



VISTA IRRIGATION DISTRICT  
ANNUAL REPORT

2015





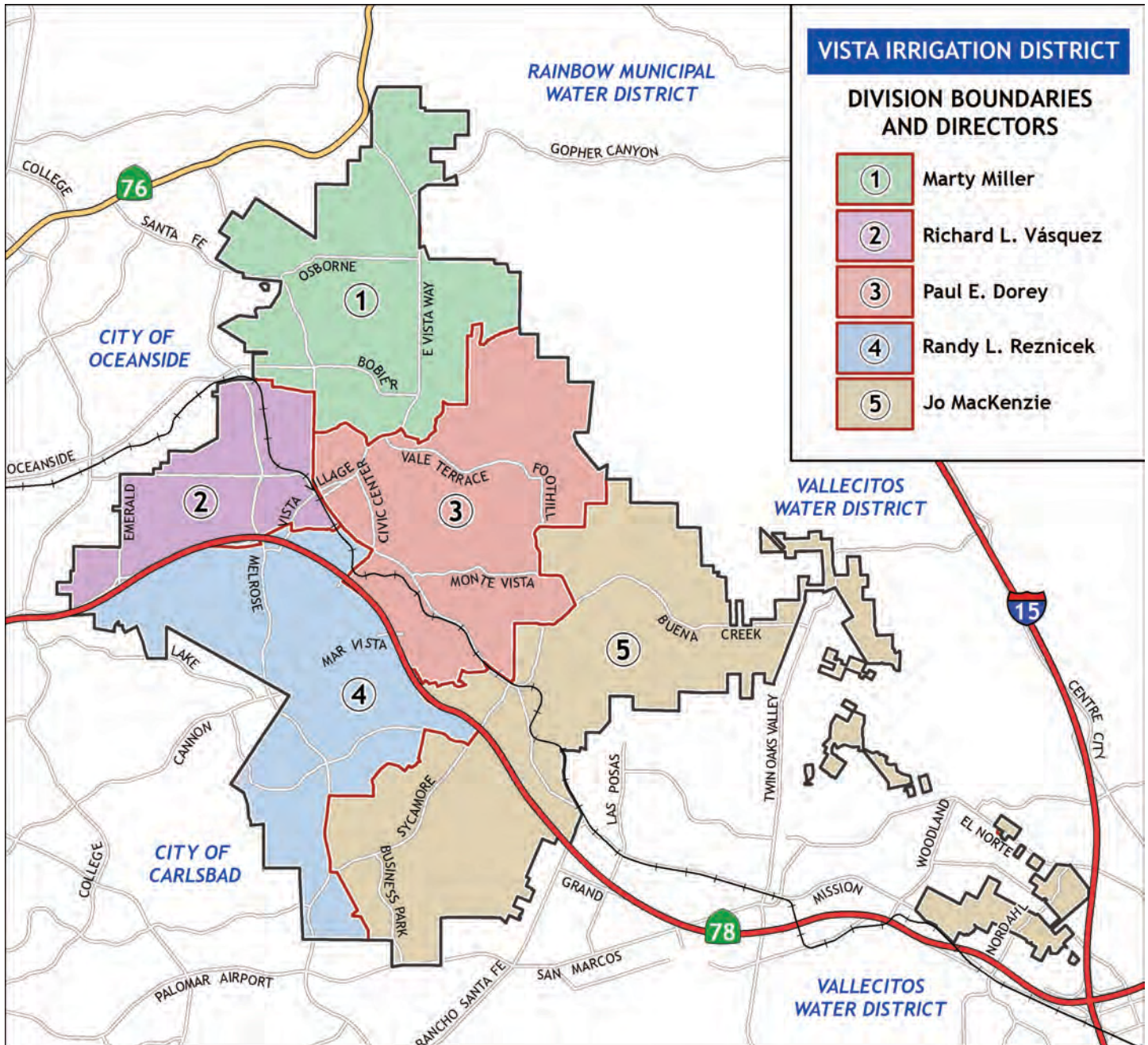
Cover photograph:  
Vista Irrigation District office

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# Division Boundary Map



The Vista Irrigation District serves more than 127,000 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

The ultimate decision-making responsibility of the Vista Irrigation District (VID) rests with a five-member governing board. Elected to four-year terms, VID's board members are active community leaders in many organizations. Their awareness of the changing needs of the District is enhanced by their experience and understanding of local and state water issues. They are committed to efficient and economic methods of supplying high-quality water to the District's customers.

**Marty Miller**  
Division 1



**Richard L. Vásquez**  
Division 2



**Paul E. Dorey**  
Division 3



**Randy L. Reznicek**  
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. All 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.

# Message from the General Manager



**Roy A. Coox**  
General Manager  
2008-2016

**W**hen I wrote my first annual report message as General Manager of the Vista Irrigation District back in 2008, I mentioned how proud I was to have been named the eleventh General Manager in the 90-year history of the District. As I reflect upon my upcoming retirement in 2016, and as I write what will be my final annual report message, I am even more proud of the District and its accomplishments over the past decade. These accomplishments are truly a collaborative effort, and I have enjoyed working with the District's Board of Directors and the staff to realize significant achievements on behalf of the District's ratepayers.

In my 2008 message, I talked about how we were in the throes of a significant statewide drought, which was resulting in mandatory cutbacks and water conservation measures for all of our customers. Things have come full circle and now, eight years later, we are in another drought and are talking about the same cutbacks and water conservation measures. The difference this time is that the drought crisis is even more severe and widespread. The State has stepped in this time, with an emergency drought declaration by the Governor and the imposition, monitoring and enforcement of mandatory water cutbacks for every water agency in the state. I am happy to report that, thanks to the outstanding response from our customers, the District has met or exceeded its conservation mandates from the State. However, we must continue to work together to address our water crisis, and residents, businesses and farmers alike need to contribute in order to help educate each other, to help keep the economy going, and to help maintain our quality of life.

What may be even more significant is that, due to extensive cost-cutting measures and careful financial planning, the District has been able to achieve meaningful water conservation and accommodate reduced water sales without the need for an additional District rate increase. Some of the measures implemented by the District in this regard, which have allowed us to remain on sound financial footing, include:

- The District has executed an agreement with the City of Oceanside to purchase treated water from the Weese Filtration Plant, achieving a savings over water obtained from other sources.

continued...

*"Thanks to the outstanding response from our customers, the District has met or exceeded our conservation mandates from the State."*



# Message from the General Manager

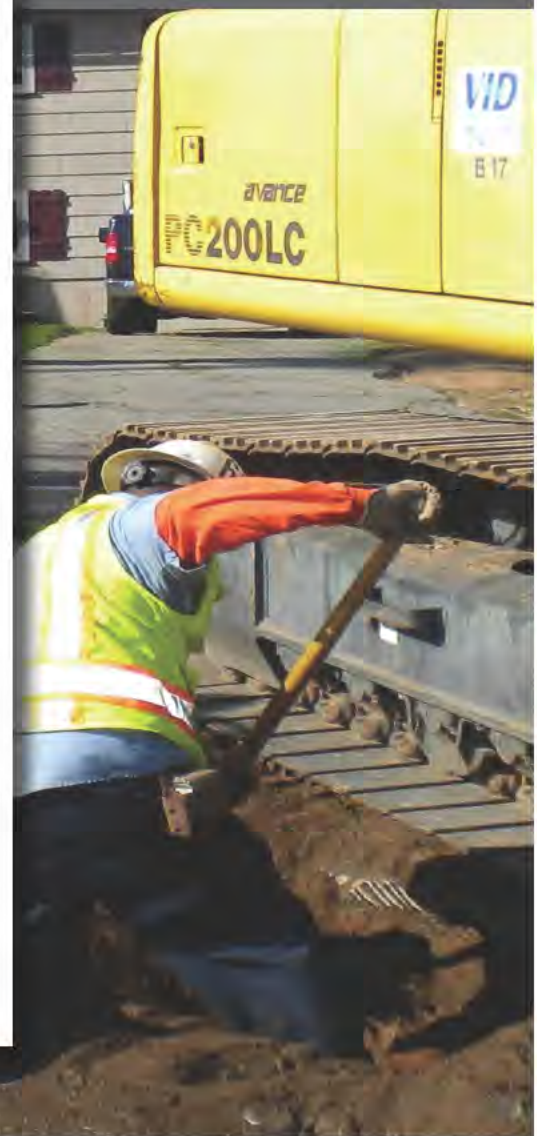
- The District has implemented an innovative rate structure tied to meter sizes and actual costs of delivering water, which has assured us of a justifiable and equitable revenue stream in compliance with recent rulings and regulations.
- The District has reorganized its work force for more efficiency and productivity, and is performing more work (such as replacing more miles of aging water pipes) despite reducing its work force.
- The District has analyzed its water system supplies, infrastructure and related costs, and prioritized expansion and replacement costs, resulting in the ability to defer significant costs based on current performance and needs.

During this past year, we celebrated many recent accomplishments but we have also continued to look toward the future and for opportunities to improve the District's operations and communications. We launched the redesign of the District's new website, which will streamline the look and functionality of this important communication tool with the public. We began implementing a new and improved utility billing system, which will integrate meter reading, billing, collections and account information into a comprehensive automated system to help District staff and customers. We also promoted the District's unique and innovative tap water outreach campaign called "Love Tap!", where we continued to work with the community to promote drinking tap water for health, environmental, and financial reasons.

I encourage anyone interested in these programs and initiatives to contact the District to offer insights, suggestions, and criticism, as all of this will help us to serve the public in the future. I think you will find that our staff is as dedicated and passionate as I am, and that they will be eager to engage with you on these topics. Every one of these programs, and in fact everything that we do, is for the purpose of helping the public and to fulfill our mission of delivering to our customers the most important natural resource that we have, water.

So, to all of our ratepayers and the public, thank you for the opportunity to serve you. The District is in good hands, and will continue to provide safe, reliable and economical water, just as it has for the better part of a century, well into the future.

*"The District has been able to achieve meaningful water conservation and accommodate reduced water sales without the need for an additional District rate increase."*





# San Diego County Water Authority Report

For more than two decades, the San Diego County Water Authority (Water Authority) has viewed seawater desalination as an important component of a diversified water supply portfolio that is comprised of recycled water, groundwater, water transfers and imported water from the Metropolitan Water District of Southern California (Metropolitan). After nearly three years of construction, this vision has finally become a reality as the nation's largest seawater desalination plant in Carlsbad is now producing a drought-proof supply of water. The Claude "Bud" Lewis Carlsbad Desalination Plant will produce enough water to meet 7 to 10 percent of the county's water demands.

The \$1 billion Carlsbad Desalination Project, which is comprised of the desalination plant, pipeline and upgrades

to Water Authority facilities for distributing the desalinated water throughout the region, is the result of a 30-year Water Purchase Agreement between the Water Authority and Poseidon Water for the purchase of between 48,000 and 56,000 acre-feet per year of desalinated seawater. Poseidon Water developed the plant and pipeline with joint-venture contractor Kiewit Shea Desalination. The project will deliver about 50 million gallons a day of drought-proof, highly reliable water that will become a core, day-to-day resource for the region.

According to the Water Authority, the Water Purchase Agreement sets the price of water produced by the desalination plant at \$2,131 to \$2,367 per acre-foot in 2016, depending on how much water is purchased. (One acre-foot is enough water to serve two average homes in a year.) The first 48,000 acre-feet purchased each year will pay for the fixed costs of the project and the variable costs of water production. The Water Authority has the option to purchase an additional 8,000 acre-feet per year at a slightly lower rate.

The Carlsbad Desalination Project is an important part of the Water Authority's long-term strategy to improve the region's water supply reliability. The desalination plant will make the San Diego region's water supplies more reliable by reducing dependence on imported water from Metropolitan that is vulnerable to droughts, natural disasters and regulatory restrictions. With the completion of the Carlsbad project, the Water Authority says it is on pace to meet its diversification goals for 2020.



Carlsbad desalination plant.  
Photo credit: San Diego County Water Authority



# State Mandated Restrictions

Reacting to record dry conditions, Governor Jerry Brown declared a state of emergency due to drought in January 2014. The year that followed saw drought conditions worsen, as the state suffered through another year of higher than normal temperatures and meager rainfall and snowpack. Entering the fourth year of drought, the state remained concerned about its water supply levels and was poised to take action should dry conditions persist into 2015.

On April 1, 2015, Governor Brown accompanied California Department of Water Resources staff as they conducted the final manual snow survey of the year in the Sierra Nevada Mountains. The unwelcomed results highlighted the severity of the drought. For the first time in 75 years, no snow was found during the survey.



California Department of Water Resources photo showing an unprecedented no snow pack in an area of the Sierra's where there is usually 5 feet of snow.

At a press conference that day, standing upon dry grass at the survey site, the Governor declared that the state must take unprecedented action to deal with the continuing historic drought. With that declaration, the Governor issued an executive order requiring a mandatory reduction in urban water use by 25% throughout the state. This would be the first time a statewide mandatory water use reduction would be enacted in California. The order tasked the State Water Resources Control Board (State Board) to develop and impose restrictions to achieve a 25% reduction in urban water use through February 2016.

To comply with the Governor's executive order, the State Board worked throughout the month of April, to develop usage targets for urban water suppliers that cumulatively would meet the 25% conservation standard. Throughout this process, the San Diego County Water Authority along with its member agencies, including the Vista Irrigation District, provided state regulators with feedback on the proposed regulations. The Vista Irrigation District expressed its concerns with the proposed "one size fits all" approach, especially given its customers' past conservation efforts as well as the region's investments in drought proof water supplies, such as seawater desalination.

