7	\$ 105.3

Management's Discussion and Analysis

For the Year End June 30, 2018

Change in Net Position – In fiscal year 2018, the District's operating revenues increased by 7.0% to \$51.8 million, and 96.1% of the District's operating revenues came from water sales. The increase in operating revenues resulted primarily due to increased water sales and higher water rates.

During fiscal year 2018, the District's operating expenses increased 1.0% to \$46.5 million primarily due to an increase in pension expense, as a result of GASB 68 valuations, and the annual payment of the PERS unfunded liability, along with an increase in contractual services relating to water treatment plant expenses.

Vista Irrigation District's Changes in Net Position (In Millions of Dollars)

	2018	2017 Restated Water Sales
Operating Revenues		
Water sales, net	\$ 49.8	\$ 45.9
Property rentals	0.8	0.8
System fees	0.7	1.0
Other services	0.5	0.7
Total Operating Revenues	51.8	48.4
Operating Expenses	46.5	46.1
Operating Income	5.3	2.3
Nonoperating Revenues (Expenses)		
Property taxes	0.5	0.4
Investment income	0.3	0.2
Loss on disposal of capital assets	-	(0.1)
Legal settlement	-	(0.1)
Total Nonoperating Revenues	0.8	0.4
Contributed Capital	1.3	1.2
Changes in Net Position	7.4	3.9
Total Net Position - beginning, as restated	105.3	106.2
Total Net Position - ending	\$ 112.7	\$ 110.1

Capital Assets

At June 30, 2018, the District had invested \$182.8 million in capital assets with \$88.1 million in accumulated depreciation. Net capital assets increased \$4.7 million as a result of capital acquisitions exceeding the annual depreciation and dispositions. During the year the District added \$7.7 million of capital assets. The largest capital additions were \$2.9 million in costs for several mainline replacement projects, \$1.9 million for reservoir rehabilitation, \$0.6 million for redevelopment project costs, and \$0.3 million for water treatment plant construction costs. This year's capital reductions included vehicles, replacement/disposals of pipelines, reservoir-related assets, computer equipment, pump station assets, and other equipment with a total historical cost of \$0.5 million. Depreciation for the year was \$3.0 million.

Management's Discussion and Analysis

For the Year End June 30, 2018

Vista Irrigation District's Capital Assets, Net (In Millions of Dollars)

	<u>2018</u>	<u>2017</u>
Land, franchises and water rights	\$ 6.0	\$ 6.0
Buildings, canals, pipelines, reservoirs and dams	83.7	76.1
Equipment	2.1	1.8
Henshaw pumping project	0.4	0.4
Construction in progress	2.4	5.6
Total Capital Assets, Net	<u>\$ 94.6</u>	<u>\$ 89.9</u>

For more detailed information on capital asset activity, please refer to "Note 4 – Capital Assets" in the notes to the financial statements.

Capital Debt

At June 30, 2018, the District had no capital debt and has no immediate need to issue debt.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for and the stewardship of the financial resources and facilities it manages and maintains. If you have questions about this report or need additional financial information, contact the Vista Irrigation District's Finance Department at 1391 Engineer Street, Vista, California 92081.

Financial Statements
Statement of Net Position
June 30, 2018

Assets

Current Assets:

Cash and cash equivalents (notes 1 and 2)	\$	17,875,700
Investments (notes 1 and 2)		15,813,532
Accounts receivable, net (notes 1 and 3)		8,684,502
Taxes receivable		24,115
Accrued interest receivable		25,973
Inventories of materials and supplies		414,217
Prepaid expenses and other current assets		351,736
Total Current Assets		43,189,775

Noncurrent Assets:

Capital assets: (notes 1 and 4)

Depreciable assets, net of accumulated depreciation:

Buildings, canals, pipelines, reservoirs and dams		83,740,622
Equipment		2,133,269
Henshaw pumping project		373,808

Nondepreciable assets:

Land, franchises and water rights		6,001,127
Construction in progress		2,397,003
Total capital assets		94,645,829
Total Noncurrent Assets		94,645,829

Total Assets		137,835,604
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Deferred Outflows of Resources

Pension related (notes 1 and 6)		6,704,199
Other post-employment benefits (OPEB) related (notes 1 and 7)		94,646
Total Deferred Outflows of Resources		6,798,845

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

(Continued)

Financial Statements
Statement of Net Position
June 30, 2018

Liabilities

Current Liabilities:

Accounts payable (note 5)	\$	10,755,722
Deposits		320,715
Compensated absences, current portion		422,900
Accrued expenses and other liabilities		1,730,192
Total Current Liabilities		13,229,529

Noncurrent Liabilities:

Compensated absences, long-term portion		919,555
Net pension liability (notes 1 and 6)		15,622,668
Net OPEB liability (notes 1 and 7)		547,421
Total Noncurrent Liabilities		17,089,644

Total Liabilities		30,319,173
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Deferred Inflows of Resources

Pension related (notes 1 and 6)		1,440,845
OPEB related (notes 1 and 7)		143,990

Total Deferred Inflows of Resources		1,584,835
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Net Position

Investment in capital assets		94,645,829
Unrestricted (note 9)		18,084,612
Total Net Position	\$	112,730,441

