

Comprehensive Annual Financial Report



Fiscal Year Ending June 30, 2014
Valley Center Municipal Water District

Cover photo: The California Water Environment Association San Diego County and Statewide "Small Plant of the Year" awards were presented to the Lower Moosa Canyon Wastewater Reclamation Facility. From left to right are the wastewater staff, Len Brown, Ryan Madson, Supervisor Rick Beath, Rob Truesdale, and Greg Feik.

Comprehensive Annual Financial Report

**For The Fiscal Year Ended
June 30, 2014**

Valley Center Municipal Water District

Prepared by:

Valley Center Municipal Water District's Finance Department
James V. Pugh, Director of Finance

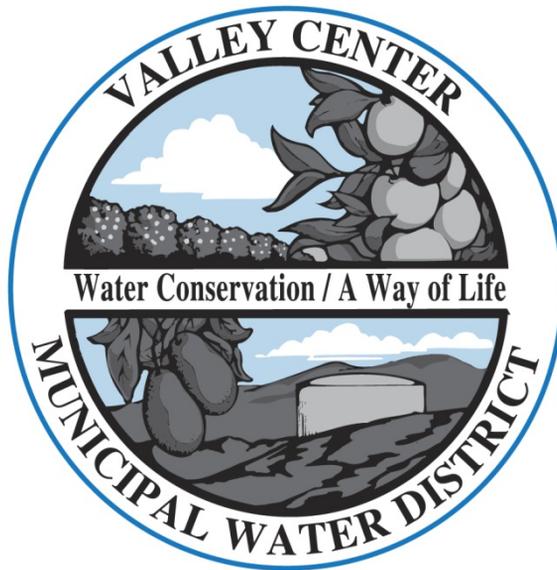
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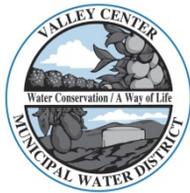
www.valleycenterwater.org

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Introductory Section







VALLEY CENTER MUNICIPAL WATER DISTRICT

A Public Agency Organized July 12, 1954

Board of Directors
Gary A. Broomell
President
Robert A. Polito
Vice President
Merle J. Aleshire
Director
Charles W. Stone, Jr.
Director
Randy D. Haskell
Director

December 15, 2014

Gary A. Broomell, President
Members of the Board of Directors
Valley Center Municipal Water District
29300 Valley Center Road
Valley Center, CA 92082

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) for the Valley Center Municipal Water District (hereinafter referred to as “the District”) for the fiscal year ended June 30, 2014. The purpose of the report is to provide the Board of Directors, our customers, and any other interested parties with reliable financial information about the District.

The CAFR was prepared by the District's Finance Department in accordance with Generally Accepted Accounting Principles (GAAP). Responsibility for both the accuracy of the data presented, and the completeness and fairness of the presentation, including all disclosures, rests with the District's management. We believe the data, as presented, is accurate in all material respects and that it is presented in a manner designed to set forth fairly the financial position and results of operations of the District, and that all disclosures necessary to enable readers to gain maximum understanding of the District's financial activity have been included.

The District's policy requires that an independent certified public accounting firm, selected by the Board, audit the basic financial statements on an annual basis. The goal of the independent audit is to provide reasonable assurance that the financial statements of the District for the fiscal year ended June 30, 2014, are free of material misstatements. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Leaf & Cole, LLP have issued an unqualified (or clean) opinion on the District's financial statements for the fiscal year ended June 30, 2014. The independent auditor's report is presented as the first component of the Financial Section of this report.

Management's Discussion & Analysis (MD&A) immediately follows the independent auditor's report in the Financial Section and provides an overview, summary, and analysis of the basic financial statements. The MD&A complements this Letter of Transmittal and should be read in conjunction with it.

Reporting Entity and Services

The Valley Center Municipal Water District provides water and wastewater services to its domestic, agricultural, and commercial customers in a service area which encompasses approximately 100 square miles. It includes the unincorporated area of Valley Center and unincorporated areas north of Escondido which are located in northern San Diego County.

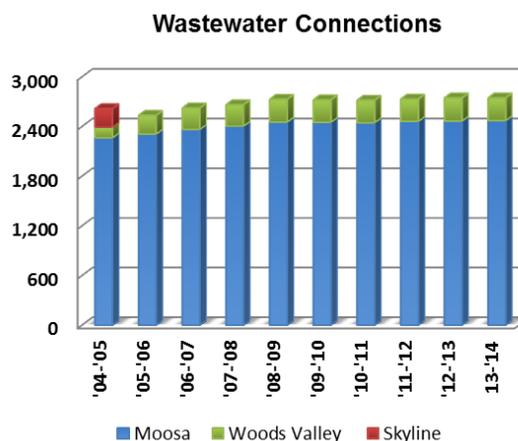
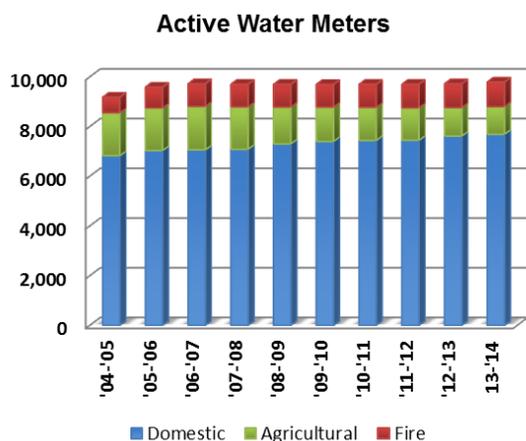
The District was founded on July 12, 1954; under the provisions of the California Municipal Water District Law of 1911 (California Water Code sections 71000 et seq.). It is governed by a five-member Board of Directors, elected by geographic division and serving staggered four-year terms. The Board manages the District through an appointed general manager. The District's management team also includes four department heads that oversee the Finance, Engineering, Information Technology, and Operations Departments. At June 30, 2014, there were 63 regular full-time employees working for the District.

For reporting purposes, the financial statements present a combined report which includes all District activities for which the Board of Directors of Valley Center Municipal Water District is primarily financially accountable. The District has established various self-balancing groups of accounts in order to enhance internal control and further the attainment of management objectives. The groups of accounts are identified in the District's books and records as General, Lower Moosa Wastewater Treatment, and Woods Valley Ranch Wastewater.

General operations account for all activity related to water operations as well as the general operations of the District. The District's water system includes 7 active aqueduct connections, 42 enclosed reservoirs and 1 open reservoir, Lake Turner, 27 pumping stations and 298 miles of water main. At June 30, 2014, there were a total of 9,785 active meters of which 7,685 were domestic, 1,111 were agricultural, and 989 were fire meters. See historical graph below.

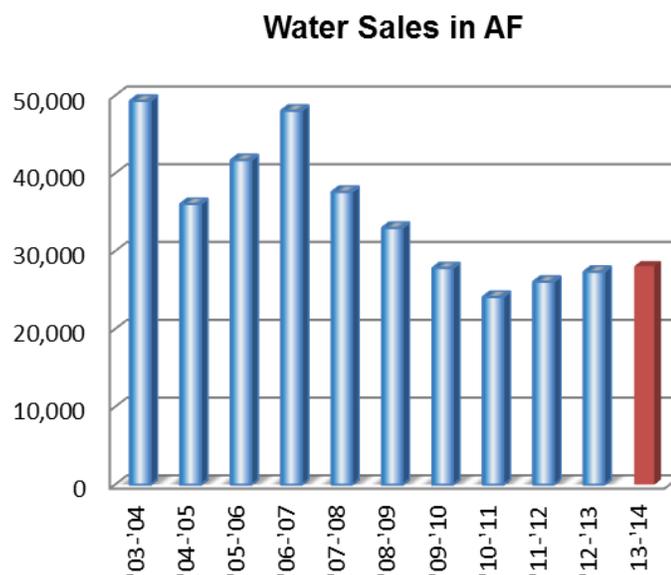
The District also provides wastewater collection, treatment, and disposal services for 2,746 customers through two wastewater treatment facilities, Lower Moosa and Woods Valley Ranch. See historical graph below. These two facilities serve separate and limited areas of the District. In total there are 57 miles of wastewater lines throughout the District.

Activity not included as a part of this report is limited to Assessment District No. 96-1, which is described in note 6 of the Notes to the Basic Financial Statements.



Economic Conditions

Valley Center, is in transition from being predominately agricultural to a more rural-suburban setting. This is happening to Valley Center and other surrounding areas, such as Rainbow and Fallbrook, because of negative economic pressures on agriculture, such as labor costs and shortages, market completion, and a rapid rise in the cost of water over the last five to seven years. Many growers have been forced to abandon their permanent tree crops (citrus and avocado) farming operations, or shift to higher value, lower water use crops such as ornamental flowers, nurseries, and wine grapes. As a result the District has seen a significant decrease in the volume of water deliveries to its customers. In the current year the District sold 28,082 acre feet of water as compared to fiscal year 2003-04 when the District sold 49,336 acre feet. This represents a 43% decline in sales volume.



As of June 30, 2014, the estimated population of the area serviced by the District was 25,248. According to the San Diego Association of Governments (SANDAG), as of January 1, 2013, (data for 2014 is not yet available) in the Valley Center Community Plan Area, which encompasses part, but not all of the District, the median age of the residents was 42.4 years. Total housing units in the community totaled 6,688 of which 6,578 were occupied. Median household income, not adjusted for inflation is estimated at \$85,337. At June 30, 2014, unemployment in California was 7.3%, San Diego County was 6.1%, and the local rate in the Valley Center Census Designated Place (CDP) was 2.9%.