On May 5, 2015, the State Board adopted emergency regulations that set reduction percentages for urban water suppliers and enacted new state-wide water use prohibitions. The State Board's emergency regulation assigned each urban water supplier with a target reduction percentage ranging from 4% to 36%. The Vista Irrigation District was assigned a conservation standard of 20%.

In response to the State Board's emergency regulation, the Vista Irrigation District implemented mandatory water use restrictions designed to assist the District in meeting its 20% conservation standard. Customers were asked to limit their landscape irrigation to assigned days and watering times, eliminate run-off and fix leaks promptly. As they did in 2009, customers have done their part, aiding the District in meeting the 20% conservation standard.

No one knows how long the current drought will continue or how long the State Board's emergency regulations will remain in place. What is known, however, is that the Vista Irrigation District's long-term planning has minimized the financial impacts of the drought on its customers. As the result of the implementation of sustained cost saving measures over a number of years, the District has been able to meet the State Board's mandates and remain financially stable without the need for an additional District rate increase, which many water agencies have been forced to do as a result of reduced water sales.

Although many things have changed since the last drought in 2009, the Vista Irrigation District's commitment to provide its customers with a reliable water supply to maintain our economy and quality of life has not. The District will continue to work with the San Diego County Water Authority and other water agencies to find new supplies, increase efficiency and eliminate waste. We will get through the current drought and continue to prepare for future water supply challenges.



# Vista Irrigation District Receives National and Statewide Awards for Good Governance, Transparency and Financial Reporting

Public agencies at all levels are challenged with practicing responsible fiscal management and good governance in an increasingly regulated environment. Local agencies, like the Vista Irrigation District, are also encouraged to be more transparent and share vital information about the agency with its customers and/or constituents. The Vista Irrigation District has been successful on all fronts, receiving statewide and national recognition for its efforts.

In September 2015, the District received recognition as a District of Distinction from the Special District Leadership Foundation, an independent, non-profit organization formed to promote good governance and best practices among California special districts. This recognition is given to special districts that show their commitment to good governance, transparency, prudent fiscal policies and sound operating practices. The District originally obtained its accreditation in 2009 and just received its most recent re-accreditation. The District is one of only 20 current Districts of Distinction statewide, which is quite an achievement considering that there over 2,300 special districts in the state of California that provide essential services such as water, sewer, fire protection and recreation services.

In addition to the District of Distinction award, the District received the Transparency Certificate of Excellence, in recognition of its efforts to promote transparency in operations and governance to the public. There are approximately 100 special districts in the state that have received this certificate.

Both the District of Distinction and Transparency Certificate of Excellence awards require the District to meet numerous criteria, including training elected officials and staff, adopting financial policies, properly conducting and communicating open and public meetings, performing outreach efforts to constituents, and meeting fifteen different website requirements.

In addition to receiving statewide recognition, the District also received national recognition when it was presented with the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada (GFOA) for its comprehensive annual financial report (CAFR) for the 2014 fiscal year. This certificate is the only national award for public sector financial reporting. The Certificate of Achievement is the highest form of recognition in the area of governmental accounting and financial reporting, and its attainment represents a significant accomplishment by a government agency and its management team.

The District's CAFR has been judged by an impartial panel to meet the high standards of the program including demonstrating a constructive "spirit of full disclosure" to clearly communicate the district's financial story and motivate customers and user groups to read the CAFR.

In 2012, the California legislature passed legislation that suspended all state mandated local programs, which relieved local agencies, like the Vista Irrigation District, of the requirement to comply with the Brown Act, the state's open meeting law. The District's Board of Directors recognized the importance of providing open and transparent government and pledged to continue to comply with the requirements of said Act even though it was not required to do so. The District has been and will continue to be committed to practicing good governance, transparency and sound financial management on the behalf of its customers and is proud to be recognized for its achievements.



Roy Coox, Randy Reznicek, Jo MacKenzie and Eldon Boone accept the District of Distinction award from the Special District Leadership Foundation.





**VID Partners with  
Vista Unified School District  
and the City of Vista to  
Install Hydration Stations in  
Schools and Parks**

water bottles to all students. Vista Irrigation District staff also made assembly presentations, teaching the children about the benefits of drinking tap water. The hydration stations have been so well received at the schools where they have been installed, that the school district has recently let the District know that it will be installing hydration stations at every school within the school district and incorporate them in their branded nutrition program.

VID also partnered with the City of Vista to install hydration stations at two of the City's busiest parks: a community park and a sports park. According to City staff, the hydration stations have been well received by park users. The District is looking forward to working with the City of Vista to install more hydration stations at other City facilities.

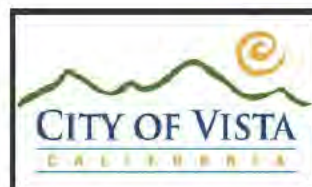
Many Americans have developed a negative perception of tap water, especially when it comes to drinking it. Advertising campaigns by beverage companies and water treatment service providers, combined with a general lack of knowledge about the quality of tap water, have created a perception that tap water is low quality, unhealthy, and certainly something you would not want to drink. Many Americans feel they have no choice but to buy bottled water to drink.

The District's mission is to provide the community with a high quality, affordable and reliable source of water. The Love Tap! program provides the District with a unique opportunity to connect with our customers and directly communicate the benefits of the service we provide. It is the District's hope that through the use of the hydration stations the community will realize that tap water is a safe and inexpensive alternative to bottled water.

As a provider of water service to over 127,000 people, the Vista Irrigation District (District) knows that the tap water that we provide is of high quality. At the same time, the District recognizes that there is a perception problem among many of our customers, as well as the general public, regarding our product. As a result, customers spend money unnecessarily to buy bottled water or water from vending machines because they feel that our water is not safe for consumption. Frequently, many of these customers are lower income and are least able to afford the significant additional expense, and may also have a cultural bias toward the safety of tap water.

The District's drink tap water campaign, Love Tap!, debunks myths regarding bottled water versus tap water, and even addresses factors such as taste and convenience when it comes to individual preferences about drinking and transporting water. To promote the Love Tap! message, the District developed a creative outreach strategy aimed at getting young people and adults alike to drink tap water by making it easy and convenient to access. This strategy involved installing water bottle filling stations (called hydration stations) at schools and city recreational facilities and promoting their use throughout the community.

Based on our success with getting kids to teach their parents about water conservation, the District recognized that a key demographic to be reached is school children. The District worked with the Vista Unified School District to install hydration stations in three public schools: an elementary school, a middle school, and a high school. At the elementary school, the District coupled the installation of the hydration station with the distribution of refillable





# WATER SUPPLY FACTS

## WATER SOURCES

The 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.



Colorado River

Typically, 30 percent of the District's water has come from Lake Henshaw and 70 percent has come from imported water from the Colorado River and Northern California. In fiscal year 2015, just nine percent of the District's water came from Lake Henshaw. During years when rainfall is significantly below average, like this year, and the availability of local water is limited, well over ninety percent of the District's water supply can come from imported sources.

## WATER QUALITY

The 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 meets safe drinking water standards. *Last year, the District's water met or exceeded all Federal and State safe drinking water standards.*

In June 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?"

Excerpts from the 2015 Consumer Confidence Report (CCR) reporting data for 2014



2014 WATER QUALITY MONITORING RESULTS (continued)

Parameter	Units	Surface Water (SW)	SW (MCL)	Range (MCL)	Standard (MCL)	Treatment Plant Effluents			
						SW (MCL)	SW (MCL)	SW (MCL)	SW (MCL)
<b>Additional Analyzed (continued)</b>									
Boronate (B <sub>2</sub> O <sub>3</sub> )	mg/L	ND	ND	Range	140-150	NR	NR	NR	NR
				Average	146	NR	NR	NR	
Hardness as CaCO <sub>3</sub>	mg/L	ND	ND	Range	280-290	240	240	270	240
				Average	285	290	270	240	
Calcium (Ca)	mg/L	NR	NR	Range	50-86	72	50-70	41-78	
				Average	61	72	68	62	
Magnesium (Mg)	mg/L	ND	ND	Range	18-25	22	20-25	17-27	
				Average	22	22	20	20	
Nitrate (N)	mg/L	ND	ND	Range	ND-62	ND	ND-62	ND-62	
				Average	ND	ND	ND	5.55	
Dissolved Silica	mg/L	ND	ND	Range	75-88	88	80-90	90	
				Average	80	88	88	90	
pH	Units	NR	NR	Range	7.8-8.9	7.7-8.4	8.1	7.7-8.1	
				Average	8.02	8.0	8.1	7.8	
Total Hardness	mg/L	NR	NR	Range	140-150	140	140-150	140	
				Average	146	140	140	140	

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.

## WATER INFRASTRUCTURE

In 1995, the Board of Directors initiated an on-going Main Replacement Program with the goal of replacing aging pipelines before they reach the end of their useful life and become a maintenance liability. Formalizing the Main Replacement Program has allowed pipe replacements to be prioritized based on the age of the line, leak history, and pipe material as well as a number of factors related to site conditions. Another important factor is input from District crews, who evaluate every line's condition at the time repairs are being made.

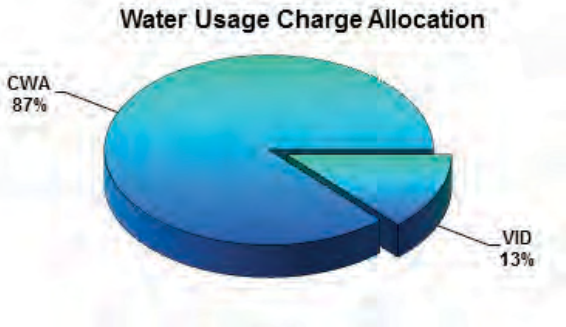


# WATER SUPPLY FACTS continued...

Since its inception, the Board has allocated \$19.7 million to this program which has allowed the replacement of just over 29 miles of older pipe ranging in size from 4 to 20 inches. This year the District spent about \$1.7 million replacing approximately 10,300 feet of pipe as part of this program.

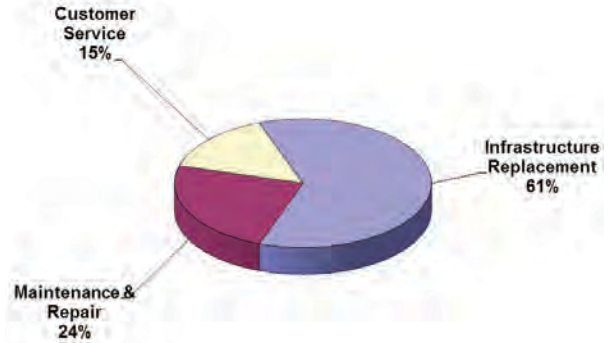
## WATER RATES AND CHARGES

Approximately 13% of the revenue generated by water usage charges is utilized by the Vista Irrigation District to cover operating and maintenance expenses. The remaining 87% 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 the Vista Irrigation District.

The 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.



## MORE INFORMATION ABOUT THE VISTA IRRIGATION DISTRICT

Information about the Vista Irrigation District's water supply as well as an electronic copy of the latest Consumer Confidence Report can be found on the District's web site, [www.vid-h2o.org](http://www.vid-h2o.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/drawings.



# EMPLOYEE SERVICE AWARDS

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

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Davian Chambers, Phil Zamora, Chris Weatherwax and Martin Villalobos

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Susan Montgomery, Michelle Bernal, Ross Miles, Christina Moyer, Ramae Ogilvie and Ben Parks (not pictured)



**15  
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Farrokh Shahamiri, Brad Bates, Gary Arrasmith, Rosemary Garza, Don Smith, Al Ducusin, Richard Setter and John Rauch (not pictured)