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

Financial Statements
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2018

Operating Revenues	
Water sales, net (notes 1 and 3)	\$ 49,802,101
Property rentals	823,871
System fees	731,240
Other services	451,600
Total Operating Revenues	51,808,812
Operating Expenses	
Purchased water	22,569,140
Wages and benefits	14,461,797
Contractual services	4,292,413
Depreciation	2,968,997
Supplies	1,531,232
Professional fees	603,257
Office and general	557,713
Insurance	543,145
Power	405,854
Communications	53,326
Burden allocation	(1,433,392)
Total Operating Expenses	46,553,482
Operating Income	5,255,330
Nonoperating Revenues	
Property taxes	450,512
Investment income	346,063
Gain on disposal of capital assets	19,210
Total Nonoperating Revenues	815,785
Income Before Contributed Capital	6,071,115
Contributed Capital	1,315,564
Changes in Net Position	7,386,679
Total Net Position - beginning, as restated (note 9)	105,343,762
Total Net Position - ending	\$ 112,730,441

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

Financial Statements
Statement of Cash Flows
For the Year Ended June 30, 2018

Cash Flows From Operating Activities	
Receipts from customers	\$ 51,176,606
Payments to suppliers	(29,497,768)
Payments to employees	(7,966,492)
Collection of deposits	753,130
Return of deposits	(1,066,649)
Net Cash Provided by Operating Activities	<u>13,398,827</u>
Cash Flows From Noncapital Financing Activities	
Receipts from property taxes	<u>462,742</u>
Net Cash Provided by Noncapital Financing Activities	<u>462,742</u>
Cash Flows From Capital and Related Financing Activities	
Proceeds from disposal of capital assets	31,971
Acquisition and construction of capital assets	(6,387,190)
Net Cash Used by Capital and Related Financing Activities	<u>(6,355,219)</u>
Cash Flows From Investing Activities	
Proceeds from maturities of investments	18,000,000
Interest on cash and investments	119,959
Purchase of investments	(15,710,569)
Net Cash Provided by Investing Activities	<u>2,409,390</u>
Net Increase in Cash and Cash Equivalents	9,915,740
Cash and Cash Equivalents - beginning	<u>7,959,960</u>
Cash and Cash Equivalents - ending	<u>\$ 17,875,700</u>

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

(Continued)

Financial Statements
Statement of Cash Flows
For the Year Ended June 30, 2018

Reconciliation of Operating Income to Net

Cash Provided by Operating Activities

Operating Income	\$	5,255,330
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation		2,968,997
Changes in Assets, Deferred Outflows of Resources, Liabilities, and Deferred Inflows of Resources:		
Accounts receivable, net		(632,206)
Inventories of materials and supplies		104,316
Prepaid expenses and other assets		(1,787)
Deferred outflows of resources		(1,102,248)
Accounts payable		3,613,832
Deposits		(313,519)
Accrued expenses and other liabilities		1,049,756
Compensated absences		(90,719)
Net pension liability		2,696,402
Net OPEB liability		(479,250)
Deferred inflows of resources		329,923
Net Cash Provided by Operating Activities	\$	<u>13,398,827</u>

Noncash Investing, Capital and Financing Activities

Contributed capital assets	\$	1,315,564
Increase in fair value of investments	\$	209,230

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

Notes to Financial Statements

Fiscal Year Ended June 30, 2018

Note 1 - Reporting Entity and Summary of Significant Accounting Policies

Description of the Reporting Entity

Vista Irrigation District (District) is a public entity established in 1923, pursuant to the Irrigation District Act of the California Water Code, for the purpose of providing water services to the properties in the District. The District's service area lies within the northwestern quadrant of San Diego County, encompassing approximately 21,152 acres. Historically, the District has received 30% of its water supply from Lake Henshaw which, along with the surrounding 43,000 acre Warner Ranch, is owned and operated by the District. The remaining 70% of the District's supply comes from Northern California through the State Water Project and from the Colorado River. These sources are conveyed to the District via aqueducts owned and operated by water wholesalers, the Metropolitan Water District of Southern California and the San Diego County Water Authority. The District is governed by a Board of Directors consisting of five directors elected by geographical divisions, based on District population, for four-year alternating terms.

The criteria used in determining the scope of the reporting entity are based on the provisions of the Governmental Accounting Standards Board (GASB) Statement 14. The District is the primary government unit and currently has no component units. Component units are those entities which are financially accountable to the primary government, either because the District appoints a voting majority of the component unit's board, or because the component unit will provide a financial benefit or impose a financial burden on the District.

Basic Financial Statements

The basic financial statements are comprised of the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, the Statement of Cash Flows and the notes to the basic financial statements.

Basis of Presentation

The accounts of the District are reported as an enterprise fund. An enterprise fund is a Proprietary type fund used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Measurement Focus and Basis of Accounting

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. Those estimates and assumptions affect: the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statement of cash flows, all investment instruments are considered to be cash equivalents if purchased with a maturity of three months or less and are readily convertible to known cash amounts.

Notes to Financial Statements

Fiscal Year Ended June 30, 2018

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

Investments

Investments are reported at fair value in the statement of net position. All investment income, including changes in the fair value of investments, is recognized as revenues in the statement of revenues, expenses, and changes in net position. Investments that are not traded on a market, such as investments in external pools, are valued based on the stated fair value as represented by the external pool.

Accounts Receivable

Accounts receivable includes both billed and unbilled water sales provided to District customers. An allowance for doubtful accounts is provided for uncollectible accounts based on the District's bad debt experience and on management's estimate.

Inventories of Materials and Supplies

Inventories of materials and supplies consist primarily of materials used in the construction and maintenance of the water system and are valued at average cost.