Valley Center Municipal Water District relies on the San Diego County Water Authority (SDCWA or "Authority") as its' sole source provider for the treated water that it sells. The Authority imports water through the Metropolitan Water District of Southern California (MWD) system. The MWD obtains its water from two sources: the Colorado River Aqueduct and the State Department of Water Resources under a water supply contract. This water has become increasingly unreliable in recent years as deteriorating ecological conditions have led to regulatory restrictions on pumping water supplies from the Bay-Delta. The Bay-Delta is an 1,100 mile inland river delta and estuary formed at the confluence of the Sacramento and San Joaquin Rivers east of San Francisco. It is a key water supply source for California including the millions of residents in San Diego County. In addition, the Authority's water supply portfolio also includes relatively new supplies from the Colorado River. These supplies include a water conservation and transfer agreement with the Imperial Irrigation District and water conserved by two projects, the All American Canal Lining Project, and the Coachella Canal Lining Project.

The years ahead will be challenging times for the California water community. Uncertainties concerning the Bay-Delta conveyance, new surface storage, the effects of climate change, court decisions affecting both supply and cost, and public environmental issues all contribute to a difficult planning environment in which the cost of imported water is all but certain to continue to

increase. Water shortages, both natural and man-made, are a possibility. These factors have the potential to adversely impact the finances of the District, and staff is working diligently to continue improving operating efficiencies and to cut costs in order to minimize the associated financial impacts.

On January 17, 2014, the Governor of California issued a drought state of emergency declaration in response to record-low water levels in California rivers and reservoirs as well as an abnormally low snowpack in the Sierras. The drought has and will continue to impact the cost of imported water that the District purchases from the SDCWA.

Economic Results

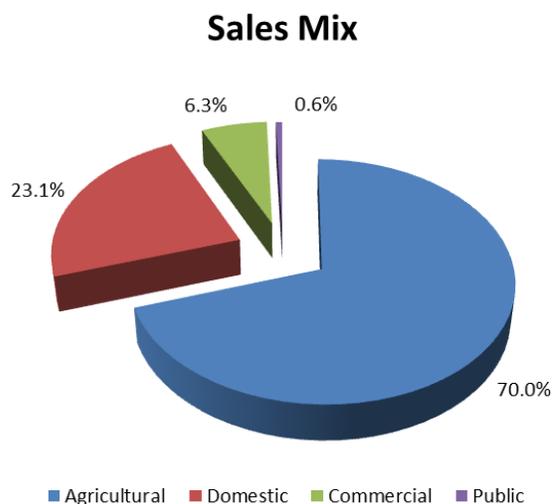
The District established 59 new meter accounts during 2013-14 which included 32 fire meters. This raised the total number of meter connections within the District to 10,675, of which 1,107 are fire meter accounts. Of the total meter accounts 772 water service accounts and 118 fire service accounts are inactive, resulting in 9,785 revenue generating water meters at the close of the fiscal year. This is an increase of 70 service accounts (31 fire and 39 water service) compared to the close of 2012-13.

Though there was little actual private development construction completed in fiscal year 2013-14, the District continued to process 19 private development projects containing a total of 671 units, in various stages of completion, from concept approval to warranty period. Additionally, there are four projects with 3,390 lots/units that are in the active planning stage and two projects with 559 units that are inactive.

Variation in weather conditions and a sustained reduction in water demand from conservation due to the recent cutbacks have a stronger influence on the District's revenue volatility than current economic conditions. This demonstrates the large influence that the agricultural community has on the total water demand within the District.

For the fiscal year ended June 30, 2014, water sales were 28,082 acre feet, up 711 acre feet or 2.6% from sales of 27,371 acre feet in 2012-13. This increase is due primarily to lower rainfall from the previous year, 7.3 inches versus 8.5 inches in 2012-13. Water deliveries are broken down as follows: 70.0% was for agricultural purposes, 23.1% for domestic, 6.3% for commercial, and 0.6% was for public use. The total cost of water purchased for the fiscal year was \$33.8 million, or 64% of the District's total operating expenses.

The San Diego County Water Authority continues to offer the Transitional Special Agricultural Water Rate (TSWAR) which provides a rebate on their water rate for qualifying agricultural water users. In exchange for reduced rates, TSAWR customers agree to have their water supply reduced first and at a greater degree during droughts and other emergency situations. For the calendar year 2014 the discount that certified agricultural customers receive totals \$351 per acre foot, based on water rates effective February 1, 2014. TSAWR customers do not pay for, nor do they benefit from, the emergency storage project.



Please refer to the MD&A in the financial section of this report for detailed schedules and analysis of the District's operating results for the fiscal year ended June 30, 2014.

Long-Term Financial Planning – New or expanded facilities are funded by capacity fees collected by the District when new meter services are purchased and from interest earned on existing reserves. Capacity fees are set to fund system improvements identified in the District's Water Master Plan to support additional service connections. Replacement facilities are currently financed from standby fees and capital reserves on a pay as you go cash basis. This reserve is funded annually by a combination of excess operating and non-operating revenues.

Facilities which are identified and budgeted annually for replacement are not determined solely by the depreciation schedule, but are identified through a process which assesses a combination of factors, including age, condition, and the critical nature of the facility. Also, existing facilities are replaced when the County of San Diego road improvements force relocation or private development projects provide the opportunity to replace an existing facility.

The District applied for and received approval from the state of California for a State Revolving Fund Loan (SRF). The loan is for \$13,497,000 and will pay for the expansion of the Woods Valley Ranch Water Reclamation Facility located in the southern portion of the District. The loan is repayable over a twenty-year term with interest at 2.2%. The design phase of the project is currently underway with the first draw of funds being made in the second quarter of fiscal year 2013-14. There has been a significant increase in the participation in the expansion project. The original project was for an expansion to accommodate 350 equivalent dwelling units (EDUs). The number of EDUs currently is 970. The District has gone to the state and is awaiting confirmation that the SRF loan will be increased to \$30,735,000.

Major Initiatives - Efforts and Accomplishments

• Water System Operations

System's Operations continued the pump and motor replacement program and developed energy management strategies and practices to reduce operational pumping costs during semi-peak and peak pumping demand periods. This resulted in continued energy savings and provided funds for additional pump station replacements and/or the construction of future solar projects. For fiscal year 2013-14, the District implemented a number of cost-saving measures that will improve our efficiencies and productivity. The District signed up and will be participating in the new San Diego Gas and Electric pump and motor upgrade program that provides free financing and incentive monies for pump efficiency improvement costs. Under this program, improvements at the Cool Valley Pump Station included the installation of a high efficient circulation pump and motor, new motor control center, SCADA panel upgrades, and new SDG&E service. Reimbursement funds under the program are estimated to be over \$77,000.

The District continued to analyze and change a number of pumping rate schedules assigned to our pump stations to determine the most cost effective rate schedule that applies to our pumping demands and needs. San Diego Gas and Electric recently implemented changes for some of the rate schedules under their Critical Peak Pricing (CPP) Demand Response Program that provides improved pumping flexibility but will have an added electric cost factor. To off-set the added electrical cost, the District has reduced our natural gas pumping at two of our key pump stations, Valley Center and Betsworth, which are under the CPP Demand Response Program.

Reducing the District's Carbon Footprint – The District continued to be very proactive in reducing our energy consumption in our water and wastewater operations. The District has accelerated and expanded its program to include all of our operational procedures and functions to explore means to reduce our carbon footprint, increase our productivity, efficiencies, and augment our energy investments.

General Facility Upgrades – The District completed construction on the Red Ironbark Pressure Sustaining Pump Station to provide improved and consistent pressure in the higher elevations of the Valley View Development. Twelve underground air-vacuum valve enclosures throughout the District were upgraded above ground to meet the current California Department of Health Services and District specification standards. A new 30 inch mainline was installed on the Cool Valley Reservoir inlet/outlet structure as was a new 18 inch valve on the drain line. The District also replaced a 20 foot section of the main transmission line.



Red Ironbark Pump Station.

Water Quality – With the continued reduction of water demands into the Valley Center service area, the District has experienced increased water quality challenges and concerns. To address this issue, use of operational storage capacity has been significantly reduced to provide greater movement within the reservoirs and to lessen overall storage times. The District has also initiated increased reservoir cleaning schedules to reduce the nitrification build-up within the reservoir structure. During 2013-14, cleaning and minor repairs were done on nine reservoirs and a new 4 inch chlorine mixing line was installed at the Cobb Reservoir to improve mixing and circulation.

With the majority of the reservoirs having only one inlet/outlet feed, the District will continue to evaluate solutions to maintain and improve water quality standards and to reduce exposure to nitrification build-up. Through internal mixing devices or the new construction of separate inlet and outlet ports on the reservoirs, we are confident we will be able to preserve our water quality standards during this period of reduced flows.

Water Loss and Meter Replacement – The District continued its efforts to survey, verify, and change out the top users' water meters throughout our service area. Continued meter maintenance programs provide further field observation of our meters. Meter crews were assigned shift work so a Meter Technician can work a weekend shift in an effort to detect any tampering or interference of water meters. The District was more aggressive in identifying remote blow-off appurtenances and installing security caps to reduce water theft. Crews continue to evaluate and survey cross country water mains and their associated appurtenances, through our leak detection program, for potential cross-connections. Field personnel will continue to aggressively monitor and inspect our distribution system through these various strategies which has steadily reduced our unknown water loss acre feet totals.