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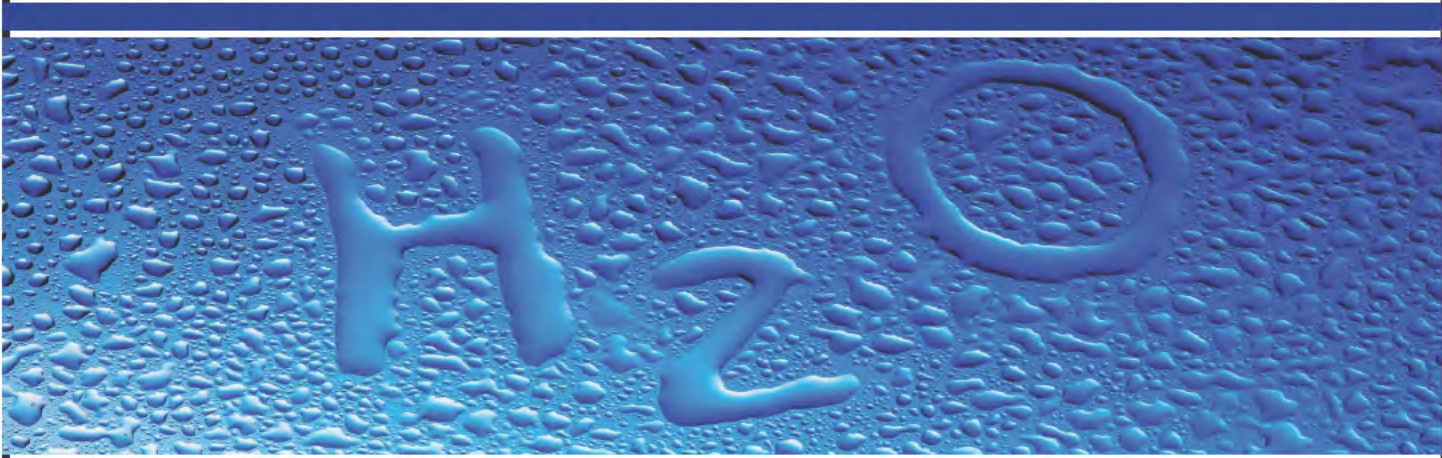
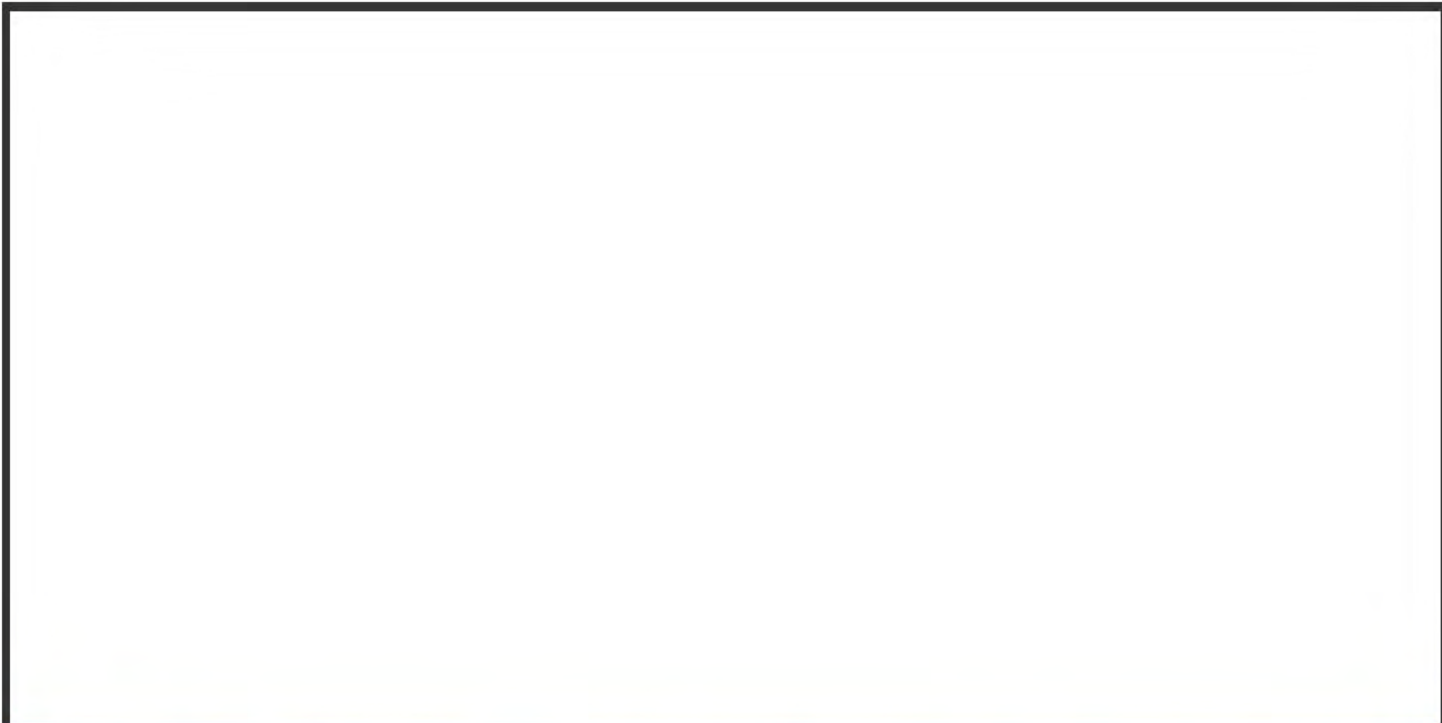
Lisa Soto and Roy Coox

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Brian Smith, Mary Poggemeyer and Manny Macias





# DISTRICT DEMOGRAPHICS

# DISTRICT DEMOGRAPHICS

## Distribution System

*This table shows the District's treated water storage capacity by reservoir. The elevation numbers represent each reservoirs 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. – 34' High	3.30	536.0	568.0
Pechstein	Prestressed Concrete – 355'Dia. - 28' High	20.00	810.0	837.0
Deodar	Prestressed Concrete - 86' Dia. - 31' High	1.30	869.0	899.0
San Luis Rey	Concrete - 156' x 136' x 26' High	3.00	540.0	565.0
Virginia Pl. (A)	Concrete - 100' Dia. - 13'8" High	0.76	695.0	708.0
Summit Trail (C)	Concrete - 100' Dia. - 13'8" High	0.76	625.0	638.0
Edgehill (E)	Concrete - 96' Dia. - 12' High	1.49	741.0	753.0
Cabrillo Cir. (E-1)	Concrete - 90' Dia. - 13'8" High	0.62	546.8	560.0
Rockhill (MD)	Concrete - 55' Dia. - 14' High	0.23	886.4	899.0
Edgehill (HP)	Prestressed Concrete – 160' Dia. – 33' High	4.85	942.7	972.0
Buena Creek (HB)	Prestressed Concrete – 160' Dia. – 33' High	4.85	950.9	980.0
Elevado (H)	Prestressed Concrete – 160' Dia. – 36' High	5.30	774.0	810.0
<b>Total</b>		<b>46.46</b>		

## Water Transmission Facilities

Escondido Canal and Intake	Carrying Capacity: 70 C.F.S.	VID rights = 2/3rds
Vista Main Canal (Flume)	Carrying Capacity: 44 C.F.S.	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)	24,191
Commercial/Industrial	1,630
Irrigation	914
Agricultural	586
Fire Service (Fire Sprinklers)	1,236
Governmental	92
<b>Total</b>	<b>28,649</b>

## VID Pipelines

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

8" to 36" Concrete Gravity	8 miles
4" to 12" AC	266 miles
14" to 36" AC	17 miles
4" to 12" PVC	82 miles
14" to 18" PVC	1 mile
4" to 12" Steel	68 miles
14" to 42" Steel	26 miles
All other materials larger than 4"	5 miles
<b>Total</b>	<b>473 miles</b>

## 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 2014-2015)

This table shows water delivered to the District (from imported 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.

	Water In	Water Out
Received at Intake of Main Conduit (Henshaw Water)	1,618	
Received from San Diego Aqueduct (Imported)	16,215	
Miscellaneous Purchases	0	
Metered to VID users		17,117
Losses		766
<b>Total</b>	<b>17,833</b>	<b>17,833</b>

## Lake Henshaw Properties

### Warner Ranch:

43,402 acres (68 square miles)

### Groundwater Development:

21 wells and 91,000 feet of conduit

### Semi-Hydraulic Earth Fill Dam:

Height 110 feet, Length 1,950 feet

### Reservoir (Lake Henshaw):

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

## Ownership of Lake Henshaw Waters

This table presents a snapshot of ownership of the water stored in the lake at the beginning and end of the fiscal year. The categories of water listed are defined in terms of contractual obligations.

Information gathered from Ownership Analysis Report.

	July 1, 2014	July 1, 2015
Rincon Indians	0	0
Escondido Replacement	0	0
Vista Replacement	0	0
Escondido Pumped	0	0
Escondido Contract	951	716
Vista Contract	4,131	4,035
Vista Pumped	392	0
Unallocated Henshaw Surplus	(829)	(144)
<b>Total</b>	<b>4,645</b>	<b>4,607</b>

## Lake Henshaw Releases

(Fiscal Year 2014-2015)

This table accounts for the fate of water released from the lake in terms of contract deliveries and losses. The contracts with the Rincon Band of Mission Indians and the City of Escondido (formerly the Escondido Mutual Water Company), who had senior water rights on the San Luis Rey River, were entered into in 1923 when the Henshaw Dam was built and diverted flow on the river.

Losses in San Luis Rey River	218
Delivered to Rincon Indians	0
Escondido "A" Water*	19
In Lieu "A" Water*	0
Escondido "B" Water*	1,137
In Lieu "B" Water, Esc. Joint Well Water*	365
Replacement Water to Lake Wohlford	1,618
Loss of Release below Intake	130
<b>Total Releases</b>	<b>3,487</b>

"A", "B", "In Lieu" refer to different classes of water provided to the City of Escondido from Lake Henshaw per the terms of historic water contracts. These classes of water correspond to historic water rights and are available in quantities, times, and costs that vary per the terms of those contracts.

## 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.

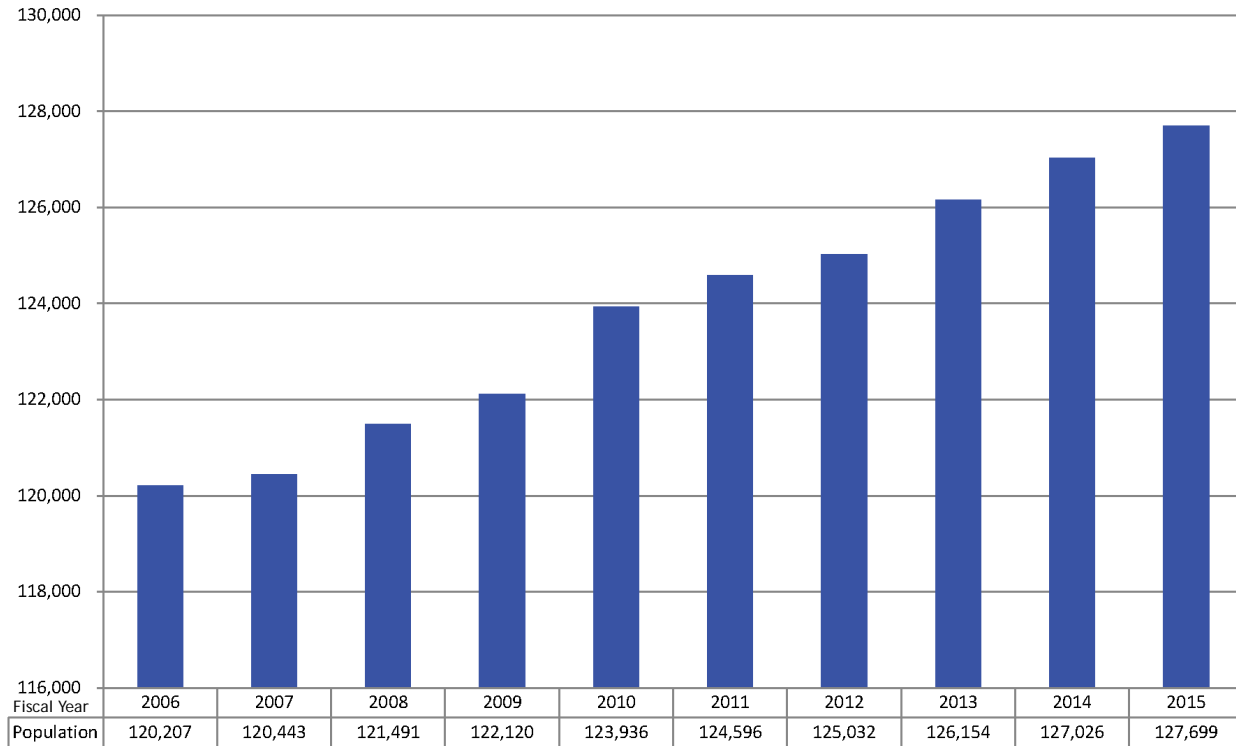
	Acre Feet
Total Storage July 1, 2014	4,645
Less Release	(3,487)
Less Evaporation	(4,437)
Less Spill	0
Plus Pumped Water	7,943
Plus Runoff*	(57)
<b>Total Storage July 1, 2015</b>	<b>4,607</b>

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

# DISTRICT DEMOGRAPHICS

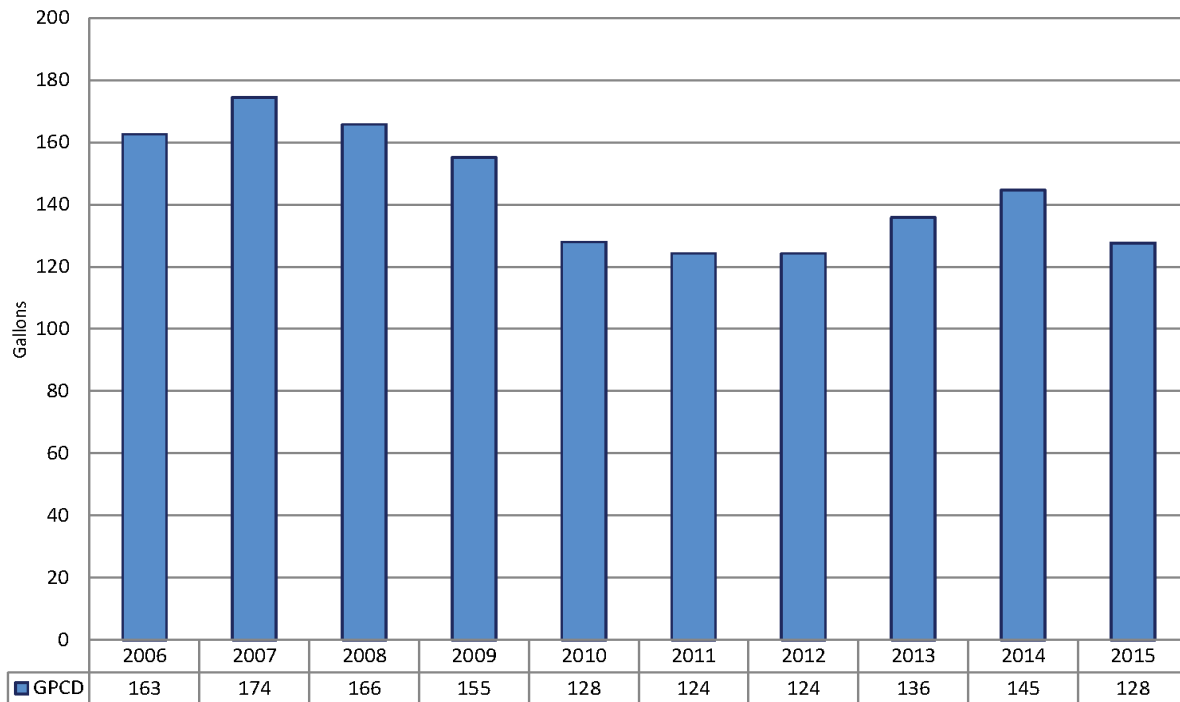
## Population

This 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 10% reduction in per capita water use by 2015 and 20% reduction in per capita water use by December 31, 2020 (referred to as "20 X 2020"). The District's 2015 interim target for 2015 is 159 GPCD and its 2020 target is 142 GPCD. The District's estimated daily per capita water use in 2015 was 128 gallons per capita per day (GPCD), which is 31 GPCD less than its 2015 interim target and 14 GPCD less than its 2020 target.