Prepaid Expenses

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

Capital Assets and Depreciation

The District records at cost the acquisition of capital assets greater than \$5,000 and with a useful life of 3 or more years. Contributed assets are recorded at their acquisition value at the date of acceptance by the District. Self-constructed assets are recorded in the amount of labor, material, and overhead incurred. Depreciation is charged to expense and is computed using the straight-line method over the estimated useful lives of the respective assets as follows:

	<u>Useful Life</u>
Buildings, canals, pipelines, reservoirs and dams	15 - 80 years
Equipment	3 - 25 years
Henshaw pumping project	10 - 20 years

Burden Allocation

The District allocates overhead burden costs to pipeline installation jobs, inspection work, fixed fee jobs, damage claims, and other small jobs. The overhead burden costs include management salaries, benefits, use of equipment, warehousing, and handling.

Vacation, Sick Leave, and Compensatory Time Off

The District records a liability equal to 100% of vacation earned and compensatory time off, and an applicable percentage of sick leave available to employees at year end (25%-100%), which is included in compensated absences, current and long-term portions. At June 30, 2018, total compensated absences were \$1,342,455.

Pension Plans

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by the California Public Employees Retirement System (CalPERS) Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value. CalPERS audited financial statements are publicly available reports that can be obtained at CalPERS' website under Forms and Publications.

Notes to Financial Statements

Fiscal Year Ended June 30, 2018

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

Pension Plans (Continued)

GASB Statement No. 68, "Accounting and Financial Reporting for Pensions" (GASB 68), requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used.

Valuation Date (VD)	June 30, 2016
Measurement Date (MD)	June 30, 2017
Measurement Period (MP)	July 1, 2016 to June 30, 2017

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability and deferred outflows/inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District's OPEB Plan and additions to/deductions from the OPEB Plans' fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the District's OPEB Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until that time. The District has the following items that qualify for reporting in this category:

- Deferred outflows related to pensions. This amount is equal to employer contributions made after the measurement date of the net pension liability.
- Deferred outflows related to pensions for differences between expected and actual experiences. This amount is amortized over a closed period equal to the average of the expected remaining services lives of all employees that are provided with pensions through the plans.
- Deferred outflows from pensions resulting from changes in assumptions. This amount is amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the plans.
- Deferred outflows related to pensions resulting from the difference in projected and actual earnings on investments of the pension plans fiduciary net position. This amount is amortized over five years.
- Deferred outflows related to pensions for the changes in proportion and differences between employer contributions and the proportionate share of contributions. This amount is amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the plans.
- Deferred outflows related to OPEB. This amount is equal to employer contributions made after the measurement date of the net pension liability.

In addition to liabilities, the statements of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. The District has the following items that qualify for reporting in this category:

- Deferred inflows related to pensions for differences between expected and actual experiences. This amount is amortized over a closed period equal to the average of the expected remaining services lives of all employees that are provided with pensions through the plans.
- Deferred inflows from pensions resulting from changes in assumptions. This amount is amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the plans.

Notes to Financial Statements

Fiscal Year Ended June 30, 2018

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

Deferred Outflows/Inflows of Resources (Continued)

- Deferred inflows related to pensions for the changes in proportion and differences between employer contributions and the proportionate share of contributions. This amount is amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the plans.
- Deferred inflows related to OPEB resulting from the difference in projected and actual earnings on investments of the OPEB plan fiduciary net position. This amount is amortized over five years.

Operating Revenues and Expenses

Operating activities generally result from providing services and producing and delivering goods. As such, the District considers fees received from water sales, capacity fees, connection and installation fees and property rentals to be operating revenues. The collection of deposits and return of deposits related to operating activities are reported in the District's cash flows from operating activities. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The collection of deposits and return of deposits related to the specific purpose of deferring the cost of acquiring, constructing or improving assets are reported in the District's cash flows from capital and related financing activities.

Net Position

In the Statement of Net Position, net position is classified in the following categories:

- Investment in capital assets - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets. The District has no outstanding debt at June 30, 2018.
- Restricted net position - This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.
- Unrestricted net position - This amount is all net position that does not meet the definition of "investment in capital assets" or "restricted net position".

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the Statement of Net Position, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the District's practice to consider restricted - net position to have been depleted before unrestricted - net position is applied.

Property Taxes

Property taxes are attached as an enforceable lien on property as of March 1. Taxes are levied on July 1 and are due in two installments. The first installment is due on November 1, and is payable through December 10 without penalty. The second installment is due February 1, and becomes delinquent on April 10. Property taxes are remitted to the District from the County of San Diego at various times throughout the year.

Risk Management

The District is exposed to various risks of loss related to torts; thefts of, damage to and destruction of assets; errors and omissions; and natural disasters. To help mitigate this risk, the District is a member of the Association of California Water Agencies Joint Powers Insurance Authority (Authority). The Authority is a risk-pooling self-insurance authority, created under provisions of California Government Code Sections 6500 et. seq. The purpose of the Authority is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage.

Notes to Financial Statements

Fiscal Year Ended June 30, 2018

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

Risk Management (Continued)

The District participates in the following self-insurance programs of the Authority:

Property Loss - Insured up to \$500,000,000 per occurrence (total insurable value \$31,466,218) with \$5,000 deductible for buildings, personal property, fixed equipment, mobile equipment, and licensed vehicles; the Authority is self-insured up to \$100,000 per occurrence and excess insurance coverage has been purchased.