The District's agreement with the CAL Fire Puerta La Cruz Conservation Camp for weed and brush removal continued to provide beneficial evaluations of the remote and challenging areas of the distribution system. With their efforts, the District was able to detect leaks in some very

remote and cross-country mainlines and appurtenances. Some of the cleared areas have not been surveyed or cleared in years. The CAL Fire agreement has provided a significant cost savings measure and has provided a more thorough inspection and survey assessment of our service area.

Emergency Generation – The District continued to install emergency generation at critical pump stations and SCADA and communication sites. An emergency generator was installed and was brought on-line at the Couser Canyon Pump Station. It will improve the system reliability in the San Gabriel Reservoir zone.

A comprehensive maintenance program has been developed to sustain the District's emergency equipment and ensure proper functionality should an emergency event occur.

• Wastewater Operations

Installation of the new sludge thickening processor in the small digester at the Lower Moosa Canyon Water Reclamation Facility (Moosa) significantly reduced the centrifuge run times, hauling and disposal costs, and polymer usage. The processor has reduced the facilities electrical consumption by 32%, reduced sludge hauling and disposal by 75%, and decreased polymer usage by 50%. In addition, a new Centrifuge and a new SCADA panel installation improved operations and handling while the Moosa laboratory enhancements provide additional testing of our wastewater constituents, including chemical oxygen demand, total and volatile suspended solids, and pH readings. Due to these investments in energy savings and operational improvements, the Lower Moosa Canyon Water Reclamation Facility received the Southern California Alliance of Publicly Owned Treatment Works (SCAP) Plant of the Year Award for plants less than 5 million gallons per day (mgd). Moosa was also submitted for the State Plant of the Year award in the less than 5 mgd category which it was presented with on May 2, 2014.



The award winning Lower Moosa Canyon Wastewater Treatment Facility.

With respect to the collection system, upgrades were made on the Rimrock low pressure wastewater collection system with new pumps and controllers. Improvements were also made to the Islands Lift Station SCADA system as well as video surveillance, inspection, and documentation of the collection line system in the Woods Valley and Moosa systems.

• Information Technology

Supervisory Control and Data Acquisition (SCADA) System – The District deployed two communications relay sites at Rincon MWD and Vallecitos WD based on facilities use agreements signed with these agencies. The relay sites allow the District's wireless communications network to be extended to Jesmond Dene Pump Station, Jesmond Dene Reservoir, and Kornblum Reservoir. Those sites were otherwise unreachable from the District's own facilities due to terrain. Additional sites connected to the wireless network included Red Iron Bark pump station, Woods Valley water reclamation facility, and Circle-R pump station.

Geographical Information System (GIS) – GIS desktops were kept up-to-date with current software updates and the data is updated on a quarterly basis. All easement documents were scanned and a strategy is being developed to link these documents and record drawings to the GIS map features. The new mapping document management system, currently under implementation, will allow the creation of a more robust database while providing access to those documents directly from the GIS user-interface. Web-based maps continue to be the focus for the future of distributing data and information with the GIS via the District's Intranet.

Wireless Communications Network – The District continues to deploy new wireless network communications infrastructure, extending network coverage to 45 remote sites. Multiple radios were added to several facilities to provide added redundancy and increased bandwidth. The network now includes over 100 low-cost Ethernet radios in combination with advanced TCP/IP routing technology as a comprehensive, high performance and highly redundant communications system, providing multiple network services at remote sites, such as SCADA telemetry, video surveillance, advanced metering infrastructure, WiFi access points, and remote office connectivity.

Advanced Metering Infrastructure (AMI) – The District has deployed a new AMI test system at one of the District's remote facilities to test the feasibility of automatic, continuous water meter reading. The system connects to the meter via wireless technology, and the meter data is then transmitted to the remote data collection system via the District's SCADA communications network. The system provides the means to continuously measure, collect, and analyze real-time data from customers' water meters.

Advanced Video Surveillance System – A new video surveillance system was substantially expanded to 15 sites, including main corporate offices. Based on internet protocol (IP) network technology using multi-megapixel cameras, the new system offers greatly improved image quality, and includes full night vision and local and remote recording capabilities. Cameras with high-powered zoom capabilities allow staff to remotely perform site inspections and monitor any site activity 24 hours a day. The system's cost is lower than the existing analog video surveillance system while providing much more advanced capabilities.

New Website Development – A new website content management system was selected and an upgrade to the District website was developed using the new platform. The system provides the means to publish public documents and emergency notifications more effectively by allowing staff from individual departments to perform website updates without involving IT personnel.

Service Order Software – The internal development of a new Service Order Software to track customer service order requests, produce work orders, and provide asset management capabilities is being re-evaluated due to the planned changes to our financial software system. A significant upgrade to this system in the next fiscal year may provide most required capabilities as a fully integrated solution.

- **Solar Energy**

During the fiscal year, the District completed construction of the Circle R Pump Station 58kW solar array. Construction for the Cobb Reservoir and MJM Pump Station was in process at year end. These sites will be completed in fiscal year 2014-15 per our Strategic Plan objectives. With the continued affordability in solar module panel costs and related equipment, the District has identified a number of future sites, such as, the Cool Valley and Rincon Pump Stations as well as the Main Corporate Facility, for future solar projects.



Circle R Pump Station Solar Array.

The District will receive \$66,700 in incentive monies from the CSI program for the Circle R Pump Station solar array over the next five years and which will be invested for further cost saving measures.

- **Carlsbad Seawater Desalination Project**

Through fiscal year 2013-2014, work progressed on all segments of the 50 mgd Carlsbad Seawater Desalination Project. Work included: Modifications at the SDCWA Twin Oaks Water Treatment Plant to receive and blend the desal water with the treated imported water; Relining a segment of SDCWA Pipeline 3, Second San Diego Aqueduct, to convey the higher pressure desal water up to Twin Oaks; Installation of the 10-mile long, 54" diameter high pressure pipeline to convey the product water from the Desal Plant to SDCWA Pipeline 3, and Construction of the Carlsbad Seawater Desalination Plant, located adjacent to the Encina Power Plant, in Carlsbad. At the end of FY 2013-2014, work on all segments was well underway and ahead of schedule. It is anticipated that the entire project will be completed and operating several months earlier than originally scheduled, delivering desalinated seawater by September or October of 2015.

- **SDCWA Transitional Special Agricultural Water Rate**

During the rate setting process for the SDCWA's water rates to be effective January 1, 2015, the agricultural agencies, in concert with representatives of the San Diego Agricultural Community, were able to secure an extension of the Transitional Special Agricultural Water Rate through the end of 2015. Prior to the SDCWA Board action to extend, the TSAWR was scheduled to change by eliminating the portion of the price differential associated with the difference between the Metropolitan Water District wholesale rate and the melded SDCWA rate.

The SDCWA melded rate reflects the costs of the supplemental supplies, such as those from the IID Transfer, All-American-Coachella Canal Lining, and seawater desalination project. Eliminating this portion would have reduced the overall differential by 48%. With the extension of the full TSAWR pricing differential, VCMWD participating agricultural customers will pay \$1,334.11 per acre foot, compared to \$1,741.09 per acre foot, a 23.4% reduction or savings of \$407 per acre foot in calendar 2015.

• **Planning and Construction Projects**

Transmission, Distribution, and Storage Facilities Improvements – Capital improvement work completed during the fiscal year included replacement of the Cobb Reservoir AC pavement replacement, VC 1B pipeline replacement, Red Ironbark pipeline, and Red Ironbark Pump Station. Private development work was slightly greater than the previous year with two completed developer projects totaling just over \$125,000 in asset value; Finlayson pipeline extension and Lizard Rock pipeline extension. Other development activities included awarding concept approval to one project and approving two projects for construction.

Local Water Supply Projects – The District continued to evaluate the feasibility of several projects for the development of local water supplies to supplement imported water, and continued the study of a cost sharing agreement with a local well owner in the Paradise Mountain area of the District for possible equipping and connection to the District's water distribution system. This will either supplement the District's domestic supply or off-set the owner's water-use costs in another location within the District. Other projects including local groundwater production, various recycled water projects, and non-potable distribution systems were further refined and evaluated as part of the Meadowood, Lilac Hills Ranch, and South Village Wastewater Expansion projects. With this information, the District continues to work with a federal lobbyist to pursue federal funding for these local water supply projects.

• **Large Development Projects**

While development activity was minimal due to regional economic factors, the District saw an increase in development planning activity over the fiscal year, with several projects proceeding with acquisition of land use entitlements in anticipation of increased demand for housing product in the near future. Those projects include North Village, Orchard Run, Lilac Hills Ranch, and Meadowood.

South and North Village Water Reclamation – The South Village area of Valley Center is located along the southern part of Valley Center Road, between Lilac and Woods Valley Roads. Development in this area of the District has long been challenged by high groundwater conditions making private on site wastewater disposal systems unfeasible for higher density and uses. Over the past 25 years, property owners and the District have invested in several proposals for wastewater service only to be abandoned primarily due to high cost and lack of community support.

In February 2010, through investments by two main property owners in the South Village area, the District and other interested property owners, the District completed a master plan for providing wastewater service to the area, prepared and certified an environmental impact report for the proposed project, and submitted a financial assistance application for a \$13,497,000 Clean Water State Revolving Fund (SRF) loan for the South Village Wastewater Expansion

Project. In May 2012, the State Water Resources Control Board (SWRCB) approved a preliminary funding commitment for the project. The District entered into the initial funding agreement for the project with the SWRCB.