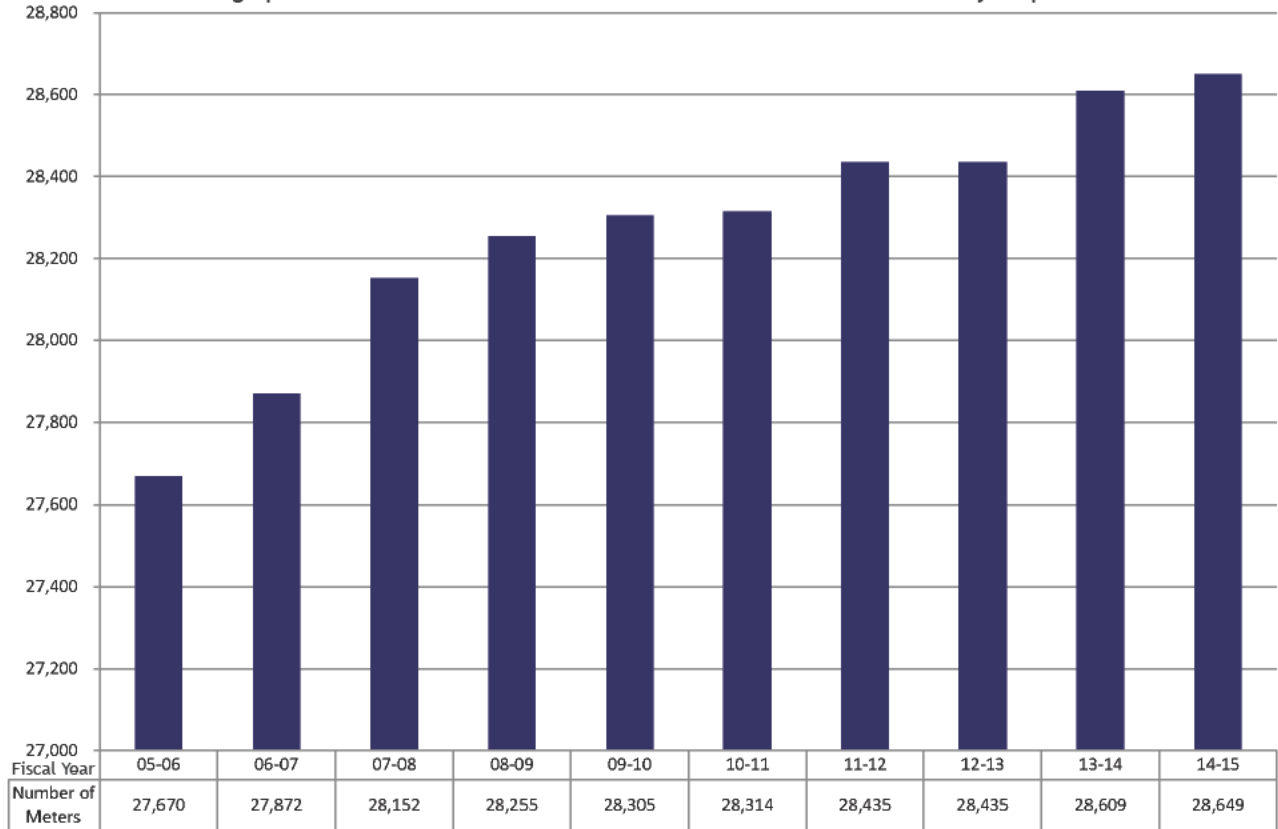




# DISTRICT DEMOGRAPHICS

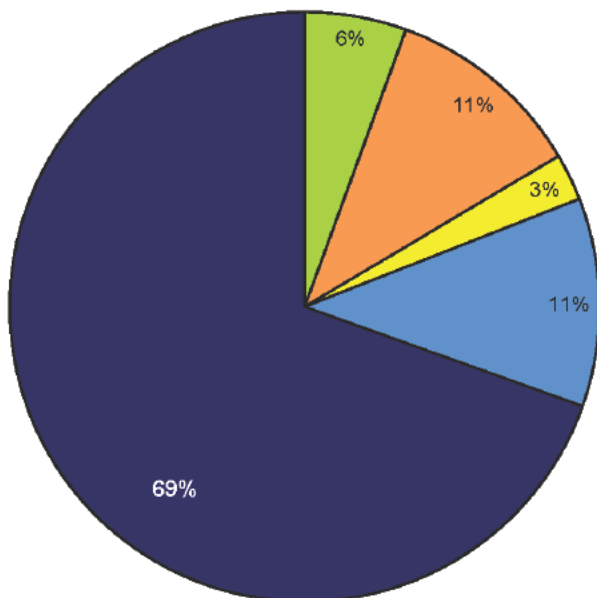
## Meters in Use

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



## Water Delivered by Use Type

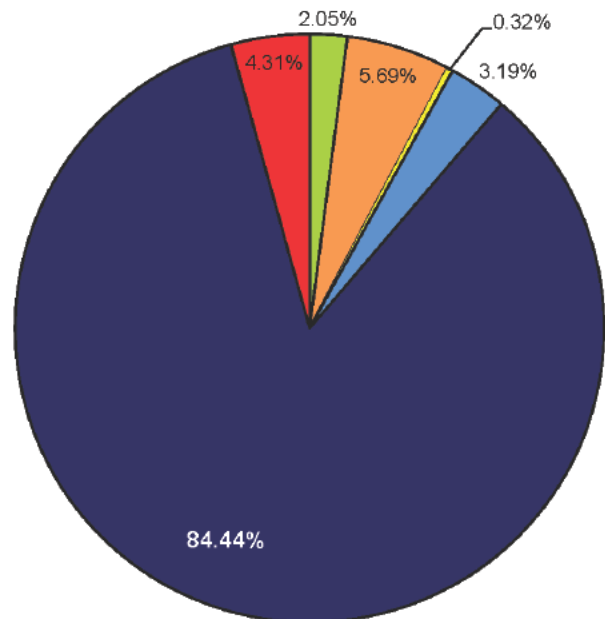
This graph shows how much water is delivered for different uses. As illustrated, a majority of the water delivered to District Customers (69%) is for residential use. The balance is delivered for irrigation, commercial/industrial (business), agriculture and governmental/institutional (parks, libraries,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



- Agriculture
- Commercial/Industrial
- Government/Institutional
- Irrigation
- Residential

## Meters in Service by Use Type

This graph shows meters in service by use. Almost 85% of the District's 28,649 meters are used to supply water to single-family residences.

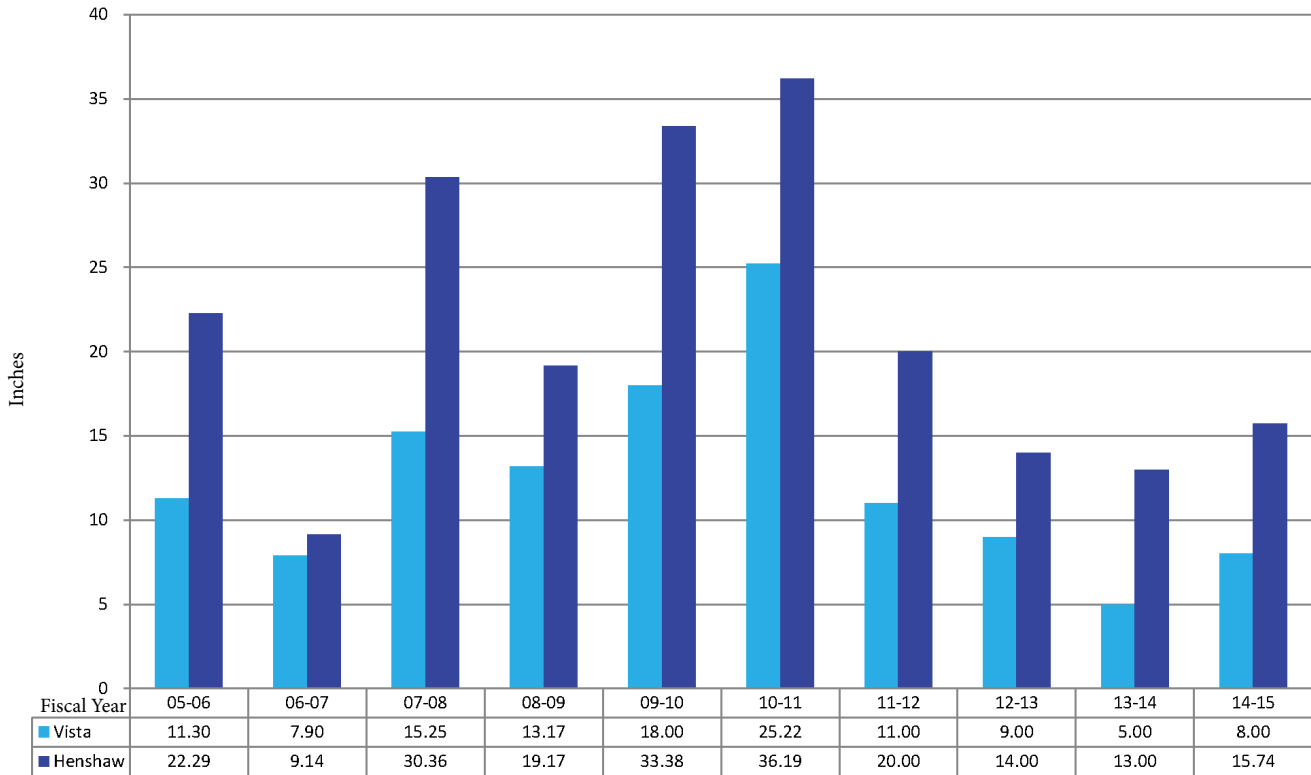


- Agriculture
- Commercial/Industrial
- Government/Institutional
- Irrigation
- Residential
- Fire Service

# DISTRICT DEMOGRAPHICS

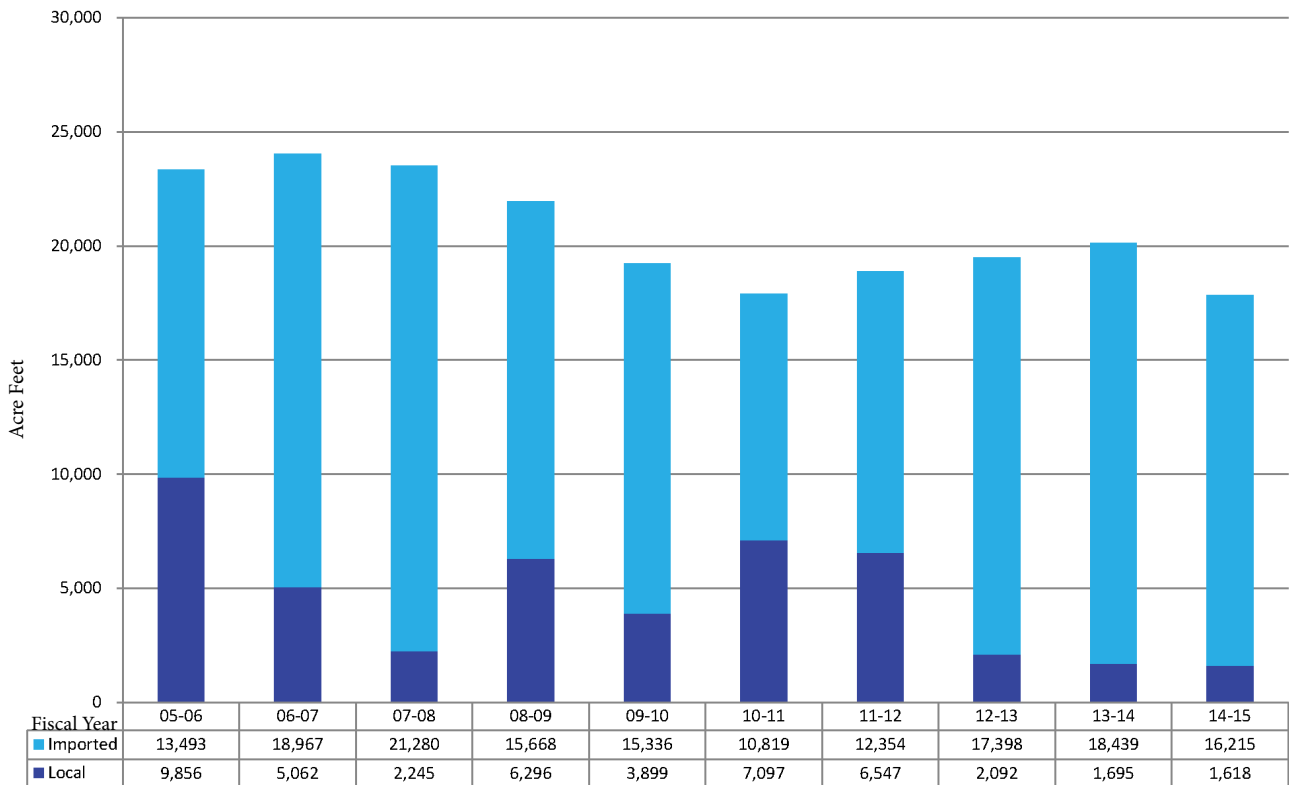
## Rainfall

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 and the Colorado River (imported). This graph shows how much of each source was received in a given year.