General Liability - Insured up to \$60,000,000 per occurrence with no deductible; the Authority is self-insured up to \$5,000,000 and excess insurance coverage has been purchased.

Auto Liability - Insured up to \$60,000,000 per occurrence with no deductible for property damage; the Authority is self-insured up to \$5,000,000 and excess insurance coverage has been purchased.

Public Officials' Liability - Insured up to \$60,000,000 per occurrence; the Authority is self-insured up to \$5,000,000 and excess insurance coverage has been purchased.

Crime - Insured up to \$100,000 per occurrence with \$1,000 deductible; the Authority is self-insured.

Dam Failure Liability - Insured up to \$5,000,000 per occurrence with \$50,000 deductible; the Authority is self-insured up to \$50,000 and excess insurance coverage has been purchased.

The District pays annual premiums for these coverages. They are subject to retrospective adjustments based on claims experience. The nature and amounts of these adjustments cannot be estimated and are charged to expense as invoiced. There were no instances in the past three years where a settlement exceeded the District's coverage.

New Accounting Pronouncements

GASB Current Year Standards

GASB 75 - "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions".

In fiscal year 2017-2018, the District implemented GASB 75, which establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses for postemployment benefits other than pension. Accounting changes adopted to conform to the provisions of this statement should be applied retroactively. The result of the implementation of this statement decreased the net position at July 1, 2017 by \$4,762,948.

GASB 82 - "Pension Issues", effective for periods beginning after June 15, 2016, except for certain provisions on selection of assumptions, which are effective in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017, and did not impact the District.

GASB 85 - "Omnibus 2017", effective for periods beginning after June 15, 2017, and did not impact the District.

GASB 86 - "Certain Debt Extinguishment Issues", effective for periods beginning after June 15, 2017, and did not impact the District.

GASB Pending Accounting Standards

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

- GASB 83 - "Certain Asset Retirement Obligations", effective for periods beginning after June 15, 2018.
- GASB 84 - "Fiduciary Activities", effective for periods beginning after December 15, 2018.
- GASB 87 - "Leases", effective for periods beginning after December 15, 2019.

Notes to Financial Statements

Fiscal Year Ended June 30, 2018

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

New Accounting Pronouncements (Continued)

GASB Pending Accounting Standard (Continued)

- GASB 88 – “Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements”, effective for periods beginning after June 15, 2018.
- GASB 89 – “Accounting for Interest Cost Incurred before the End of a Construction Period”, effective for periods beginning after December 15, 2019.
- GASB 90 – “Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61”, effective for periods beginning after December 15, 2018.

Note 2 - Cash and Investments

The following is a detail of cash and cash equivalents as of June 30, 2018:

Cash on hand	\$ 9,828
Deposits	920,038
State Treasurer’s investment pool	7,958,334
California Asset Management Program	8,987,500
Total cash and cash equivalents	\$ 17,875,700

As of June 30, 2018, the District had the following investments:

Investment	Maturity	Fair Value
State Treasurer’s investment pool	less than 12 months	\$ 7,958,334
California Asset Management Program	less than 12 months	8,987,500
Total cash equivalents		\$ 16,945,834
U.S. Treasury bills	7 months weighted average	\$ 15,813,532
Total Investments		\$ 15,813,532

Authorized deposits and investments of the District are governed by the California Government Code as well as policies set forth by the District’s Board of Directors. Within the contents of these limitations, permissible instruments include FDIC-insured institutions’ certificates of deposit and savings accounts, corporate medium-term notes, U.S. government agency/instrumentalities, money market instruments, money market mutual funds, mortgage backed securities, U.S. government bills, notes and bonds, and asset backed securities. Funds may also be invested in the local government investment pools.

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.

Notes to Financial Statements

Fiscal Year Ended June 30, 2018

Note 2 - Cash and Investments (Continued)

The District is a voluntary participant in the California Asset Management Program (CAMP), an investment pool managed by Public Financial Management, Inc. CAMP was established under provisions of the California Joint Exercise of Powers Act. 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 CAMP for the entire CAMP portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by CAMP, which are recorded on an amortized cost basis.

Interest Rate Risk. In accordance with its investment policy, the District manages its exposure to declines in fair values by limiting investment maturities to five years. Express authority is granted to invest in investments with term to maturity of greater than five years with a maximum term of ten years, provided the investments are in accordance with stated policy and total investments shall not exceed the amount of long term liabilities outstanding. Investments exceeding five years will be matched with a corresponding liability.

Credit Risk. State law and District policy limits investments in money market funds to the top ratings issued by nationally recognized statistical rating organizations. The District's investment in the California Asset Management Program was rated AAAM by Standard & Poor's Corporation. The District's investment in the California State Treasurer's investment pool was unrated. U.S. Treasury bills are exempt from rating disclosures.

Concentration of Credit Risk. The District manages the concentration of credit risk by limiting local government investment pools and money market funds to a maximum of 40% and 20%, respectively, of the District's total available investment capital as outlined in the District investment policy. Furthermore, no more than 10% of the District's available investment capital can be invested in a single money market fund.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. All deposits are entirely insured or collateralized. State law requires banks to secure the District's deposits by pledging government securities valued at 110% of the amount of the deposit as collateral. The District may waive the collateral requirement for deposits that are fully insured by the Federal Deposit Insurance Corporation (FDIC). Beginning on January 1, 2013, combined deposits are insured by the FDIC up to \$250,000. As of June 30, 2018, the District's bank balances were \$785,183, of which \$250,000 were insured and the remaining \$535,183 were collateralized with securities held by the pledging institution's trust department.