As the planning for the South Village Expansion was going on, a residential and commercial development of 800 equivalent dwelling units (EDU's) has, for the past several years, been proposed by two major property owners in the North Village area, located along Valley Center Road between Miller and Cole Grade Roads. In prior years, the District has provided comments and met with San Diego County officials on a Major Use Permit application for another water reclamation facility to be located in the North Village area. The North Village developers expressed interest in and are now participating in the South Village Wastewater Expansion Project for half of their ultimate wastewater demand and additional expansion to the first phase of the South Village Wastewater Expansion Project.

During 2013-14, the District has processed additional property capacity reservation requests, coming primarily from the North Village area, bringing the total expansion project participation to 970 EDUs. While the increase in participation will require additional facilities and larger treatment and seasonal facilities, the project cost per EDU is now lower. The District has submitted a request to the SWRCB to increase the project SRF Loan amount to \$30,735,000. Approval of the loan increase is expected in December 2015. Construction on the project is currently scheduled to begin in the spring of 2015, with completion dates scheduled for the fall of 2016.



Rendering of proposed Woods Valley Ranch Phase 2 Treatment Plant Expansion.

Meadowood Annexation – Work continued on the District processing of the 267-acre annexation which will become the 850 unit Meadowood Development Project by Pardee Homes. During fiscal year 2012-2013, the San Diego County Water Authority, Metropolitan Water District, and VCMWD Boards took actions to set the various terms and conditions for the annexation. The VCMWD – San Luis Rey Municipal Water District (SLRMWD) Coordination Sub-committee met to discuss various issues to facilitate the detachment of the land from the SLRMWD territory. In the latter part of fiscal year 2012-13, VCMWD staff began discussion with Rainbow Municipal Water District staff on how best to jointly serve the several residential, commercial, and institutional developments moving forward in the north east quadrant of I-15 and Highway 76. During fiscal year 2013-14 LAFCO approved annexation of the property to MWD, SDCWA, and VCMWD and its detachment from the SLRMWD, subject to Pardee meeting the final terms and conditions of each agency. VCMWD continued discussions with Rainbow Municipal Water District and the City of Oceanside on how to best provide water and wastewater service to the property.

STRATEGIC PLAN PERFORMANCE MEASUREMENT STANDARDS RESULTS FOR CALENDAR YEAR ENDED DECEMBER 31, 2013

1. CUSTOMER SATISFACTION - *Our standard will be that our service “meets” or “exceeds expectations” 95% of the time, based upon the “Customer Comment Card” responses.*

Survey responses show the District met or exceeded expectations 100.0% of the time.

2. UNKNOWN WATER LOSS – *Report annually for the past 10 years of unknown water loss in terms of percent of water sold, acre feet, and value of water loss, as well as efforts to minimize and reduce unknown water loss wherever possible.*

Unaccounted water loss for 2013 was 1,443.1 acre feet, 5.5% of total water sold, representing \$1.5 million dollars.

3. DISCRETIONARY RESERVES – *Unrestricted or uncommitted reserves not anticipated to be used in the current fiscal year shall endeavor to maintain a minimum three and maximum six months operating and maintenance expenses (excluding wholesale water and power purchases).*

At fiscal year-end, June 30, 2013, our Discretionary Reserves, Operating, Rate, and Pump Rate Stabilization, represent 3.2 months operating and maintenance expenses.

4. DISTRICT SHARE OF TOTAL WATER COMMODITY COSTS - *We will hold the local share of total commodity costs as low as possible, but at no time will the local rate be more than 13% of total water commodity cost for Municipal and Industrial and 16% for Certified Agricultural.*

The District’s component of the water rate for operating costs was 10.5% and 13.1% of Municipal and Industrial and Certified Agricultural total commodity costs, respectively.

5. PUMP EFFICIENCY - *Through ongoing testing, adjusting, and maintenance, we will maintain pump efficiency above 95% of the design criteria.*

Our pump efficiency was 103.5% of the design criteria.

6. PROJECT ACTUAL COST - *± 10% of Engineer’s estimate.*

Five projects were completed in calendar year 2013 at 5.1% below the Engineer’s estimate.

7. WATER SERVICE RELIABILITY GREATER THAN 99% - *We will strive to maintain water service to all customers at greater than a 99% reliability level. This will be measured based upon total hours of service interruption against all service hours in a given measurement period.*

Reliability was 99.998%.

8. COMPLIANCE WITH ALL STATE & FEDERAL REGULATIONS.

100%.

9. LOST-TIME ACCIDENTS LESS THAN 1% OF TOTAL HOURS WORKED.

The District had one lost time accident in calendar 2013 representing 0.001% of 116,672 regular hours worked.

10. RETURN ON INVESTMENTS - *While seeking to preserve capital and maintain a level of liquidity necessary to meet cash flow requirements, our rate of return, on an annualized basis, shall be at least equal to the average rate of return on one year U.S. Treasury Bonds.*

Our weighted average return on all investments was 0.654, while the 12-month rolling average for U.S. Treasury Bonds was 0.13%.

Lilac Hills Amendment Application – Accretive Investments, Inc., had previously secured from the County a Plan Amendment Authorization (PAA) for their Lilac Hills Ranch project, a 608 acre, 1,750 unit multi-use master planned community development located in the vicinity of West Lilac Road, Rodriguez Road, and Nelson Way. After securing approval of the PPA, the developer submitted an application to amend the County's General Plan for the proposed project and the project Environmental Impact Report had been sent out for public review by the end of fiscal year 2012-13. The District entered into a pre-development agreement with Accretive and issued preliminary concept approval of the facility planning for the project. During fiscal year 2013-14, the District continued to work with the developer's engineer in further developing the planning documents for the project, which may provide opportunities for development of a recycled water service area for treated effluent from the Lower Moosa Canyon Water Reclamation Facility.

Accounting Systems

District records are maintained on an enterprise basis, as it is the intent of the Board of Directors that the cost of providing water and wastewater services to the customers of the District are financed primarily through user charges. Revenues and expenses are recognized on the accrual basis in that both are recognized in the accounting period they are earned or incurred. Capital assets are recorded in the fund purchasing the asset.

As an enterprise fund, the District maintains a self-balancing set of accounts established to record the financial position and results that pertain to each activity. The activities of enterprise funds are similar to regular businesses whereby a governmental agency collects sufficient revenues through user charges to pay for on-going operating expenses and maintaining infrastructure in order to sustain operations.

Internal Controls

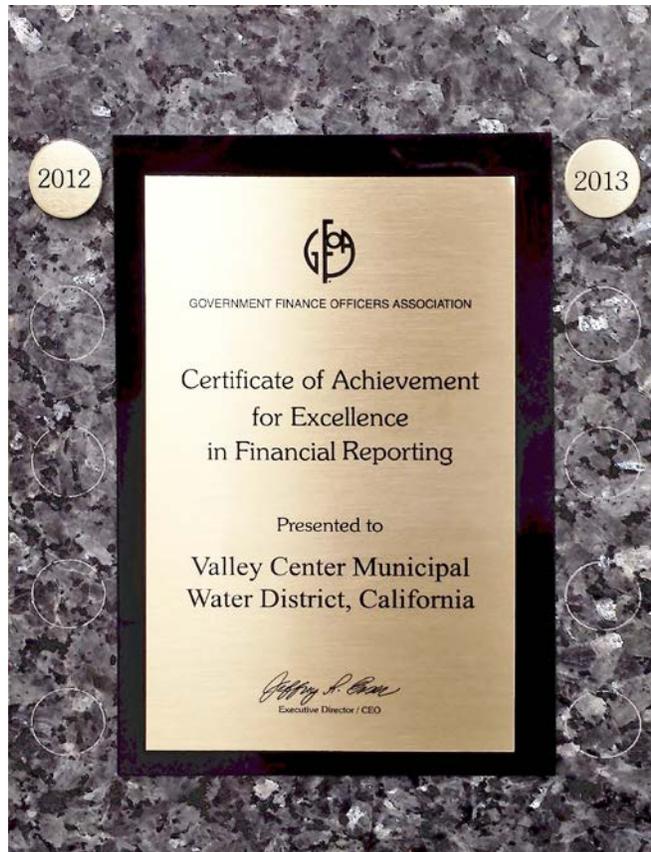
Valley Center Municipal Water District operates within a system of internal accounting controls established and continually reviewed by management to provide reasonable assurance that assets are adequately safeguarded and transactions are recorded correctly according to District policies and procedures. When establishing or reviewing control, management must consider the cost of the control and the value of the benefit derived from its utilization. Management normally maintains or implements only those controls whose value adequately exceeds their cost.

Budgetary Controls

On an annual basis, the District's Board of Directors adopts a budget that is prepared on a departmental level. Although the District is not legally required to adopt and adhere to a budget or report on compliance with any prepared budgets, the Board of Directors chooses to approve a budget to be used solely as a management tool. Depending upon the timing and level of the demand for water services, the revenues and expenditures may vary significantly and cannot be strictly controlled by means of detailed and rigid appropriations. Therefore, the budget must be viewed as an estimate only. Budget appropriations for major capital projects continue from year to year until the project is completed.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Valley Center Municipal Water District for its comprehensive annual financial report for the fiscal year ended June 30, 2013. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.