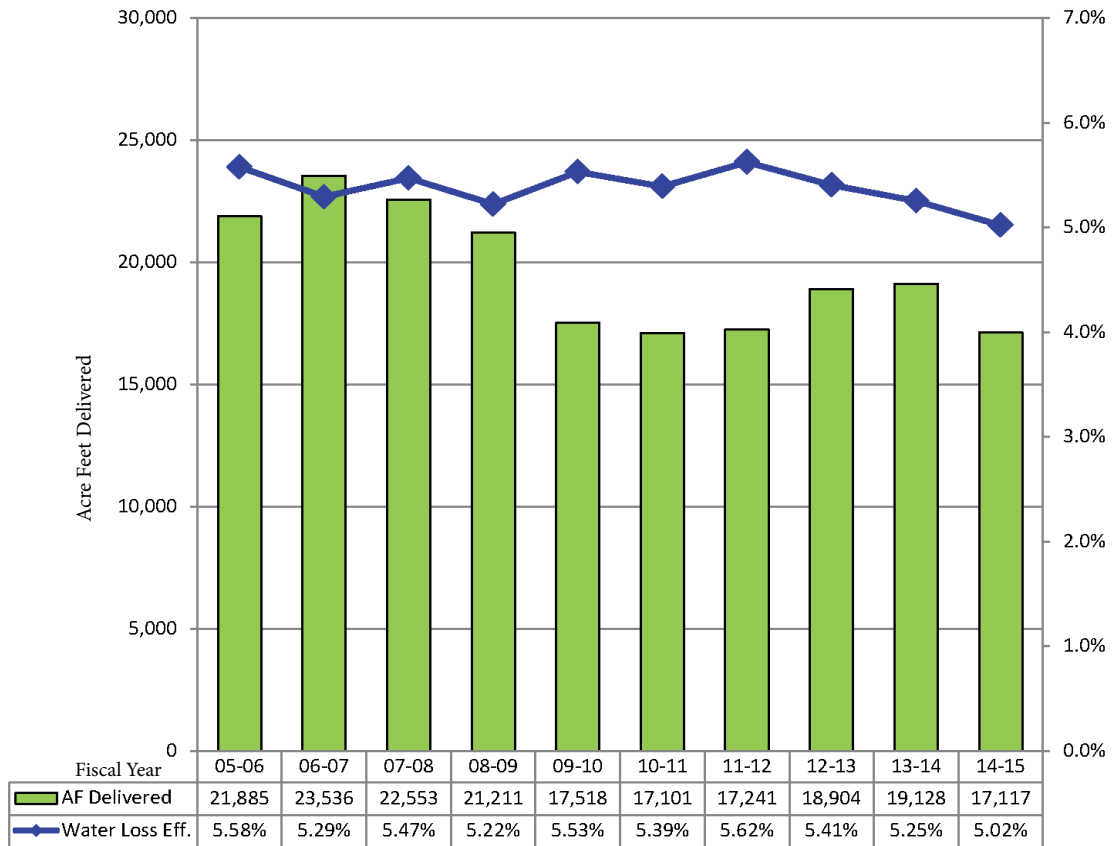




# DISTRICT DEMOGRAPHICS

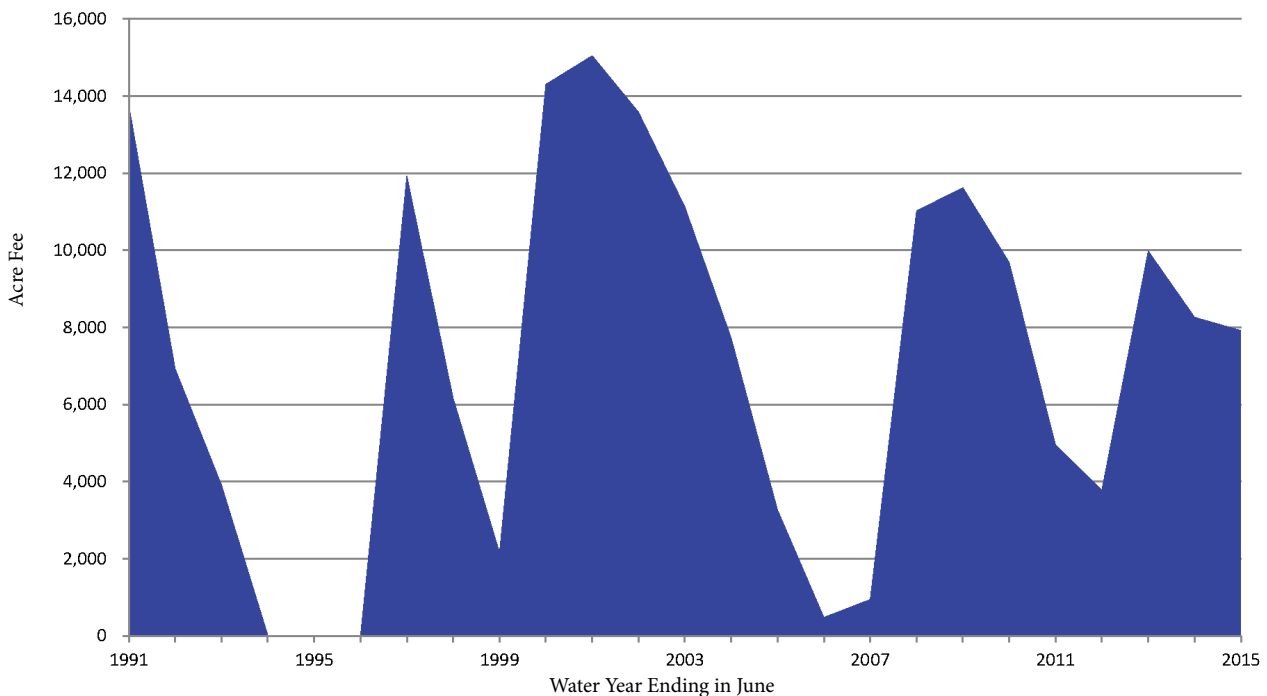
## Distribution Efficiency

This graph shows water delivered to customers (from imported and local sources) which is represented by the green bars. The blue 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)

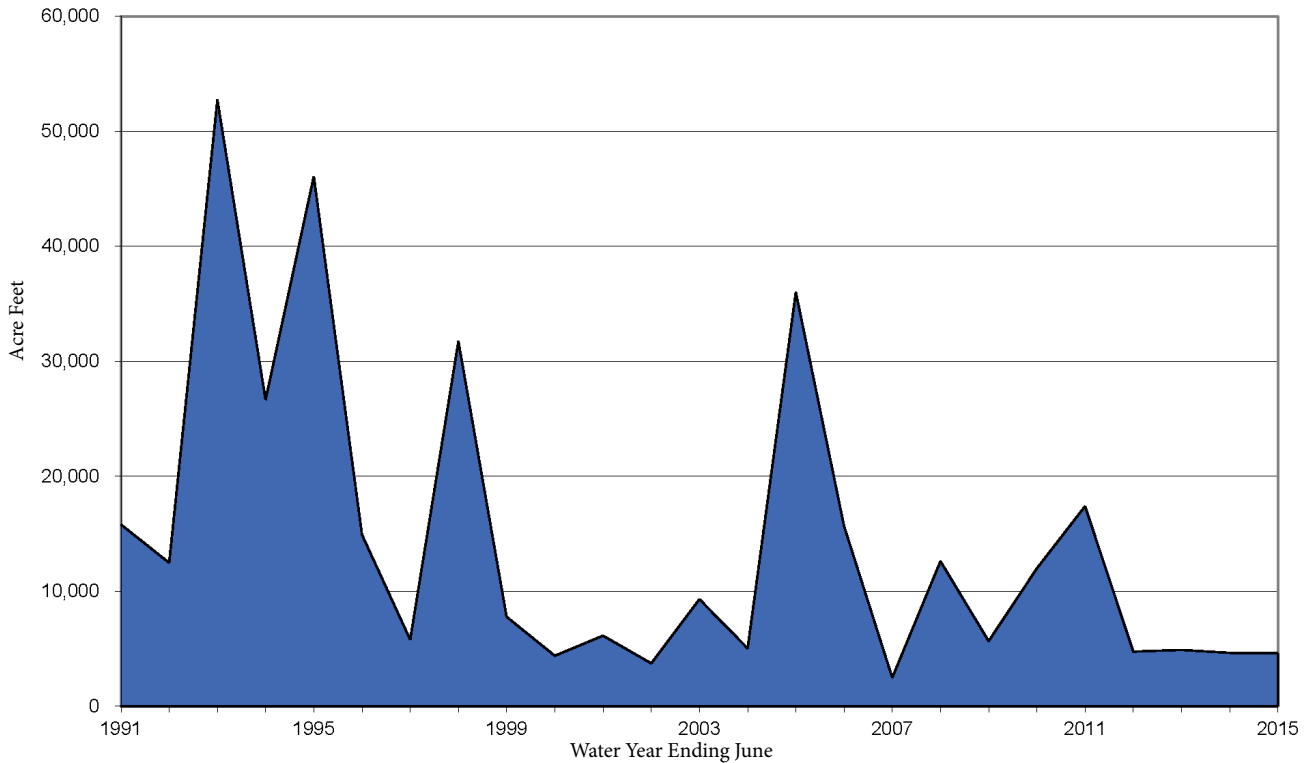
Lake Henshaw's water comes from run-off as well as pumped groundwater from the Warner Basin, which surrounds the lake. This graph shows pumped water totals from 1991 to 2015. Typically, pumped water is more heavily relied on during extended dry periods.



# DISTRICT DEMOGRAPHICS

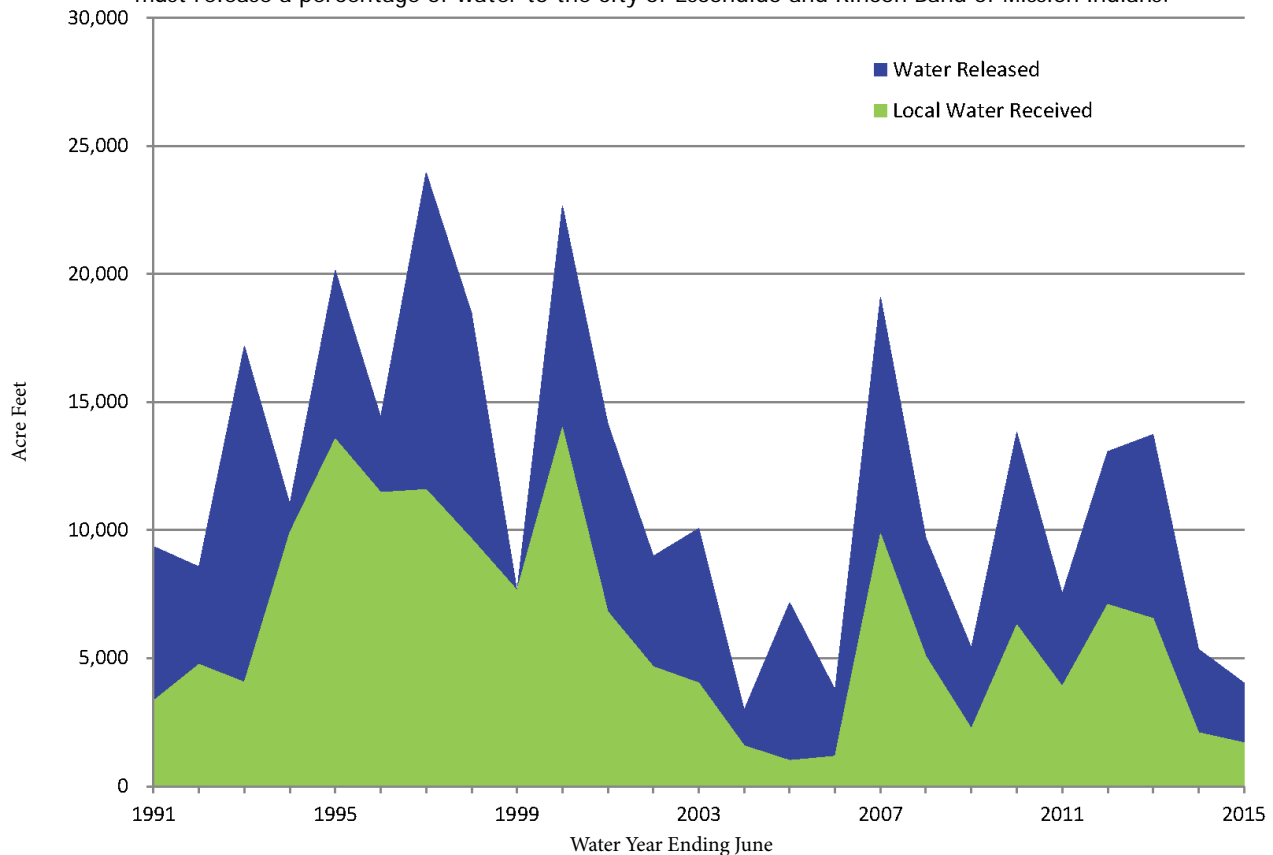
## Water Stored in Lake Henshaw

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 Rincon Band of Mission Indians.