Note 2 - Cash and Investments (Continued)

Fair Value Measurements

The District categorizes its fair value measurement within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are quoted market prices for similar assets in active markets, and Level 3 inputs are significant unobservable inputs.

The District has the following recurring fair value measurements as of June 30, 2018:

	Quoted Prices Level 1	Observable Inputs Level 2	Unobservable Inputs Level 3	Total
Fixed Income Securities:				
Treasury Bills	\$ -	\$ 15,813,532	\$ -	\$ 15,813,532
Total Leveled Investments	<u>\$ -</u>	<u>\$ 15,813,532</u>	<u>\$ -</u>	<u>\$ 15,813,532</u>
LAIF*				7,958,334
California Asset Management Program*				<u>8,987,500</u>
 Total Investment Portfolio				 <u>\$ 32,759,366</u>

*Not subject to fair value measurement.

Notes to Financial Statements

Fiscal Year Ended June 30, 2018

Note 3 - Accounts Receivable, Net

As of June 30, 2018, the net balances were comprised of accounts receivable balances of \$8,850,144 less the allowances for doubtful accounts of \$165,642.

On the Statement of Revenues, Expenses and Changes in Net Position for the year ended June 30, 2018, the balances of water sales, net of uncollectible accounts expense, were comprised of water sales revenues of \$49,833,312 less uncollectible amounts of \$31,211.

Note 4 - Capital Assets

Capital assets consist of the following at June 30, 2018:

	Beginning Balance	Additions	Retirements	Ending Balance
Capital assets not being depreciated:				
Land, franchises, and water rights	\$ 6,001,127	\$ -	\$ -	\$ 6,001,127
Construction in progress	5,613,539	5,942,225	(9,158,761)	2,397,003
Total capital assets not being depreciated	<u>11,614,666</u>	<u>5,942,225</u>	<u>(9,158,761)</u>	<u>8,398,130</u>
Capital assets being depreciated:				
Buildings, canals, pipelines, reservoirs and dams	154,946,436	10,307,007	(133,634)	165,119,809
Equipment	5,933,128	588,114	(370,738)	6,150,504
Henshaw pumping project	3,087,030	24,169	(2,800)	3,108,399
Total capital assets being depreciated	<u>163,966,594</u>	<u>10,919,290</u>	<u>(507,172)</u>	<u>174,378,712</u>
Less accumulated depreciation for:				
Buildings, canals, pipelines, reservoirs and dams	(78,851,843)	(2,652,414)	125,070	(81,379,187)
Equipment	(4,108,468)	(275,308)	366,541	(4,017,235)
Henshaw pumping project	(2,696,116)	(41,275)	2,800	(2,734,591)
Total accumulated depreciation	<u>(85,656,427)</u>	<u>(2,968,997)</u>	<u>494,411</u>	<u>(88,131,013)</u>
Total capital assets being depreciated, net	<u>78,310,167</u>	<u>7,950,293</u>	<u>(12,761)</u>	<u>86,247,699</u>
Total capital assets, net	<u>\$ 89,924,833</u>	<u>\$ 13,892,518</u>	<u>\$ (9,171,522)</u>	<u>\$ 94,645,829</u>

Note 5 - Accounts Payable

At June 30, 2018, the accounts payable of \$10,755,722 included \$7,704,320 for obligations to the San Luis Rey Indian Water Authority, \$1,539,415 for water purchases from the San Diego County Water Authority, and \$1,511,987 for obligations to other vendors.

Note 6 - Defined Benefit Pension Plan

A. General Information about the Pension Plan

Plan Description

The Plan is a cost-sharing, multiple-employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). A full description of the pension plan regarding number of employees covered, benefit provisions, assumptions (for funding, but not account purposes), and membership information is listed in the June 30, 2017 Annual Actuarial Valuation Report. Details of the benefits provided can be obtained in Appendix B of the actuarial valuation report. The actuarial valuation report and CalPERS'

Notes to Financial Statements

Fiscal Year Ended June 30, 2018

Note 6 - Defined Benefit Pension Plan (Continued)

A. General Information about the Pension Plan (Continued)

Plan Description (Continued)

audited financial statements are publicly available reports that can be obtained at CalPERS' website under Forms and Publications, at www.calpers.ca.gov.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 5 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plan operates under the provisions of the California Public Employees' Retirement Law (PERL), the California Public Employees' Pension Reform Act of 2013 (PEPRA), and the regulations, procedures and policies adopted by the CalPERS Board of Administration. The Plan's authority to establish and amend the benefit terms are set by the PERL and PEPRA, and may be amended by the California state legislature and in some cases require approval by the CalPERS Board.

The Plan's provisions and benefits in effect at June 30, 2018 are summarized as follows:

	Miscellaneous Plan		
	Tier 1	Tier 2	PEPRA
Hire date	prior to 1/1/2012	from 1/1/12 to 12/31/12	on or after 1/1/13
Benefit formula	3% @ 60	2% @ 60	2% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 - 60	50 - 63	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 3.0%	1.092% - 2.418%	1.0% to 2.5%
Required employee contribution rates	4.5%	7.0%	6.25%
Required employer contribution rates			
Normal cost rate	17.045%	7.200%	6.533%
Payment of unfunded liability	\$685,304	\$8.00	\$122.00

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. District contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contributions requirements are classified as plan member contributions.