A Certificate of Achievement is valid for a period of one year only. Valley Center Municipal Water District has received a Certificate of Achievement each year since 1992. We believe our current report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

Acknowledgments

We would like to express our appreciation to all members of the District, particularly the members of the Finance Department who have participated in the preparation of this report. Special thanks are extended to the members of the District's Board of Directors for their continued interest and support in all aspects of the District's financial management.

Respectfully Submitted:

Gary T. Arant
General Manager

James V. Pugh
Director of Finance

*Our mission is to ensure customer satisfaction
through quality service at the lowest possible cost.*

District Officials

Board of Directors:

| <u>Title</u> | <u>Name</u> | <u>Service</u> | <u>Term Expires</u> |
|----------------|-----------------------|----------------|---------------------|
| President | Gary A. Broomell | 45 years | January 2015 |
| Vice-President | Robert A. Polito | 26 years | January 2017 |
| Director | Merle J. Aleshire | 17 years | January 2015 |
| Director | Charles W. Stone, Jr. | 15 years | January 2017 |
| Director | Randy D. Haskell | 12 years | January 2015 |

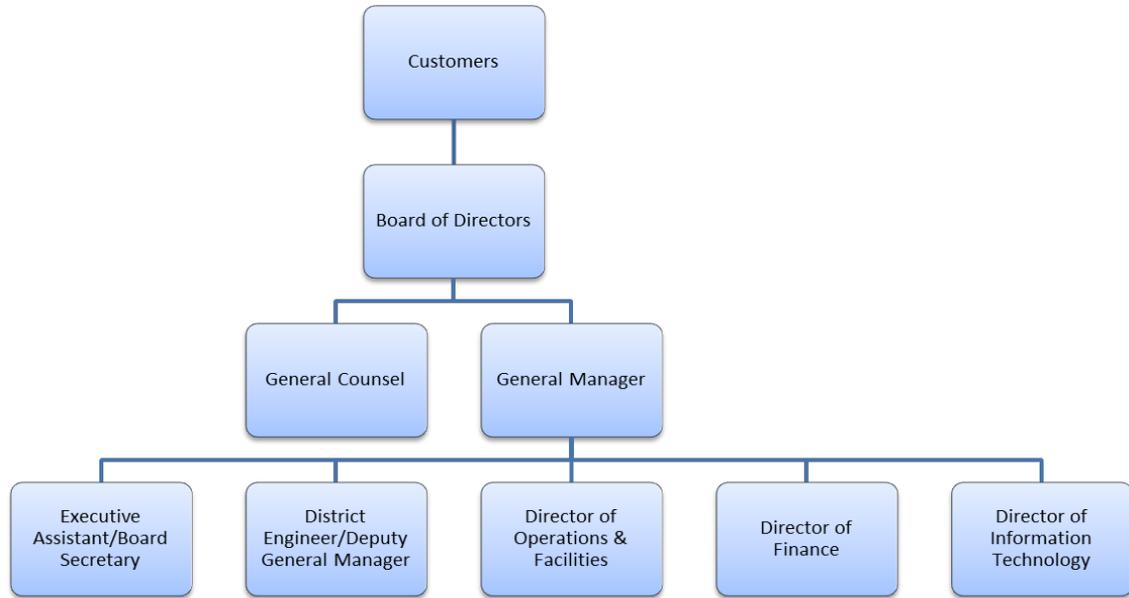
Executive Management:

| <u>Title</u> | <u>Name</u> | <u>Service</u> |
|-------------------------------------|----------------------|----------------|
| General Manager | Gary T. Arant | 25 years |
| District Engineer/Deputy GM | Wally T. Grabbe | 22 years |
| Director of Operations/Facilities | Albert G. Hoyle | 22 years |
| Director of Finance/Treasurer | James V. Pugh | 12 years |
| Director of Information Technology | Ando Pilve | 6 years |
| Executive Assistant/Board Secretary | Christine M. Johnson | 23 years |

General Counsel:

| | | |
|---------------------------|----------------|---------|
| Best, Best & Krieger, LLP | Paula De Sousa | 4 years |
|---------------------------|----------------|---------|

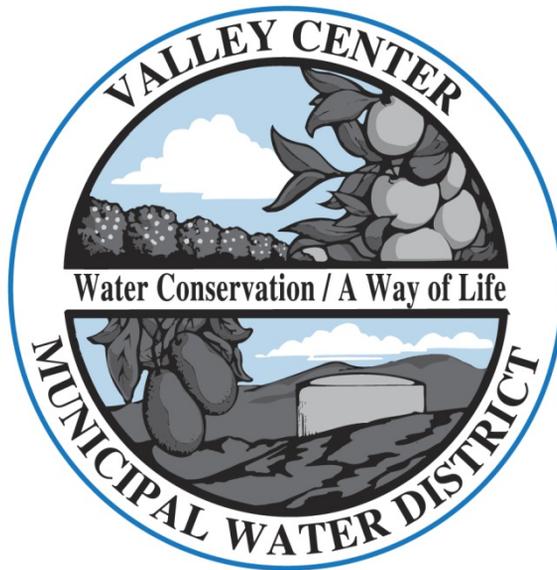
District Organization Chart

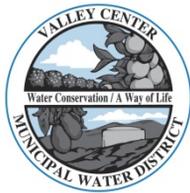


District Service Area



Financial Section







Leaf & Cole, LLP
Certified Public Accountants
A Partnership of Professional Corporations

Steven W. Northcote, C.P.A.
Michael S. Schreiberman, C.P.A.
Michael J. Zizzi, C.P.A.
Julie A. Firl, C.P.A.
Nicholas M. Gines, C.P.A.

Members
American Institute of Certified Public Accountants
California Society of Certified Public Accountants

Independent Auditor's Report

To the Board of Directors
Valley Center Municipal Water District
29300 Valley Center Road
Valley Center, California 92082

Report on Financial Statements

We have audited the accompanying financial statements of Valley Center Municipal Water District, which comprise the statement of net position as of June 30, 2014, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Valley Center Municipal Water District, as of June 30, 2014, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 - 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted on inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's financial statements. The introductory section, the combining schedule of net position 2014, the combining schedule of revenues, expenses, and changes in net position 2014, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining schedule of net position 2014, the combining schedule of revenues, expenses, and changes in net position 2014 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining schedule of net position 2014, and the combining schedule of revenues, expenses, and changes in net position 2014 are fairly stated, in all material respects, in relation to the financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

We also have previously audited, in accordance with auditing standards generally accepted in the United States of America, the District's financial statements for the year ended June 30, 2013, which are not presented with the accompanying financial statements and we expressed an unmodified opinion on the District's financial statements. That audit was conducted for the purpose of forming an opinion on the financial statements that comprise the District's financial statements as a whole. The combining schedule of net position 2013, and the combining schedule of revenues, expenses, and changes in net position 2013 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2013 financial statements. The information has been subjected to the auditing procedures applied in the audit of those financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining schedule of net position 2013, and the combining schedule of revenues, expenses, and changes in net position 2013 are fairly stated in all material respects in relation to the financial statements from which they have been derived.

Leaf & Cole LLP

San Diego, California
December 15, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Valley Center Municipal Water District's Comprehensive Annual Financial Report presents Management's Discussion and Analysis (MD&A), which provides a narrative overview and analysis of the District's financial performance for the fiscal year ended June 30, 2014. Please read it in conjunction with the Letter of Transmittal located in the front of this report and the accompanying basic financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis provides an introduction and a brief description of the District's basic financial statements, including the relationship of the statements to each other and the significant differences in the information that they provide. 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 the Basic Financial Statements

The Statement of Net Position presents information on all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the net difference reported as net position. Net Position is displayed in three categories:

- Net Investment in Capital Assets
- Restricted for Facility Expansion
- Unrestricted

The Statement of Net Position provides the basis for evaluating the capital structure of the District and assessing its liquidity and financial flexibility.

The Statement of Revenues, Expenses and Changes in Net Position presents information that shows how the District's net position changed during the fiscal year. All of the current year's revenues and expenses are recorded when the underlying transaction occurs, regardless of the timing of the related cash flows. The Statement of Revenues, Expenses and Changes in Net Position measures the success of the District's operations and determines whether the District has recovered its costs through user fees and other charges.

The Statement of Cash Flows provides information regarding the District's cash receipts, cash disbursements, and changes in cash resulting from operations, investing and financing activities during the fiscal year.

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 Basic Financial Statements provide a description of the accounting policies used to prepare the financial statements and present material disclosures required by generally accepted accounting principles that are not otherwise present in the financial statements.

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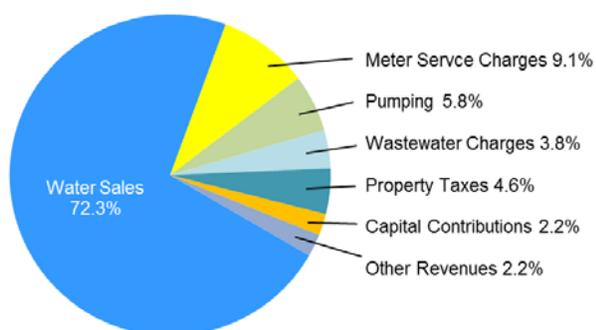
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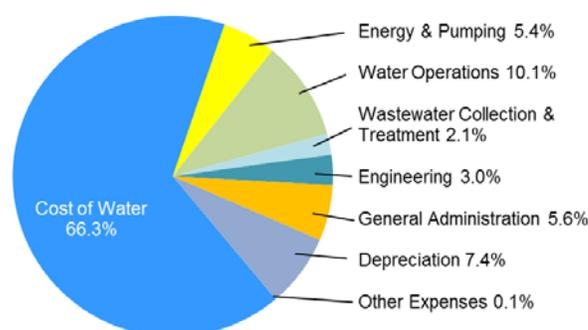
FINANCIAL HIGHLIGHTS

The District's financial operations were sound during fiscal year 2013-14. Sources of revenue were sufficient to cover the combined operating and non-operating expenses including depreciation. During the year ended June 30, 2014, net position increased by \$3,239,207. Total revenues were \$54,214,324, which included operating revenues of \$50,089,453, non-operating revenues of \$2,941,677, and capital contributions of \$1,183,194. Total revenues were up \$4,346,436 from June 30, 2013. Total expenses of \$50,975,117 increased \$2,485,617 over the prior year. For the year ended June 30, 2014, operating expenses exceeded operating revenues by \$875,467 compared to \$2,203,951 for the previous year. Non-operating revenues of \$2,941,677 exceeded non-operating expenses of \$10,197. Non-operating revenues consist primarily of property taxes and assessments, lease revenue, and investment income. See breakdown of Sources of Revenues and Expenses in the charts below.