# DISTRICT FINANCIALS



# Management's Discussion and Analysis

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, 2015. 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 present 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 measure the success of the District's operations during the year and determine whether the District has recovered its costs through user fees and other charges.

The statement of cash flows provide 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.

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 decreased 4.1%, while operating expenses decreased 4.0%.

See independent auditors' report



# Management's Discussion and Analysis

- The District realized a \$5.2 million operating gain during the current fiscal year primarily due to the result of purchasing less imported water, due to decreased demand arising from water conservation efforts.
- Contributed capital increased \$0.4 million due to the completion of five capital contribution jobs in the current year, as compared to two in the prior year.
- The District implemented GASB Statement No. 68 during the current fiscal year, which requires the establishment of pension plan liabilities, deferred outflows/inflows of resources, and pension expense according to the Statement's provisions. This resulted in a \$16.9 million prior period restatement of the June 30, 2014 net position balance, as well as the recording of \$18.5 million in net pension liability and \$1.8 million in deferred outflows of resources.

## Financial Analysis of the District

Net Position - The District's overall net position decreased \$10.7 million between fiscal years 2014 and 2015, from \$113.0 to \$102.3 million primarily due to the \$16.9 million prior period restatement of net position as previously reported in the Financial Highlights section. The net investment in capital assets increased \$0.8 million which reflects the excess of net capital additions over the current year depreciation and dispositions. The unrestricted net position decreased \$11.5 million primarily due to the prior period restatement, along with operating income exceeding operating expenses.

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

	<u>2015</u>	<u>2014</u>
Current assets	\$ 45.4	\$ 40.7
Capital assets	82.5	81.8
Long-term prepaid expenses	2.4	2.1
Total Assets	<u>130.3</u>	<u>124.6</u>
Deferred outflows of resources	<u>1.5</u>	<u>-</u>
Current liabilities	6.8	7.4
Noncurrent liabilities	17.8	4.2
Total Liabilities	<u>24.6</u>	<u>11.6</u>
Deferred inflows of resources	<u>4.9</u>	<u>-</u>
Net Position:		
Net investment in capital assets	82.6	81.8
Unrestricted	19.7	31.2
Total Net Position	<u>\$ 102.3</u>	<u>\$ 113.0</u>

See independent auditors' report

# Management's Discussion and Analysis

Change in Net Position - The District's operating revenues decreased by 4.1% to \$46.6 million. In fiscal year 2015, 95.7% of the District's operating revenues came from water sales. The decrease in operating revenues resulted primarily due to decreased water sales, as a result of water conservation efforts.

The District's operating expenses decreased 4.0% to \$41.4 million primarily due to a decrease of \$2.1 million in purchased water, due to lesser demand as discussed above.

The District's contributed capital increased from \$67.3 thousand to \$0.5 million due to more capital contribution jobs completed in the current year.

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

	<u>2015</u>	<u>2014</u>
Operating Revenues		
Water sales, net	\$ 44.6	\$ 46.8
System fees	0.9	0.7
Property rentals	0.7	0.7
Other services	<u>0.4</u>	<u>0.4</u>
Total Operating Revenues	<u>46.6</u>	<u>48.6</u>
 Operating Expenses	 <u>41.4</u>	 <u>43.1</u>
 Operating Income	 <u>5.2</u>	 <u>5.5</u>
 Nonoperating Revenues (Expenses)		
Property taxes	0.4	0.4
Investment income	0.1	0.1
Legal settlement	<u>(0.1)</u>	<u>(0.1)</u>
Total Nonoperating	<u>0.4</u>	<u>0.4</u>
 Contributed Capital	 <u>0.5</u>	 <u>-</u>
 Change in Net Position	 <u>\$ 6.1</u>	 <u>\$ 5.9</u>

See independent auditors' report.



# Management's Discussion and Analysis

## Capital Assets

At June 30, 2015, the District had invested \$164.7 million in capital assets with \$82.1 million in accumulated depreciation. Net capital assets increased \$0.8 million as a result of capital acquisitions exceeding the annual depreciation and dispositions. During the year the District added \$4.2 million of capital assets. The largest capital additions were \$1.8 million in costs for several mainline replacement projects, \$0.7 million for SCADA upgrades and expansion, and \$0.6 million for water treatment plant construction costs. This year's capital reductions included replacement/disposals of pipelines, pumping equipment, vehicles, and copiers with a total historical cost of \$0.4 million. Depreciation for the year was \$3.4 million.

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

	<u>2015</u>	<u>2014</u>
Land, franchises and water rights	\$ 6.0	\$ 6.0
Buildings, canals, pipelines, reservoirs and dams	73.6	73.9
Equipment	1.2	1.0
Henshaw pumping project	0.4	0.4
Construction in progress	<u>1.3</u>	<u>0.5</u>
Total Capital Assets, Net	<u>\$ 82.5</u>	<u>\$ 81.8</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, 2015, 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.

See independent auditors' report.

# Financial Statements

## STATEMENT OF NET POSITION JUNE 30, 2015

### Assets

#### Current Assets:

Cash and cash equivalents (notes 1 and 2)	\$ 18,204,575
Investments (notes 1 and 2)	19,485,885
Accounts receivable, net (notes 1 and 3)	6,958,027
Taxes receivable	33,228
Accrued interest receivable	7,509
Inventories of materials and supplies	547,277
Prepaid expenses and other current assets	123,865
Total Current Assets	<u>45,360,366</u>

#### Noncurrent Assets:

##### Capital assets: (notes 1 and 4)

##### Depreciable assets, net of accumulated depreciation:

Buildings, canals, pipelines, reservoirs and dams	73,650,324
Equipment	1,165,718
Henshaw pumping project	379,715

##### Nondepreciable assets:

Land, franchises and water rights	6,001,127
Construction in progress	1,354,968
Total capital assets	<u>82,551,852</u>

##### Long-term prepaid expenses (note 9)

	<u>2,374,626</u>
--	------------------

##### Total Noncurrent Assets

84,926,478

##### Total Assets

130,286,844

### Deferred Outflows of Resources

Pension related (notes 1, 6 and 8)	<u>1,488,966</u>
------------------------------------	------------------

##### Total Deferred Outflows of Resources

1,488,966

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

(Continued)



# Financial Statements

## STATEMENT OF NET POSITION JUNE 30, 2015

### Liabilities

#### Current Liabilities:

Accounts payable (note 5)	\$ 4,331,156
Deposits	726,632
Accrued expenses and other liabilities	<u>1,736,973</u>
Total Current Liabilities	<u>6,794,761</u>

#### Noncurrent Liabilities:

Claims payable (note 6)	4,245,365
Net pension liability (notes 1, 6 and 8)	<u>13,526,753</u>
Total Noncurrent Liabilities	<u>17,772,118</u>

Total Liabilities	<u>24,566,879</u>
-------------------	-------------------

### Deferred Inflows of Resources

Pension related (notes 1, 6 and 8)	<u>4,932,631</u>
Total Deferred Inflows of Resources	<u>4,932,631</u>

### Net Position

Net investment in capital assets	82,551,852
Unrestricted (notes 7 and 11)	<u>19,724,448</u>
Total Net Position	<u>\$ 102,276,300</u>

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, 2015

### Operating Revenues

Water sales, net (notes 1 and 3)	\$ 44,594,810
System fees	853,041
Property rentals	738,767
Other services	428,667
Total Operating Revenues	<u>46,615,285</u>

### Operating Expenses

Purchased water	19,235,486
Wages and benefits	12,298,601
Contractual services	3,827,299
Depreciation	3,363,263
Supplies	1,309,636
Power	662,164
Professional fees	658,616
Insurance	489,023
Office and general	488,237
Communications	55,126
Burden allocation	(945,126)
Total Operating Expenses	<u>41,442,325</u>

Operating Income 5,172,960

### Nonoperating Revenues (Expenses)

Property taxes	381,843
Investment income	63,423
Federal and state assistance	42,810
Gain on disposal of capital assets	30,557
Legal settlement	(55,173)
Total Nonoperating Revenues	<u>463,460</u>

Income Before Contributed Capital 5,636,420

Contributed Capital 499,911

Change in Net Position 6,136,331

Total Net Position - beginning, as restated (note 11) 96,139,969

Total Net Position - ending \$ 102,276,300

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

# Financial Statements

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2015

### Cash Flows From Operating Activities

Receipts from customers	\$ 46,771,464
Payments to suppliers	(31,356,878)
Payments to employees	(6,646,243)
Collection of deposits	1,021,251
Return of deposits	(786,508)
Net Cash Provided by Operating Activities	<u>9,003,086</u>

### Cash Flows From Noncapital Financing Activities

Receipts from property taxes	376,947
Proceeds from Federal and State assistance	42,810
Net Cash Provided by Noncapital Financing Activities	<u>419,757</u>

### Cash Flows From Capital and Related Financing Activities

Proceeds from disposal of capital assets	40,827
Acquisition of capital assets	(3,667,212)
Net Cash Used by Capital and Related Financing Activities	<u>(3,626,385)</u>

### Cash Flows From Investing Activities

Proceeds from maturities of investments	13,000,000
Interest on cash and investments	32,540
Purchase of investments	(19,461,325)
Net Cash Used by Investing Activities	<u>(6,428,785)</u>

Net Decrease in Cash and Cash Equivalents (632,327)

Cash and Cash Equivalents - beginning 18,836,902

Cash and Cash Equivalents - ending \$ 18,204,575

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

(Continued)



# Financial Statements

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2015

### Reconciliation of Operating Income to Net

#### Cash Provided by Operating Activities

Operating Income	\$	5,172,960
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation		3,363,263
Pension related adjustments		100,885
Changes in Assets and Liabilities:		
Accounts receivable, net		1,177,430
Inventories of materials and supplies		(162,368)
Prepaid expenses and other assets		(91,311)
Accounts payable		(830,498)
Deposits		234,742
Accrued expenses and other liabilities		37,983
Net Cash Provided by Operating Activities	\$	<u>9,003,086</u>

#### Noncash Investing, Capital and Financing Activities

Contributed capital assets	\$	499,911
Capital asset acquisitions included in accounts payable and accrued expenses	\$	577,141
Increase in fair value of investments	\$	28,758

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

# Notes to Financial Statements

## **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 21,160 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.

### **Basis of Accounting**

The accounting principles of the District conform to accounting principles generally accepted in the United States of America applicable to enterprise funds. Accordingly, the statements of net position and the statements of revenues, expenses and changes in net position have been prepared using the economic resources measurement focus and the accrual basis of accounting.

### **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.

### **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.

# Notes to Financial Statements

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

### **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.

### **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 fair market 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 - 60 years
Equipment	3 - 20 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 and Sick Leave**

The District records a liability equal to 100% of vacation earned and the applicable percentage of sick leave available to employees at year end (25%-100%), which is included in accrued expenses and other liabilities.

### **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

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

### **Pension Plans** (Continued)

GASB Statement No. 68 (see Implementation of New Pronouncement below) requires that the reported results must pertain to liability and asset information within certain defined time frames. For this report, the following time frames are used.

Valuation Date (VD)	June 30, 2013
Measurement Date (MD)	June 30, 2014
Measurement Period (MP)	July 1, 2013 to June 30, 2014

### **Revenue Recognition**

The District recognizes revenues from water sales, property rentals, investments and other fees and services as they are earned. Water sales are reported net of uncollectible accounts expense. Taxes and assessments are recognized as revenue, based upon amounts reported to the District by the County of San Diego. The District first utilizes restricted resources to finance qualifying activities, then unrestricted resources as they are needed. 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.

### **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.

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

**Property Loss** - Insured up to \$150,000,000 per occurrence (total insurable value \$28,297,441) 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.

# Notes to Financial Statements

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

### **Risk Management** (Continued)

General Liability - Insured up to \$60,000,000 per occurrence with no deductible; the Authority is self-insured up to \$2,000,000 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 \$2,000,000 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 \$2,000,000 and excess insurance coverage has been purchased.

Fidelity - Insured up to \$100,000 per occurrence with \$1,000 deductible.

Dam Failure Liability - Insured up to \$5,000,000 per occurrence with \$250,000 deductible; the Authority is self-insured up to \$250,000 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.

### **Implementation of New Pronouncement**

GASB has issued Statement No. 68, Accounting and Financial Reporting for Pensions (GASB 68) – An Amendment of GASB Statement No. 27. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. For defined benefit pension plans, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

GASB has issued Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date (GASB 71) – An Amendment of GASB Statement No. 68. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, Accounting and Financial Reporting for Pensions. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

These pronouncements have been implemented for purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense/expenditures. Information about the fiduciary net position of the District's CalPERS plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

# Notes to Financial Statements

## Note 2 - Cash and Investments

The following is a detail of cash and cash equivalents as of June 30, 2015:

Cash on hand	\$ 6,147
Deposits	599,935
State Treasurer's investment pool	10,941,309
California Asset Management Program	6,657,184
Total cash and cash equivalents	<u>\$ 18,204,575</u>

As of June 30, 2015, the District had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>
State Treasurer's investment pool	8 months weighted average	\$ 10,941,309
California Asset Management Program	1 month weighted average	6,657,184
Total cash equivalents		<u>\$ 17,598,493</u>
U.S. Treasury bills	6 months weighted average	\$ 19,485,885
Total Investments		<u>\$ 19,485,885</u>

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.