Notes to Financial Statements

Fiscal Year Ended June 30, 2018

Note 6 - Defined Benefit Pension Plan (Continued)

B. Net Pension Liability

The District's net pension liability was measured as of June 30, 2017 using an annual actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures.

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

For the measurement period ended June 30, 2017 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2016 total pension liability. The June 30, 2017 total pension liability for the Plan was based on the following actuarial methods and assumptions:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	Market Value of Assets
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Salary Increases (1)	3.3% - 14.2%
Investment Rate of Return (2)	7.00%
Mortality Rate Table (3)	Derived using CALPERS' membership data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until purchasing power protection allowance floor on purchasing power applies, 2.75% thereafter

- (1) Annual increases vary by category, entry age, and duration of service.
- (2) Net of pension plan investment and administrative expenses; includes inflation.
- (3) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

Change of Assumptions

In fiscal year 2018, the discount rate was lowered from 7.65% to 7.15%. Deferred outflows of resources for changes of assumptions represent the unamortized portion of this assumption change, and the unamortized portion of the changes of assumptions related to the prior measurement period.

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent for the Plan and reflects the long-term expected rate of return for the Plan net of investment expenses and without reduction for administrative expenses. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.15 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary.

Notes to Financial Statements

Fiscal Year Ended June 30, 2018

Note 6 - Defined Benefit Pension Plan (Continued)

B. Net Pension Liability (Continued)

Discount Rate (Continued)

The long-term expected discount rate of 7.15 percent is applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

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

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

The following table reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

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

^(a) An expected inflation of 2.5% used for this period

^(b) An expected inflation of 3.0% used for this period

C. Proportionate Share of Net Pension Liability

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

Miscellaneous Plan:

	Increase (Decrease)		
	Plan Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Plan Net Pension Liability (c) = (a) - (b)
Balance at: 6/30/2016 (VD)	\$ 84,850,803	\$ 71,924,537	\$ 12,926,266
Balance at: 6/30/2017 (MD)	\$ 93,700,006	\$ 78,077,338	\$ 15,622,668
Net Changes during 2016-17	\$ 8,849,203	\$ 6,152,801	\$ 2,696,402

Valuation Date (VD), Measurement Date (MD).

Notes to Financial Statements

Fiscal Year Ended June 30, 2018

Note 6 - Defined Benefit Pension Plan (Continued)

C. Proportionate Share of Net Pension Liability (Continued)

The District's proportionate share of the net pension liabilities were based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

The changes in the District's proportionate share of the collective net pension liabilities were as follows:

	<u>Miscellaneous</u>
Proportionate Share - June 30, 2016	0.37210%
Proportionate Share - June 30, 2017	0.39631%
Change - Increase (Decrease)	0.02421%

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net pension liability of the Plan as of the June 30, 2017 measurement date, calculated using the discount rate of 7.15%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

Measurement Date June 30, 2017	Discount Rate - 1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate + 1% (8.15%)
Miscellaneous Plan's Net Pension Liability	\$ 28,510,812	\$ 15,622,668	\$ 4,948,474

D. Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions

For the fiscal year ending June 30, 2018, the District incurred a pension expense of \$3,237,444 for the Plan.

As of June 30, 2018, the District has deferred outflows and deferred inflows of resources related to pensions as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 1,862,822	\$ -
Differences between expected and actual experience	31,512	(451,468)
Changes in assumptions	3,909,899	(298,133)
Net difference between projected and actual earnings on pension plan investments	884,258	-
Changes in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	15,708	(691,244)
Total	\$ 6,704,199	\$ (1,440,845)

\$1,862,822 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019.

Notes to Financial Statements

Fiscal Year Ended June 30, 2018

Note 6 - Defined Benefit Pension Plan (Continued)

D. Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions (Continued)

Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in future pension expense as follows:

Year Ended June 30:	Deferred Outflows/(Inflows) of Resources, Net
2019	\$ 568,488
2020	2,121,062
2021	1,235,983
2022	(525,001)
2023	-
Thereafter	-
	\$ 3,400,532

E. Payable to the Pension Plan

At June 30, 2018, the District had no outstanding amount of contributions to the pension plan required for the year ended June 30, 2018.

Note 7 – OPEB Plan

Plan Description

The District provides post-retirement medical benefits to retirees through the Association of California Water Agencies (ACWA) health program and managed through the California Employers' Retiree Benefit Trust (CERBT).

The plan is an agent multiple-employer defined benefit healthcare plan that provides retiree medical benefits to eligible retirees and spouses. The plan pays 100% of the cost (premiums) for benefits. To be eligible for retiree health benefits, an employee must retire under CalPERS on or after age 50 with at least 15 years (10 years for at-will employees) of service with the District. Coverage is available to the retiree and the spouse for a combined maximum of 15 years (20 years for at-will employees). The maximum coverage period for the retiree is 10 years and the spouse can be covered for up to the same number of years as the retiree subject to the combined maximum. Employees hired on or after January 1, 2012 are not eligible to continue health benefits at retirement. A separate financial report is not prepared for the plan.

Employees Covered

As of the June 30, 2017 actuarial valuation, the following current and former employees were covered by the benefit terms under the plan:

Inactive employees or beneficiaries currently receiving benefits	28
Active employees	<u>66</u>
Total	<u>94</u>

Contributions

The Plan and its contribution requirements are established by District policy and may be amended by the Board of Directors. The annual contribution is based on the actuarially determined contribution. For the fiscal year ended June 30, 2018, the District's contributions were \$94,656 in the form of estimated implied subsidy.