Source Of Revenues Fiscal Year Ended June 30, 2014



Source Of Expenses Fiscal Year Ended June 30, 2014



FINANCIAL ANALYSIS OF THE DISTRICT

Net Position – Total net position increased this year by \$3,239,207, or 3.4% compared to the previous year. Net investment in capital assets decreased \$813,612 or 1.1%. Restricted net position increased \$419,546 or 66.8%, and unrestricted net position increased \$3,643,273 or 21.4%.

Condensed Statement of Net Position

| | 2014 | 2013 |
|-----------------------------------|----------------------|----------------------|
| Current assets | \$ 33,386,749 | \$ 28,741,818 |
| Restricted assets | 1,047,564 | 628,018 |
| Capital assets | 76,227,308 | 76,276,488 |
| Other Noncurrent Assets | - | 1,624 |
| Total Assets | \$110,661,621 | \$105,647,948 |
| Current liabilities | \$ 11,301,748 | \$ 10,433,638 |
| Noncurrent liabilities | 2,193,762 | 1,287,406 |
| Total Liabilities | 13,495,510 | 11,721,044 |
| Net Position: | | |
| Net investment in capital assets | 75,462,875 | 76,276,487 |
| Restricted for facility expansion | 1,047,564 | 628,018 |
| Unrestricted | 20,665,672 | 17,022,399 |
| Total Net Position | 97,166,111 | 93,926,904 |

CHANGE IN NET POSITION

| | 2014 | 2013 | Increase/ (Decrease) | % Change |
|---|----------------------------|----------------------------|---------------------------|--------------------|
| <u>Operating Revenues:</u> | | | | |
| Water sales and pumping charges | \$47,238,881 | \$43,743,266 | \$3,495,615 | 8.0% |
| Wastewater charges | 2,088,881 | 1,870,259 | 218,622 | 11.7% |
| Meter installation fees | 139,563 | 101,930 | 37,633 | 36.9% |
| Other water operating revenues | 622,128 | 532,841 | 89,287 | 16.8% |
| Total operating revenues | <u>\$50,089,453</u> | <u>\$46,248,296</u> | <u>\$3,841,157</u> | <u>8.3%</u> |
| <u>Operating Expenses:</u> | | | | |
| Cost of water sold | \$33,822,193 | \$31,113,969 | \$2,708,224 | 8.7% |
| Energy and pumping costs | 2,766,632 | 2,482,530 | 284,102 | 11.4% |
| Water systems operations | 5,123,092 | 4,810,835 | 312,257 | 6.5% |
| Wastewater collection and treatment | 1,086,185 | 1,058,507 | 27,678 | 2.6% |
| Engineering | 1,548,003 | 1,642,298 | (94,295) | -5.7% |
| General and administrative | 2,861,803 | 2,892,713 | (30,910) | -1.1% |
| Depreciation | 3,757,012 | 4,451,395 | (694,383) | -15.6% |
| Total operating expenses | <u>\$50,964,920</u> | <u>\$48,452,247</u> | <u>\$2,512,673</u> | <u>5.2%</u> |
| Operating (Loss) | <u>(\$875,467)</u> | <u>(\$2,203,951)</u> | <u>\$1,328,484</u> | <u>-60.3%</u> |
| <u>Nonoperating Revenues and (Expenses):</u> | | | | |
| Property taxes and assessments | \$2,486,977 | \$2,543,153 | (\$56,176) | -2.2% |
| Investment income | 130,887 | 82,496 | 48,391 | 58.7% |
| Other nonoperating revenues | 323,813 | 291,832 | 31,981 | 11.0% |
| Interest expense | (7,749) | (15) | (7,734) | 51560.0% |
| Other nonoperating expenses | (2,448) | (37,238) | 34,790 | -93.4% |
| Total Nonoperating Revenues and (Expenses) | <u>\$2,931,480</u> | <u>\$2,880,228</u> | <u>\$51,252</u> | <u>1.8%</u> |
| Income (Loss) Before Contributions | 2,056,013 | 676,277 | 1,379,736 | 204.0% |
| Capital contributions | 1,183,194 | 702,111 | 481,083 | 68.5% |
| Change in Net Position | <u>\$3,239,207</u> | <u>\$1,378,388</u> | <u>\$1,860,819</u> | <u>135.0%</u> |
| Net Position at Beginning of Year | <u>\$93,926,904</u> | <u>\$92,548,516</u> | <u>\$1,378,388</u> | <u>1.5%</u> |
| NET POSITION AT END OF YEAR | <u><u>\$97,166,111</u></u> | <u><u>\$93,926,904</u></u> | <u><u>\$3,239,207</u></u> | <u><u>3.4%</u></u> |

Change in Net Position - The District's operating revenues increased \$3,841,157, or 8.3%, to \$50,089,453 as a result of wholesale rate increases and a sales volume increase of 2.6%. The volume increase is due to warmer temperatures and decreased rainfall from the previous year. In 2013-14 there was 7.3 inches of rain compared to 8.5 inches in 2012-13. Average annual rainfall is approximately 15 inches.

The District's operating expenses increased \$2,512,673 or 5.2% to \$50,964,920. Operating expenses increased due to increased water purchases and increases in the wholesale price of water. The cost of water sold went up \$2,708,224, or 8.7%, from the previous year. In addition, energy and pumping costs were up 11.4% due to increased water purchases and utility rate increases of 8.6% for electricity and 20.5% for natural gas. Wastewater collection and treatment costs increased \$27,678. These increases are offset by lower engineering, general and administrative, and depreciation expenses, which combined, were \$819,588 lower than last year.

The District's investment income increased \$48,391, as yields on investments were lower, but off-set by higher cash balances. Property taxes and assessments were down, \$56,176, or 2.2%, to \$2,486,977 and other non-operating revenues showed an increase of \$31,981.

ANALYSIS OF OPERATIONS

Water Operations

WATER OPERATIONS CHANGE IN NET POSITION

| | 2014 | 2013 | Increase/ (Decrease) | % Change |
|--------------------------------|---------------------|---------------------|-------------------------|--------------|
| <u>Revenues:</u> | | | | |
| Water sales | \$39,188,170 | \$36,081,084 | \$3,107,086 | 8.6% |
| Meter service charges | 4,925,941 | 4,622,708 | 303,233 | 6.6% |
| Pumping and energy charges | 3,124,770 | 3,039,474 | 85,296 | 2.8% |
| Meter installation fees | 139,563 | 101,930 | 37,633 | 36.9% |
| Other water operating revenues | 622,128 | 532,841 | 89,287 | 16.8% |
| Property taxes and assessments | 2,486,977 | 2,543,153 | (56,176) | -2.2% |
| Investment income | 94,748 | 62,915 | 31,833 | 50.6% |
| Other nonoperating revenues | 323,813 | 291,832 | 31,981 | 11.0% |
| Capital contributions | 260,449 | 87,345 | 173,104 | 198.2% |
| Total revenues | <u>\$51,166,559</u> | <u>\$47,363,282</u> | <u>\$3,803,277</u> | <u>8.0%</u> |
| <u>Expenses:</u> | | | | |
| Cost of water sold | \$33,822,193 | \$31,113,969 | \$2,708,224 | 8.7% |
| Energy and pumping costs | 2,661,948 | 2,386,513 | 275,435 | 11.5% |
| Water systems operations | 5,123,092 | 4,810,835 | 312,257 | 6.5% |
| Engineering | 1,548,003 | 1,642,298 | (94,295) | -5.7% |
| General and administrative | 2,598,805 | 2,638,724 | (39,919) | -1.5% |
| Depreciation | 3,049,994 | 3,574,041 | (524,047) | -14.7% |
| Interest expense | 0 | 15 | (15) | -100.0% |
| Other nonoperating expenses | 2,216 | 9,228 | (7,012) | -76.0% |
| Total expenses | <u>\$48,806,251</u> | <u>\$46,175,623</u> | <u>\$2,630,628</u> | <u>5.7%</u> |
| Change in Net Position | <u>\$2,360,308</u> | <u>\$1,187,659</u> | <u>\$1,172,649</u> | <u>98.7%</u> |

Revenues for the year ended June 30, 2014, totaled \$51,166,559, which is an increase of \$3,803,277, or 8.0% from the prior year. Details of this increase in revenues are as follows:

- Water sales revenue increased by 8.6%, or \$3,107,086, from the prior year. There was a 2.6% increase in the volume of water sold. In 2013-14, 28,082 acre feet of water were billed compared to 27,371 acre feet in the prior year. Effective January 1, 2013, water rate increases were 9.8% for domestic and 5.2% for the San Diego County Water Authority Transitional Special Agricultural Water Rate (TSAWR). In addition, rates went up again on January 1, 2014 by 5.0% for domestic and 3.2% for SAWR. These increases are due to increases in wholesale costs from the District's suppliers.
- Meter service charges were \$303,233, or 6.6% higher, \$4,622,708 in 2012-13 compared to \$4,925,941 in 2013-14. Meter service charges increased 12.6% on January 1, 2013, halfway through fiscal year 2012-13. This increase represents a full year of the service charge increase along with an increase in the number of active meters.
- Pumping and energy revenues were up 2.8%, or \$85,296, due to the increase in the volume of water sold.