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.



# Notes to Financial Statements

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

*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, 2015, the District's bank balances were \$402,133, of which \$250,000 were insured and the remaining \$152,133 were uninsured and collateralized with securities held by the pledging institution's trust department.

## **Note 3 - Accounts Receivable, Net**

As of June 30, 2015, the net balances were comprised of accounts receivable balances of \$7,449,667 less the allowances for doubtful accounts of \$491,640.

On the Statement of Revenues, Expenses and Changes in Net Position for the year ended June 30, 2015, the balance of water sales, net of uncollectible accounts expense, was comprised of water sales revenues of \$44,596,500 less uncollectible amounts of \$1,690.

# Notes to Financial Statements

## Note 4 - Capital Assets

Capital assets consist of the following at June 30, 2015:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land, franchises, and water rights	\$ 5,960,313	\$ 40,814	\$ -	\$ 6,001,127
Construction in progress	<u>456,338</u>	<u>3,194,297</u>	<u>(2,295,667)</u>	<u>1,354,968</u>
Total capital assets not being depreciated	<u>6,416,651</u>	<u>3,235,111</u>	<u>(2,295,667)</u>	<u>7,356,095</u>
Capital assets being depreciated:				
Buildings, canals, pipelines, reservoirs and dams	146,320,440	2,752,855	(37,476)	149,035,819
Equipment	5,228,882	417,137	(367,078)	5,278,941
Henshaw pumping project	<u>2,977,296</u>	<u>54,618</u>	<u>(28,119)</u>	<u>3,003,795</u>
Total capital assets being depreciated	<u>154,526,618</u>	<u>3,224,610</u>	<u>(432,673)</u>	<u>157,318,555</u>
Less accumulated depreciation for:				
Buildings, canals, pipelines, reservoirs and dams	(72,378,776)	(3,044,142)	37,423	(75,385,495)
Equipment	(4,182,763)	(290,389)	359,929	(4,113,223)
Henshaw pumping project	<u>(2,623,467)</u>	<u>(28,732)</u>	<u>28,119</u>	<u>(2,624,080)</u>
Total accumulated depreciation	<u>(79,185,006)</u>	<u>(3,363,263)</u>	<u>425,471</u>	<u>(82,122,798)</u>
Total capital assets being depreciated, net	<u>75,341,612</u>	<u>(138,653)</u>	<u>(7,202)</u>	<u>75,195,757</u>
Total capital assets, net	<u>\$ 81,758,263</u>	<u>\$ 3,096,458</u>	<u>\$ (2,302,869)</u>	<u>\$ 82,551,852</u>

## Note 5 - Accounts Payable

At June 30, 2015, the accounts payable of \$4,331,156 included \$2,869,116 for water purchases from the San Diego County Water Authority and \$1,462,040 for obligations to other vendors.

## Note 6 - Noncurrent Liabilities

See Note 10 – Commitments and Contingencies, for information regarding the establishment of the original \$3.85 million in claims payable that is owed to the Indian Water Authority.

Changes in the claims payable amounts for the year ended June 30, 2015 were as follows:

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Consumer Price Adjustment</u>	<u>Ending Balance</u>
2015	\$ 4,190,193	\$ 55,172	\$ 4,245,365

# Notes to Financial Statements

## **Note 6 - Noncurrent Liabilities** (Continued)

Increases to the claims payable amount are based on the increase in the Consumer Price Index, All Urban Consumers, San Diego, published by the United States Department of Labor, Bureau of Labor Statistics, per the proposed changes to the Settlement Agreement terms discussed in Note 10.

Changes in the net pension liability amounts for the year ended June 30, 2015 were as follows:

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Additions*</u>	<u>Reductions</u>	<u>Ending Balance</u>
2015	\$ -	\$ 18,482,409	\$ 4,955,656	\$ 13,526,753

\*Additions to the net pension liability resulted from the implementation of GASB 68.

The entire net pension liability is reported as a noncurrent liability in the accompanying Statement of Net Position in accordance with GASB 68.

## **Note 7 - Unrestricted Net Position**

Unrestricted net position has been reserved by the Board of Directors for the following purposes:

Emergency and contingency	\$ 8,000,000
Future construction	2,643,279
Working capital	9,000,000
Ranch improvements	81,169
Total unrestricted net position	<u>\$ 19,724,448</u>

## **Note 8 - 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, 2013 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' audited financial statements are publicly available reports that can be obtained at CalPERS' website under Forms and Publications, at [www.calpers.ca.gov](http://www.calpers.ca.gov).



# Notes to Financial Statements

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

### **A. General Information about the Pension Plan** (Continued)

#### **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, 2015 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	21.322%	8.005%	6.25%

#### **Contributions**

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. For public agency cost-sharing plans covered by Miscellaneous risk pools, the Plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ended June 30, 2014 (the measurement date), the average active employee contribution rate for the respective miscellaneous Tier 1, Tier 2, and PEPRA plans are 4.5%, 7.0%, and 6.25% of annual pay, and the employer's contribution rates are 20.273%, 8.049% and 6.25% of annual payroll. Employer contribution rates may change if plan contracts are amended. Employer Contributions for the measurement period

# Notes to Financial Statements

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

### **A. General Information about the Pension Plan** (Continued)

#### **Contributions** (Continued)

ended June 30, 2014 for the combined miscellaneous Tier 1, Tier 2, and PEPRA plans are \$1,459,677. The actual employer payments of \$1,459,677 made to CalPERS by the District during the measurement period ended June 30, 2014 differed from the District's proportionate share of the employer's contributions of \$1,636,341 by \$176,664, which is being amortized over the expected average remaining service lifetime in the Public Agency Cost-Sharing Multiple Employer Plan.

### **B. Net Pension Liability**

The District's net pension liability for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the Plan is measured as of June 30, 2014, using an annual actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is as follows.

#### **Actuarial Methods and Assumptions Used to Determine Total Pension Liability**

For the measurement period ended June 30, 2014 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2013 total pension liability. The June 30, 2013 and June 30, 2014 total pension liabilities for the Plan was based on the following actuarial methods and assumptions:

Valuation Date	June 30, 2013
Measurement Date	June 30, 2014
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	Market Value of Assets
Actuarial Assumptions:	
Discount Rate	7.50%
Inflation	2.75%
Salary Increases (1)	3.3% - 14.2%
Investment Rate of Return (2)	7.50%
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.

# Notes to Financial Statements

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

### **B. Net Pension Liability** (Continued)

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

All other actuarial assumptions used in the June 30, 2013 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.

#### **Discount Rate**

The discount rate used to measure the total pension liability was 7.50 percent for the Plan. 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 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.50 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. This difference was deemed immaterial to the Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan. Refer to the sensitivity of the net pension liability to changes in the discount rate section of this note, which provides information on the sensitivity of the net pension liability to changes in the discount rate.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as they have changed their methodology.

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 (11-60 years) using a building-block approach.

# Notes to Financial Statements

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

### **B. Net Pension Liability** (Continued)

#### **Discount Rate** (Continued)

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 <sup>1</sup>	Real Return Years 11+ <sup>2</sup>
Global Equity	47.0%	5.25%	5.71%
Global Fixed Incom	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	12.0%	6.83%	6.95%
Real Estate	11.0%	4.50%	5.13%
Infrastructure and Forestland	3.0%	4.50%	5.09%
Liquidity	2.0%	(0.55%)	(1.05%)
Total	100%		

<sup>1</sup> An expected inflation of 2.5% used for this period

<sup>2</sup> An expected inflation of 3.0% used for this period

#### **Pension Plan Fiduciary Net Position**

Information about the pension plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position are presented in CalPERS' audited financial statements, which are publicly available reports that can be obtained at CalPERS' website under Forms and Publications, at [www.calpers.ca.gov](http://www.calpers.ca.gov). The Plan's fiduciary net position and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis used by the pension plan, which is the economic resources measurement focus and the accrual basis of accounting. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. Investments are reported at fair value.

The plan fiduciary net position disclosed in the GASB 68 accounting valuation report may differ from the plan assets reported in the funding actuarial valuation report due to several reasons. First, for the accounting valuations,



# Notes to Financial Statements

## Note 8 - Defined Benefit Pension Plan (Continued)

### B. Net Pension Liability (Continued)

#### Pension Plan Fiduciary Net Position (Continued)

CalPERS must keep items such as deficiency reserves, fiduciary self-insurance and Other Post-Employment Benefits (OPEB) expense included as assets. These amounts are excluded for rate setting purposes in the funding actuarial valuation. In addition, differences may result from early Comprehensive Annual Financial Report closing and final reconciled reserves.

### 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: 6/30/2013 (VD)	\$ 75,227,170	\$ 56,744,761	\$ 18,482,409
Balance at: 6/30/2014 (MD)	\$ 79,703,912	\$ 66,177,159	\$ 13,526,753
Net Changes during 2013-14	\$ 4,476,742	\$ 9,432,398	\$ (4,955,656)

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

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2014, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. The District's proportion of the net pension liability was determined by CalPERS using the output from the Actuarial Valuation System and the fiduciary net position, as provided in the CalPERS Public Agency Cost-Sharing Allocation Methodology Report, which is a publicly available report that can be obtained at CalPERS' website under Forms and Publications, at [www.calpers.ca.gov](http://www.calpers.ca.gov). The District's proportionate share of the net pension liability for the Plan as of June 30, 2013 and 2014 was as follows:

Proportionate Share - June 30, 2013	<u>Miscellaneous</u> 0.56406%
Proportionate Share - June 30, 2014	<u>0.54731%</u>
Change - Increase (Decrease)	<u>(0.01675%)</u>



# Notes to Financial Statements

## Note 8 - Defined Benefit Pension Plan (Continued)

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

As of the start of the measurement period (July 1, 2013), the net pension liability for the plan is \$18,482,409 (the net pension liability of the aggregate plan as of June 30, 2013 is \$3,276,668,431).

For the measurement period ending June 30, 2014 (the measurement date), the District incurred a pension expense of \$1,589,850 for the Plan (the pension expense for the aggregate plan for the measurement period is \$239,824,465). A complete breakdown of the pension expense is as follows:

Description	Risk Pool Amounts	Employer's Share	Percentage of Employer's Share
Service Cost	\$ 338,829,351	\$ 1,873,950	0.5531%
Interest on the Total Pension Liability	921,162,366	5,599,919	0.6079%
Employee Contributions	(159,834,203)	(379,778)	0.2376%
Projected Earnings on Pension Plan Investments	(678,133,636)	(4,229,617)	0.6237%
Recognized Differences between Projected and Actual Earnings on Plan Investments	(182,199,413)	(1,136,404)	0.6237%
Recognized Portion of Adjustment due to Differences in Proportions	-	(91,729)	N/A
Recognized Difference Between Contributions and Proportionate Share of Contributions	-	(46,491)	
Subtotal: Employer's Share of Expense Components	\$ 239,824,465	1,589,850	
Employer's Proportionate Share of Pension Expense		\$ 1,589,850	

Note: Plan administrative expenses are not displayed in the above pension expense table. Since the expected investment return of 7.50 percent is net of administrative expenses, administrative expenses are excluded from the above table, but implicitly included as part of investment earnings.

As of June 30, 2014, the District has deferred outflows and deferred inflows of resources related to pensions as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net Difference between Projected and Actual Earnings on Pension Plan Investments	\$ -	\$ (4,545,617)
Adjustment due to Differences in Proportions	-	(256,841)
Changes in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	-	(130,173)
Pension Contributions Subsequent to Measurement Date	1,488,966	-
Total	\$ 1,488,966	\$ (4,932,631)

# Notes to Financial Statements

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

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

These amounts above are net of outflows and inflows recognized in the 2013-14 measurement period expense. \$1,488,966 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in future pension expense as follows:

Measurement Period Ended June 30:	Deferred Outflows/(Inflows) of Resources, Net
2015	\$ (1,228,133)
2016	(1,274,624)
2017	(1,256,278)
2018	(1,173,596)
2019	-
Thereafter	-
	<u>\$ (4,932,631)</u>

### **E. Payable to the Pension Plan**

At June 30, 2015, the District reported a payable of \$0 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2015.

## **Note 9 - Other Postemployment Benefits**

### **Plan Description**

In accordance with the terms and conditions of the employment agreements for employees hired before January 1, 2012, the District offers postemployment healthcare benefits to eligible employees who retire on or after January 1, 2006 under CalPERS, who have reached the minimum age of 50, and have completed fifteen years of service with the District (ten years for management employees). The plan is a single-employer benefit plan. Coverage will not extend beyond a combined fifteen years for the retiree and their eligible spouse (twenty years for management employees). The years of coverage may be split between the retiree and spouse; however, the maximum coverage for a retiree may not exceed ten years, and the number of years of coverage for the spouse may not exceed the number of years of coverage for the retiree. A specific health plan provides this direct insurance coverage to retiring employees that reside in the California service area as defined by the plan. If the retiree lives outside the California service area, the District reimburses the retiree quarterly for health insurance premiums not to exceed the current premiums paid to the specific health plan.

For employees who retired on or after January 1, 1990 and prior to January 1, 2006, the District offers postemployment healthcare benefits to eligible employees for a coverage period not extending beyond 10 years and does not cover dependents.



# Notes to Financial Statements

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

### **Plan Description** (Continued)

The District pre-funds its other postemployment benefits (OPEB) with CalPERS through the California Employers' Retiree Benefits Trust (CERBT) Fund. The CERBT is a trust fund that allows public employers to pre-fund the future cost of their retiree health insurance benefits and OPEB obligations for their covered employees or retirees. Employers that elect to participate in the CERBT make contributions into the trust fund. Participating employers use investment earnings to pay for retiree health benefits, similar to the CalPERS pension trust.