Net OPEB Liability

The District's net OPEB liability was measured as of June 30, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2017. A summary of the principal assumptions and methods used to determine the total OPEB liability is shown below.

Notes to Financial Statements

Fiscal Year Ended June 30, 2018

Note 7 – OPEB Plan (Continued)

Actuarial Assumptions

The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Valuation Date	June 30, 2017
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.00%
Inflation	2.75%
Projected Salary Increase	3.00% per annum, in aggregate
Expected long term investment rate of return	7.00%
Healthcare Cost Trend Rates	6.0% HMO/6.5% PPO, decreasing to 5%
Pre-retirement Turnover	Derived from termination rates under the CalPERS pension plan
Mortality	Derived from CalPERS pension plan updated to reflect most recent experience study

The actuarial assumptions used in the June 30, 2017 valuation were based on a standard set of assumptions the actuary has used for similar valuations, modified as appropriate for the District.

The long-term expected rate of return was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the OPEB plan's target asset allocation as of June 30, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
CERBT		
US Equity	30.00%	4.85%
International Equity	27.00%	5.85%
REITs	8.00%	3.65%
US Fixed Income	27.00%	2.35%
Commodities	3.00%	1.75%
Inflation assets	<u>5.00%</u>	1.50%
Total	<u>100.00%</u>	

Discount Rate

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

Change of Discount Rate

The discount rate utilized in the June 30, 2017 valuation was 7.00% as compared to the June 30, 2015 valuation discount rate of 7.28%. The discount rate was changed to include an additional margin for adverse deviation from the CERBT published median rate of return of 7.28%.

Notes to Financial Statements

Fiscal Year Ended June 30, 2018

Note 7 – OPEB Plan (Continued)

Changes in the Net OPEB Liability

The changes in the net OPEB liability are as follows:

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance at June 30, 2016 (Measurement Date)	\$ 6,072,491	\$ 5,045,820	\$ 1,026,671
Changes in the Year:			
Service cost	134,285	-	134,285
Interest on the total OPEB liability	416,970	-	416,970
Differences between actual and expected experience	-	-	-
Changes in assumptions	-	-	-
Changes in benefit terms	-	-	-
Contribution - employer	-	500,111	(500,111)
Net investment income	-	533,100	(533,100)
Administrative expenses	-	(2,706)	2,706
Benefit payments	(500,111)	(500,111)	-
Net Changes	<u>51,144</u>	<u>530,394</u>	<u>(479,250)</u>
Balance at June 30, 2017 (Measurement Date)	<u>\$ 6,123,635</u>	<u>\$ 5,576,214</u>	<u>\$ 547,421</u>

Change of Assumptions

There were no changes of assumptions.

Change of Benefit Terms

There were no changes of benefit terms.

Subsequent Events

There were no subsequent events that would materially affect the results presented in this disclosure.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.00%) or 1 percentage point higher (8.00%) than the current discount rate:

	1% Decrease (6.0%)	Discount Rate (7.0%)	1% Increase (8.0%)
Net OPEB Liability	\$ 999,972	\$ 547,421	\$ 137,667

Notes to Financial Statements
Fiscal Year Ended June 30, 2018

Note 7 – OPEB Plan (Continued)

Sensitivity of the Net OPEB Liability to Changes in Health-Care Cost Trend Rates

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower (5.00% HMO/5.50% PPO decreasing to 4.00% HMO/4.00% PPO) or

	1% Decrease (5.00% HMO/ 5.50% PPO decreasing to 4.00% HMO/ 4.00% PPO)	Current Healthcare Cost Trend Rates (6.00% HMO/ 6.50% PPO decreasing to 5.00% HMO/ 5.00% PPO)	1% Increase (7.00% HMO/ 7.50% PPO decreasing to 6.00% HMO/ 6.00% PPO)
Net OPEB Liability	\$ 70,159	\$ 547,421	\$ 1,090,244

1-percentage point higher (7.00% HMO/7.50% PPO decreasing to 6.00% HMO/6.00% PPO) than the current healthcare cost trend rates:

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the District recognized OPEB expense of \$164,851. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	\$ 94,656	\$ -
Differences between actual and expected experience	-	-
Change in assumptions	-	-
Differences between projected and actual earnings	-	143,990
Total	<u>\$ 94,656</u>	<u>\$ 143,990</u>

The net difference between projected and actual earnings on plan investments is amortized over a five-year period.

\$94,646 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows:

Year Ending June 30,	Amount
2019	\$ (35,997)
2020	(35,997)
2021	(35,997)
2022	(35,999)
2023	-
Thereafter	-

Payable to the OPEB Plan

At June 30, 2018, the District had no outstanding amount of contributions to the OPEB plan required for the year ended June 30, 2018.

Notes to Financial Statements

Fiscal Year Ended June 30, 2018

Note 8 - Commitments and Contingencies

Commitments

On May 17, 2017 the District settled its long-standing water rights lawsuit with various Indian bands. The settlement resulted in the District paying its \$4.4 million obligation in accordance with the Settlement Agreement.

Per the terms of the Settlement Agreement, the District and the City of Escondido are responsible for all costs associated with maintaining and operating the local water system, including the cost of undergrounding of a canal on the San Pasqual Indian Reservation (currently estimated to cost \$30 million). The cost of the undergrounding project (Project) will be divided evenly between the District and the City of Escondido. Per the terms of the Settlement Agreement, the Project must be completed no later than May 17, 2023.