- Meter installation fees for the year were up 36.9% from the prior year, or \$37,633. This is due to an increase in the amount of water meters and backflow devices purchased and installed during the year.
- Property taxes and assessments decreased slightly by 2.2%, or \$56,176, from 2012-13 to 2013-14. The District has adopted San Diego County's alternative method of distribution of tax levies and collections under which the County advances 100% of the secured tax levies due to the District each year without consideration for delinquencies.
- Investment income was up 50.6%, or \$31,833, from the prior year. The increase is a result of slightly lower yields earned during the year which were off-set by significantly higher cash balances.
- Capital contributions, which vary based on developer projects, increased by \$173,104 or 198.2% from the prior year.

Expenses for the year ended June 30, 2014, totaled \$48,806,251, an increase of 5.7% or \$2,630,628. Certain significant expenses are as follows:

- The cost of water sold increased 8.7% over the prior year. Water purchases were up slightly from the prior year along with higher wholesale water prices. In 2012-13, the District purchased 29,238 acre feet of water at an average price of \$1,064 per acre foot. In the current year, the District purchased 29,607 acre feet of water at an average price of \$1,142 per acre foot, an increase of 7.3% or \$78 per acre foot. The average price per acre foot is impacted by the fixed components of the Metropolitan Water District of Southern California (MWD) and the San Diego County Water Authority (SDCWA) rate that the District must pay regardless of water sales. These fixed components include: a capacity reservation charge by MWD and customer service and emergency storage program charges by the SDCWA.
- The agricultural rebate from the SDCWA on their melded water rate during the year was \$2,572,942. This cost reduction for agricultural water is passed through to the District's qualified agricultural customers.
- Energy and pumping costs associated with the distribution of water for the District were up \$275,435, or 11.5% when compared to last year. The District purchased 369 acre feet of water more in 2013-14 than in 2012-13. Electric and gas rates were 8.6% and 20.5% higher, respectively, than the previous year. In addition, pump and motor maintenance costs were also higher by 7.6%, or \$41,095, due to higher labor and outside services.
- Water systems operation expenses showed an increase of \$312,257, or 6.5% from last year, due to increased labor, maintenance, and outside services which were offset by lower chemical expenses.
- Engineering expenses for 2013-14 were 5.7%, or \$94,295, lower than 2012-13. This is a result of lower labor expense, legal services, and supply costs.
- General and administrative expenses decreased 1.5% or \$39,919 due to a reduction in labor costs, the write-off of uncollectible customer accounts, as well as decreased insurance, travel, legal, and maintenance costs which were offset by higher outside service and supply costs.
- Depreciation expense in 2013-14 decreased 14.7%, or \$524,047, from the prior year. This is a result of assets that have been fully depreciated in the prior fiscal year.

Wastewater Treatment Operations

The Lower Moosa Canyon Water Reclamation Facility serves 2,472 customers in a limited geographic area on the west side of the District. Total revenues were \$1,588,885, a decrease of \$165,144, or down 9.4% from the prior year. This decrease is due to lower contributed capital of \$8,425 compared to \$253,897 contributed capital in 2012-13. In addition, wastewater service charges increased \$78,717, or 5.3% which is attributable to a 5.0% fee increase that was effective in January 2013.

LOWER MOOSA CHANGE IN NET POSITION

| | 2014 | 2013 | Increase/ (Decrease) | % Change |
|-------------------------------------|--------------------|--------------------|-------------------------|---------------|
| Revenues: | | | | |
| Wastewater service charges | \$1,568,569 | \$1,489,852 | \$78,717 | 5.3% |
| Investment income | 11,891 | 10,280 | 1,611 | 15.7% |
| Capital contributions | 8,425 | 253,897 | (245,472) | -96.7% |
| Total revenues | <u>\$1,588,885</u> | <u>\$1,754,029</u> | <u>(\$165,144)</u> | <u>-9.4%</u> |
| Expenses: | | | | |
| Energy | \$64,535 | \$60,761 | \$3,774 | 6.2% |
| Wastewater collection and treatment | 875,927 | 838,108 | 37,819 | 4.5% |
| General and administrative | 194,699 | 190,741 | 3,958 | 2.1% |
| Depreciation | 326,921 | 299,264 | 27,657 | 9.2% |
| Other nonoperating expenses | 232 | 28,010 | (27,778) | -99.2% |
| Total expenses | <u>\$1,462,314</u> | <u>\$1,416,884</u> | <u>\$45,430</u> | <u>3.2%</u> |
| Change in Net Position | <u>\$126,571</u> | <u>\$337,145</u> | <u>(\$210,574)</u> | <u>-62.5%</u> |

Expenses for the year ended June 30, 2014, totaled \$1,462,314, an increase of 3.2% or \$45,430. Certain significant expenses are as follows:

- Energy costs were slightly higher than the prior year, by \$3,774.
- Wastewater collection and treatment costs were 4.5% higher than last year, or \$37,819. This increase is due to higher labor, outside services and maintenance costs, offset by lower chemical expenses.
- General and administrative expenses had an increase of \$3,958 or 2.1% which is the result of higher regulatory fees.
- Depreciation expense in 2013-14 increased 9.2%, or \$27,657, from the prior year.
- Other nonoperating expenses were 99.2%, \$27,778, lower than last year due to lower disposal cost of asset write-offs.

Assessment District No. 96-1 issued bonds in February 1997 under the Improvement Act of 1915 to fund part of the expansion of the Moosa facility to serve the Treasures Development. These bonds are not a general obligation of the District and not presented in this report. More detailed information about Assessment District 96-1 is presented in Note 6 to the financial statements.

The Woods Valley Ranch Water Reclamation Facility is located in the South Village General Service Area of the District. Service charges, and standby fees for those properties not yet connected to the wastewater system, are collected as a fixed charge special assessment on the property tax roll.

WOODS VALLEY RANCH CHANGE IN NET POSITION

| | 2014 | 2013 | Increase/ (Decrease) | % Change |
|-------------------------------------|--------------------|--------------------|-------------------------|---------------|
| Revenues: | | | | |
| Wastewater service charges | \$520,312 | \$380,407 | \$139,905 | 36.8% |
| Investment income | 24,248 | 9,301 | 14,947 | 160.7% |
| Capital contributions | 914,320 | 360,869 | 553,451 | 153.4% |
| Total revenues | <u>\$1,458,880</u> | <u>\$750,577</u> | <u>\$708,303</u> | <u>94.4%</u> |
| Expenses: | | | | |
| Energy | \$40,149 | \$35,256 | \$4,893 | 13.9% |
| Wastewater collection and treatment | 210,258 | 220,399 | (10,141) | -4.6% |
| General and administrative | 68,299 | 63,248 | 5,051 | 8.0% |
| Depreciation | 380,097 | 578,090 | (197,993) | -34.3% |
| Interest expense | 7,749 | 0 | 7,749 | 100.0% |
| Total expenses | <u>\$706,552</u> | <u>\$896,993</u> | <u>(\$190,441)</u> | <u>-21.2%</u> |
| Change in Net Position | <u>\$752,328</u> | <u>(\$146,416)</u> | <u>\$898,744</u> | <u>613.8%</u> |

- Total revenues were \$708,303 higher than the previous year. Capital contributions were the main reason for the increase at \$553,451 more than 2012-13. Wastewater service charges are up \$139,905 due to stand-by fees collected of \$163,523. This stand-by fee was collected to establish a new operating reserve for the Woods Valley Ranch Expansion.
- Total expenses were \$190,441 lower than the previous year. Reduced depreciation of \$197,993 and wastewater collection and treatment costs of \$10,141 were offset by higher energy of \$4,893, general and administration costs of \$5,051, and interest expense of \$7,749 associated with the state revolving fund loan.

CAPITAL ASSETS

Capital assets include land, transmission and distribution system, general plant, and construction-in-progress. At June 30, 2014, the District had \$152,908,486 in capital assets with \$76,681,178 of accumulated depreciation. This represents a net increase (additions less deductions) of \$2,385,101, or 1.6% over the prior year. Significant additions include The Red Ironbark Pump Station, the Cobb Reservoir Cover Replacement, SCADA system improvements, Woods Valley Ranch Expansion, and the Tyler Pump Station Solar Array.

| | 2014 | 2013 | Increase/ (Decrease) | % Change |
|--------------------------------------|----------------------|----------------------|-------------------------|-------------|
| Land | \$5,304,282 | \$5,304,282 | \$0 | 0.0% |
| Construction in progress | 5,231,229 | 3,551,469 | 1,679,760 | 47.3% |
| Transmission and distribution system | 127,457,339 | 125,695,845 | 1,761,494 | 1.4% |
| General plant | 14,915,636 | 14,697,191 | 218,445 | 1.5% |
| Total capital assets | <u>\$152,908,486</u> | <u>\$149,248,787</u> | <u>\$3,659,699</u> | <u>2.5%</u> |

More detailed information about the District's capital assets is presented in Note 4 to the financial statements.