The District fully funds its OPEB liability through the CERBT. For the year ended June 30, 2015, the District was fully funded in a prepaid status (in relation to the Annual Required Contribution), and was not required to make any contributions to the CERBT.

CERBT publishes separate financial statements that conform to GASB Statement No. 43 in separately issued financial statements for the CalPERS Trust. Copies of the CalPERS' annual financial report for its OPEB Trust may be obtained from its executive office at 400 P Street, Sacramento, California 95811.

### **Funding Policy and Annual OPEB Cost**

The District's annual other postemployment benefit (OPEB) cost (expense) for the plan is calculated based on the "annual required contribution of the employer" (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the value of employer promised benefits expected to be earned or allocated for each fiscal year and to amortize any unfunded actuarial liabilities (or funding expense) over a period not to exceed thirty years. The District's annual OPEB cost for the current year and the related information for the plan are as follows:

	<u>Retiree Healthcare Plan</u>
Contribution rate:	Actuarially determined
District	4.3%
Annual required contribution	\$ 316,284
Adjustment to annual required contribution	138,785
Interest on net OPEB asset	<u>(172,439)</u>
Annual OPEB cost (expense)	282,630
Contributions made	<u>(391,306)</u>
Increase (decrease) in net OPEB obligation/(asset)	(108,676)
Net OPEB obligation (asset) - beginning of year	<u>(2,265,950)</u>
Net OPEB obligation (asset) - end of year	\$ <u><u>(2,374,626)</u></u>

# Notes to Financial Statements

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

### **Funding Policy and Annual OPEB Cost** (Continued)

Annual OPEB Cost includes interest and the ARC adjustment, in addition to the ARC.

In accordance with the provisions of GASB Statement No. 45, the District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

	Year End	Annual OPEB Cost	Actual Contribution	Percent of OPEB Cost Contributed	Net OPEB Obligation (Asset)
Retiree Healthcare Plan	June 30, 2013	\$349,516	\$372,236	106.5%	(\$66,617)
Retiree Healthcare Plan	June 30, 2014	\$306,082	\$2,505,415	818.5%	(\$2,265,950)
Retiree Healthcare Plan	June 30, 2015	\$282,630	\$391,306	138.5%	(\$2,374,626)

### **Funded Status and Funding Progress**

The funded status of the plan was as follows:

Actuarial Valuation Date	Actuarial Value of Plan Assets (A)	Actuarial Accrued Liability (B)	Unfunded Liability (A-B)	Funded Ratio (A/B)	Annual Covered Payroll (C)	Unfunded Liability as a % of Annual Covered Payroll [(A-B)/C]
July 1, 2012	\$1,370,387	\$4,162,912	(\$2,792,525)	32.9%	\$7,416,382	(37.7%)
July 1, 2013	\$1,238,734	\$3,574,767	(\$2,336,033)	34.7%	\$7,494,718	(31.2%)

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

In June 2014, the District opted to make a lump sum payment of \$2,119,265 in order to pay off the unfunded portion of the District's OPEB liability, and as a result, the District was fully funded as of June 30, 2014. This payment was not included in the most recent actuarial valuation dated July 1, 2013 but will be included in the actuarial valuation dated July 1, 2015.

# Notes to Financial Statements

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

### **Actuarial Methods and Assumptions**

Projections of benefits are based on the substantive plan (the plan as understood by the employer and the plan members) and includes the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the District and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

Actuarial valuation date	June 30, 2013
Actuarial cost method	Projected Unit Credit
Amortization method	Level percentage of pay
Remaining amortization period	24 years
Asset valuation method	Market Value
Actuarial assumptions:	
Investment rate of return	7.61%
Projected salary increases	3.00%

The actuarial cost method used for determining the benefit obligations is the Projected Unit Credit with service prorated. The actuarial assumptions included a 7.61% investment rate of return, which is the assumed rate of the expected long-term investment returns on plan assets calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 6.5% HMO and 7.0% PPO for 2015, each declining by 0.5% per year through 2018, and 0.5% per year for both HMO and PPO for all years after 2018. Both rates included a 2.8% inflation assumption. The UAAL is being amortized over an initial 30 years using the level-percentage of pay method on a closed-basis. The remaining amortization period at June 30, 2013 is assumed to be 24 years. It is assumed the District's payroll will increase 3.00% per year.

## **Note 10 - Commitments and Contingencies**

### **Commitments**

Under terms of a 1922 contractual agreement with the United States Department of the Interior, the District and the City of Escondido are obligated to provide the first 6 cubic feet per second of the natural flow of the San Luis Rey River to the Rincon Indians. The agreement is one of those claimed to be void ab initio by the United States and the Rincon Indians in the litigation discussed below.

In July 2007, the District announced entry into a "settlement agreement in principle" with the City of Escondido (Escondido) and the Indian bands. Per the terms of the "settlement agreement in principle", the Rincon Band would continue to receive its historic entitlement of water, but now quantified as a right to 2,900 acre-feet per year, on average, adjusted by annual hydrologic conditions. Following are the provisions of the "settlement agreement in principle":

1. Allocation of Local Water and Supplemental Water
  - a) The Rincon Band shall receive its historic right to the first 6 cubic feet per second of the natural flow of the San Luis Rey River (local water). The District and Escondido shall have the right to use the remaining local water, subject to the right of the Bands to divert and use local water through an acre foot for acre foot exchange with supplemental water.

# Notes to Financial Statements

## Note 10 - Commitments and Contingencies (Continued)

### Commitments (Continued)

- b) The Indian Water Authority (an intertribal entity established by the Bands) shall be entitled to the benefit of the 16,000 acre feet of supplemental water provided by the Settlement Act. The Indian Water Authority may exchange supplemental water for local water.

### 2. Financial Obligations

- a) The Indian Water Authority is responsible for all costs associated with obtaining supplemental water. The District and Escondido are responsible for all costs associated with maintaining and operating the local water system, including the cost of a proposed canal undergrounding on the San Pasqual Indian Reservation (currently estimated to cost \$27 million). The cost of the proposed undergrounding project will be divided evenly between the District and Escondido.
- b) In return for the Bands' and the United States' agreement that the Settlement shall be an entire agreement, and no obligations among the parties from the 1894, 1914, and 1922 contracts shall endure, there shall be no annual charges paid by the District or Escondido for the use of tribal lands, and all liability among the parties shall be waived prior to the effective date of the Settlement Agreement. The District and Escondido agree to each pay the Indian Water Authority \$3.85 million on October 1, 2008. This amount can be paid either as a lump sum, or paid over the next 20 years at 5% interest, or paid over 20 years, delayed for 5 years, at 6% interest. Any payment may be prepaid without a prepayment penalty.
- c) The Rincon Band's revised entitlement to local water is estimated to cost the District approximately \$240,000 annually, based on the current cost of imported water and the assumption that the new formulation of the Rincon entitlement will result in the District purchasing additional imported water.

On September 30, 2008, the negotiators for the District, the Bands and Escondido announced a Settlement Agreement regarding the water rights issues. The provisions of the Settlement Agreement are essentially the same as those of the "settlement agreement in principle" announced in July, 2007 as mentioned above.

However, in order for the Agreement to take effect, the following conditions are necessary: (i) the Agreement must be executed by all of the parties; (ii) the Agreement must be approved by the United States District Court for the Southern District of California after the Court has ascertained in open court and on the record that all parties understand and agree with the terms of the Agreement and represent that: (a) the Settlement was entered into in good faith, and this Agreement provides fair and reasonable terms for the use of Local and Supplemental Water by the Parties and for financial and other consideration among the Parties, and (b) that all Parties understand and agree with the terms of this Agreement and represent that they have received adequate legal representation in reaching that conclusion; (iii) a stipulated judgment of dismissal or other appropriate final disposition has been entered in the litigation involving the City of Escondido and Vista Irrigation District (Local Entities), the United States, and the Bands in all of the proceedings among the parties pending in United States District Court for the Southern District of California and the Federal Energy Regulatory Commission (FERC); (iv) FERC has issued the Conduit Exemption License and has approved the Surrender Application; (v) the Secretary of the Interior has issued all necessary rights-of-way for the Local Water System in accordance with section 109(b) of the Settlement Act; and



# Notes to Financial Statements

## **Note 10 - Commitments and Contingencies** (Continued)

### **Commitments** (Continued)

(vi) all applicable appeal periods have expired. The date when all these conditions have been satisfied shall be the effective date of the Agreement.

The District's legal counsel and management are unable to opine upon the length of time it will take to resolve the matter and obtain all required approvals for a final settlement agreement.

### **Litigation**

Several bands of Indians have claimed the rights to certain water now utilized by the District, substantial actual and punitive damages, and the invalidation of certain contracts. Actions on those claims naming the District as a defendant have been filed in the United States District Court by the bands and by the United States, in its own right and on behalf of the bands. Legislation authorizing the settlement of the Indian water rights dispute was enacted on November 17, 1988, as the "San Luis Rey Indian Water Rights Settlement Act". This legislation authorizes the parties to the dispute to enter into a settlement agreement and establishes a trust fund in the amount of \$30,000,000. Implementation of this legislation is pending development of a 16,000 acre foot per year supplemental water supply and negotiation of the precise terms of the settlement agreement. In October 2000, the source of the 16,000 acre foot supplemental water supply was identified as a portion of the water conserved from the lining of the All-American Canal and the Coachella Branch of the All-American Canal. Commencing in about January 2007, the settlement parties began obtaining 4,500 acre feet of water annually from the completed Coachella Branch Canal Lining Project. Construction of the lining of the All-American Canal (which produces the remaining 11,500 acre feet) was completed in 2010.

The District's legal counsel and management are unable to opine upon the ultimate outcome of the above matters. The Settlement Agreement summarizes some of the major proposed terms of agreement among the parties.

Discussions have continued on a long-standing dispute between the District and the City of Escondido (successor to Escondido Mutual Water Company) over the calculations and allocations between the two entities of natural flow of the San Luis Rey River. Management's opinion is that this matter will be resolved concurrently with the dispute with the Indian bands by adhering to the settlement rubric outlined in the July 2007 "settlement agreement in principle."

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 11 – Prior Year Restatement**

### **Change in Accounting Principle**

As discussed in Note 1, the District implemented GASB 68 effective July 1, 2014. GASB 68, among other provisions, amended prior guidance with respect to the reporting of pensions. GASB 68, establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. For defined benefit pensions, the District's net pension liability was not previously recorded on the statement of net position. GASB 68 requires that accounting changes adopted to conform to the provisions of the Statement be applied retroactively by restating financial statements. Restatement of the comparative financial data for the prior

# Notes to Financial Statements

## **Note 11 – Prior Year Restatement** (Continued)

### **Change in Accounting Principle** (Continued)

period presented is not practical due to the unavailability of information from the pension plan; therefore, the provisions of GASB 68 and GASB 71 were not applied to the prior period. The cumulative effects of applying the provisions of GASB 68 and GASB 71 have been reported as a restatement of beginning net position for the year ended June 30, 2015 in accordance with the Statements.

Accordingly, beginning net position on the Statement of Net Position for the year ended June 30, 2015 has been restated for changes related to GASB 68 as follows:

Beginning net position, as previously reported	\$ 113,009,502
Restatement due to change in accounting principle	<u>(16,869,533)</u>
Beginning net position, as restated	<u>\$ 96,139,969</u>

# Required Supplementary Information

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

	Measurement Date <u>6/30/2014</u>
Plan's Proportion of the Net Pension Liability <sup>1</sup>	0.21738%
Plan's Proportionate Share of the Net Pension Liability	\$ 13,526,753
Plan's Covered-Employee Payroll <sup>2</sup>	\$ 7,846,034
Plan's Proportionate Share of the Net Pension Liability as a percentage of its Covered-Employee Payroll	172.40%
Plan's Proportion of the Fiduciary Net Position <sup>3</sup>	0.622%
Plan's Share of Risk Pool Fiduciary Net Position <sup>3</sup>	\$ 66,177,159
Plan's Additional Payments to Side Fund During Measurement Period	\$ -
Plan's Proportionate Share of the Fiduciary Net Position (sum of the two preceding lines)	\$ 66,177,159
Plan's Proportionate Share of the Fiduciary Net Position as a percentage of the Plan's Total Pension Liability	83.03%
Plan's Proportionate Share of Aggregate Employer Contributions <sup>4</sup>	\$ 1,789,539

<sup>1</sup> 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.

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

<sup>3</sup> The term Fiduciary Net Position (FNP) as used in this line denotes the aggregate risk pool's FNP at June 30, 2014 less the sum of all employers' additional side fund contributions made during the measurement period.

<sup>4</sup> 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

\* Measurement period 2013-14 (fiscal year 2015) was the 1st year of implementation, therefore, only one year is shown.

# Required Supplementary Information

## **Schedule of Plan Contributions**

### **Last 10 Years\***

	Measurement Period 2013-14
Actuarially Determined Contribution	\$ 1,527,803
Contributions in Relation to the Actuarially Determined Contribution	(1,527,803)
Contribution Deficiency (Excess)	\$ -
Covered-Employee Payroll <sup>1</sup>	\$ 7,846,034
Contributions as a Percentage of Covered-Employee Payroll	19.47%

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

\* Measurement period 2013-14 (fiscal year 2015) was the 1st year of implementation, therefore, only one year is shown.

### **Notes to Schedule**

Change in Benefit Terms: None

Change in Assumptions: None





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