The District has been named as defendant in various other legal actions. In the opinion of management and legal counsel, it is too early to determine the outcome and effect on the District's financial position.

Note 9 – Restatement of Net Position

Net position as of July 1, 2017 was restated as follows:

Beginning net position, as previously reported	\$ 109,092,882
To adjust receivables to increase accrual for unbilled receivables	1,013,828
To record net OPEB liability as a result of implementation of GASB 75	<u>(4,762,948)</u>
Beginning net position, as restated	<u>\$ 105,343,762</u>

Note 10 – Subsequent Events

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through December 7, 2018, the date the financial statements were available to be issued.

Required Supplementary Information
June 30, 2018

Schedule of the District's Proportionate Share of the Plan's Net Pension Liability and Related Ratios as of the Measurement Date Last 10 Fiscal Years*

	Measurement Date			
	6/30/2017	6/30/2016	6/30/2015	6/30/2014*
Plan's Proportion of the Net Pension Liability ¹	0.15753%	0.14938%	0.22908%	0.21738%
Plan's Proportionate Share of the Net Pension Liability	\$ 15,622,668	\$ 12,926,266	\$ 15,723,785	\$ 13,526,753
Plan's Covered Payroll ²	\$ 7,576,845	\$ 7,601,853	\$ 7,473,687	\$ 7,494,718
Plan's Proportionate Share of the Net Pension Liability as a % of its Covered Payroll	206.19%	170.04%	210.39%	180.48%
Plan's Proportionate Share of the Fiduciary Net Position as a % of the Plan's Total Pension Liability	73.31%	74.06%	80.66%	83.03%
Plan's Proportionate Share of Aggregate Employer Contributions ³	\$ 2,954,163	\$ 2,678,414	\$ 2,268,191	\$ 1,789,539

¹ Proportion of the net pension liability represents the plan's proportion of PERF C, which includes both the Miscellaneous and Safety Risk Pools excluding the 1959 Survivors Risk Pool.

² Covered Payroll represented above is based on the total payroll of employees that are provided pensions through the pension plan in accordance with GASB 68.

³ The plan's proportionate share of aggregate contributions may not match the actual contributions made by the employer during the Measurement Period. The plan's proportionate share of aggregate contributions is based on the plan's proportion of fiduciary net positions, as well as any additional side fund (or unfunded liability) contributions made by the employer during the measurement period.

* Measurement period 2013-14 (fiscal year 2015) was the first year of implementation.

Required Supplementary Information
June 30, 2018

Schedule of Contributions - Pension Plan
Last 10 Fiscal Years*

	Fiscal Year-End			
	2018	2017	2016	2015*
Actuarially Determined Contribution	\$ 1,862,822	\$ 1,816,735	\$ 1,924,128	\$ 1,488,966
Contributions in Relation to the Actuarially Determined Contribution	(1,862,822)	(1,816,735)	(9,682,740)	(1,488,966)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ (7,758,612)	\$ -
Covered Payroll ¹	\$ 7,982,625	\$ 7,576,845	\$ 7,601,853	\$ 7,473,687
Contributions as a % of Covered Payroll	23.34%	23.98%	127.37%	19.92%

¹ Covered Payroll represented above is based on the total payroll of employees that are provided pensions through the pension plan in accordance with GASB 68.

* Fiscal year 2015 was the first year of implementation.

Required Supplementary Information
June 30, 2018

Schedule of Changes in the Net OPEB Liability and Related Ratios
Last 10 Fiscal Years*

Measurement date	6/30/2017
Fiscal Year-End Date	6/30/2018
Total OPEB Liability:	
Service cost	\$ 134,285
Interest on total OPEB liability	416,970
Benefit payments, including refunds of	(500,111)
Net Change in Total OPEB Liability	51,144
Total OPEB Liability - Beginning of Year	6,072,491
Total OPEB Liability - End of Year (a)	6,123,635
Plan Fiduciary Net Position:	
Contributions - employer	500,111
Net investment income	533,100
Administrative expenses	(2,706)
Benefit payments	(500,111)
Net Change in Plan Fiduciary Net Position	530,394
Plan Fiduciary Net Position - Beginning of Year	5,045,820
Plan Fiduciary Net Position - End of Year (b)	5,576,214
Net OPEB Liability - Ending (a)-(b)	\$ 547,421
Plan fiduciary net position as a percentage of the total OPEB liability	91.06%
Covered - payroll	\$ 6,182,000
Net OPEB liability as percentage of covered - payroll	8.86%

Notes to Schedule:

Benefit Changes:

There were no changes in benefits.

Changes in Assumptions:

There were no changes in assumptions.

* Fiscal year 2018 was the first year of implementation.

Required Supplementary Information
June 30, 2018

Schedule of Contributions - OPEB

Last 10 Fiscal Years*

Fiscal Year-End Date		6/30/2018
Actuarially determined contribution	\$	195,002
Contributions in relation to the actuarially determined contributions		(94,656)
Contribution deficiency (excess)	\$	100,346
Covered - payroll	\$	6,182,000
Contributions as a percentage of covered - payroll		1.53%

Notes to Schedule:

Valuation Date		6/30/2017
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Methods and Assumptions Used to Determine Contribution Rates:

Single and agent employers	Entry age
Amortization method	Level percentage of payroll, closed
Asset valuation method	Market Value
Inflation	2.75%
Salary increases	3.00%
Investment rate of return	7.00%
Mortality	CalPers pension plan

* Fiscal year 2018 was the first year of implementation.

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