LONG-TERM DEBT

The District applied for and received approval from the state of California for a State Revolving Fund Loan (SRF). The loan is for \$13,497,000 and will pay for the expansion of the Woods Valley Ranch Water Reclamation Facility located in the southern portion of the District. The loan is to be repaid over a twenty-year term with interest at 2.2%. The design phase of the project is currently underway with the first draw of funds being made in the second quarter of fiscal year 2013-14. There has been a significant increase in the participation in the expansion project. The original project was for an expansion to accommodate 350 equivalent dwelling units (EDU's). The number of EDU's currently is 970. The District has gone to the state and is awaiting confirmation that the SRF loan will be increased to \$30,735,000.

ECONOMIC FACTORS

The District sets its rates annually based upon anticipated consumption. A significant reduction in consumption could have an adverse effect on the District's financial position. Additionally, the District purchases all of its water from the San Diego County Water Authority. Interruption of this service would have a significant negative effect on the District's financial position. At June 30, 2014, the District had designated \$2,775,434 of its unrestricted net assets as a water operating reserve to mitigate the potential of these effects. This represents approximately three months operating and maintenance expenses. Including the pumping rate stabilization and rate stabilization un-appropriated reserve funds increases this to six months of operating and maintenance expenses. Wastewater fund reserves are excluded from this figure.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the financial resources it manages. If you have questions about this report or need additional financial information, contact the Valley Center Municipal Water District's Finance Department at 29300 Valley Center Road, Valley Center, California 92082, or call (760) 735-4500.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2014**

ASSETS

Current Assets: (Notes 1 and 2)

| | |
|---|---------------|
| Cash and cash equivalents | \$ 18,401,464 |
| Investments | 5,711,448 |
| Accounts receivable - water and wastewater, net | 7,687,682 |
| Interest receivable | 36,295 |
| Taxes receivable | 3,821 |
| Other receivables | 115,606 |
| Inventory | 608,820 |
| Prepaid expenses and deposits | 262,437 |
| Work in progress for others | 559,176 |
| Total Current Assets | 33,386,749 |

Noncurrent Assets: (Notes 1, 2, 3 and 4)

Restricted Assets:

| | |
|---------------------------|-----------|
| Cash and cash equivalents | 711,236 |
| Investments | 336,328 |
| Total Restricted Assets | 1,047,564 |

Capital Assets:

| | |
|---------------------------------|------------|
| Nondepreciable capital assets | 10,535,512 |
| Depreciable capital assets, net | 65,691,796 |
| Total Capital Assets | 76,227,308 |

| | |
|-------------------------|------------|
| Total Noncurrent Assets | 77,274,872 |
|-------------------------|------------|

| | |
|---------------------|-----------------------|
| TOTAL ASSETS | \$ 110,661,621 |
|---------------------|-----------------------|

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

**VALLEY CENTER MUNICIPAL WATER DISTRICT
STATEMENT OF NET POSITION (CONTINUED)
JUNE 30, 2014**

LIABILITIES

Current Liabilities: (Notes 1 and 5)

| | |
|----------------------------------|--------------|
| Accounts payable | \$ 7,880,568 |
| Accrued payroll | 285,825 |
| Accrued compensated absences | 680,100 |
| Customer deposits | 2,445,728 |
| Current portion of loans payable | 9,527 |
| Total Current Liabilities | 11,301,748 |

Noncurrent Liabilities: (Notes 1 and 5)

Long-Term Debt:

| | |
|---------------------------------------|---------|
| Loans payable, net of current portion | 754,906 |
| Interest payable | 7,749 |
| Total Long-Term Debt | 762,655 |

Other Noncurrent Liabilities:

| | |
|------------------------------|-----------|
| Accrued compensated absences | 1,431,107 |
|------------------------------|-----------|

| | |
|------------------------------|-----------|
| Total Noncurrent Liabilities | 2,193,762 |
|------------------------------|-----------|

| | |
|-------------------|------------|
| Total Liabilities | 13,495,510 |
|-------------------|------------|

Commitments and Contingencies (Notes 8, 9, 10 and 12)

NET POSITION: (Note 7)

| | |
|-----------------------------------|---------------|
| Net investment in capital assets | 75,462,875 |
| Restricted for facility expansion | 1,047,564 |
| Unrestricted | 20,655,672 |
| Total Net Position | \$ 97,166,111 |

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

**VALLEY CENTER MUNICIPAL WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014**

Operating Revenues:

| | |
|---------------------------------|---------------|
| Water sales and pumping charges | \$ 47,238,881 |
| Wastewater charges | 2,088,881 |
| Meter installation fees | 139,563 |
| Other water operating revenues | 622,128 |
| Total Operating Revenues | 50,089,453 |

Operating Expenses:

| | |
|-------------------------------------|------------|
| Cost of water sold | 33,822,193 |
| Energy and pumping costs | 2,766,632 |
| Water systems operations | 5,123,092 |
| Wastewater collection and treatment | 1,086,185 |
| Engineering | 1,548,003 |
| General and administrative | 2,861,803 |
| Depreciation | 3,757,012 |
| Total Operating Expenses | 50,964,920 |

| | |
|----------------|-----------|
| Operating Loss | (875,467) |
|----------------|-----------|

Nonoperating Revenues (Expenses):

| | |
|--|-----------|
| Property taxes and assessments | 2,486,977 |
| Investment income | 130,887 |
| Other nonoperating revenues | 323,813 |
| Interest expense | (7,749) |
| Other nonoperating expenses | (2,448) |
| Total Nonoperating Revenues (Expenses) | 2,931,480 |

| | |
|-----------------------------|-----------|
| Income Before Contributions | 2,056,013 |
|-----------------------------|-----------|

| | |
|-----------------------|-----------|
| Capital Contributions | 1,183,194 |
|-----------------------|-----------|

| | |
|------------------------|-----------|
| Change in Net Position | 3,239,207 |
|------------------------|-----------|

| | |
|-----------------------------------|------------|
| Net Position at Beginning of Year | 93,926,904 |
|-----------------------------------|------------|

| | |
|------------------------------------|----------------------|
| NET POSITION AT END OF YEAR | \$ 97,166,111 |
|------------------------------------|----------------------|

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

**VALLEY CENTER MUNICIPAL WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014**

Cash Flow From Operating Activities:

| | |
|--|------------------|
| Receipts from customers | \$ 49,835,782 |
| Payments to suppliers for goods and services | (34,777,530) |
| Payments to employees for services | (10,700,421) |
| Change in work in progress for others | 50,475 |
| Change in customer deposits | (191,209) |
| Other nonoperating revenue | 323,813 |
| Net Cash Provided by Operating Activities | <u>4,540,910</u> |

Cash Flow From Noncapital Financing Activities:

| | |
|--|------------------|
| Property taxes and assessments received | <u>2,485,648</u> |
| Net Cash Provided by Noncapital Financing Activities | <u>2,485,648</u> |

Cash Flows From Capital and Related Financing Activities:

| | |
|---|--------------------|
| Acquisition and construction of capital assets | (2,675,067) |
| Principal paid on loans payable | (6,351) |
| Capital contributions | <u>1,062,652</u> |
| Net Cash Used in Capital and Related Financing Activities | <u>(1,618,766)</u> |

Cash Flows From Investing Activities:

| | |
|---|----------------|
| Proceeds from investments reaching maturity | 298,362 |
| Investment income received | <u>120,472</u> |
| Net Cash Provided by Investing Activities | <u>418,834</u> |

Net Increase in Cash and Cash Equivalents 5,826,626

Cash and Cash Equivalents at Beginning of Year 13,286,074

CASH AND CASH EQUIVALENTS AT END OF YEAR **\$ 19,112,700**

(Continued)

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

**VALLEY CENTER MUNICIPAL WATER DISTRICT
STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2014**

Reconciliation of Operating Loss to Net

Cash Provided by Operating Activities:

| | |
|--|----------------------------|
| Operating loss | \$ (875,467) |
| Adjustments to reconcile operating loss to net cash provided by operating activities: | |
| Depreciation | 3,757,012 |
| Other nonoperating revenues | 323,813 |
| Change in current assets and liabilities: | |
| Accounts receivable - water and wastewater, net | (164,160) |
| Other receivables | (89,511) |
| Inventory | 116,346 |
| Prepaid expenses and deposits | 562,381 |
| Work in progress for others | 50,475 |
| OPEB asset | 1,624 |
| Accounts payable | 810,273 |
| Accrued payroll | 67,932 |
| Accrued compensated absences | 171,401 |
| Customer deposits | (191,209) |
| Net Cash Provided by Operating Activities | <u><u>\$ 4,540,910</u></u> |

Cash and Cash Equivalents:

Financial Statement Classification

| | |
|--------------------------------------|-----------------------------|
| Cash and cash equivalents | \$ 18,401,464 |
| Restricted cash and cash equivalents | 711,236 |
| Total Cash and Cash Equivalents | <u><u>\$ 19,112,700</u></u> |

Noncash Investing, Capital and Financing Activities

| | |
|---|--------------------------|
| Capital assets included in accounts payable | \$ <u>143,887</u> |
| Capital assets contributed | \$ <u>120,542</u> |
| Capital assets acquired with loans payable | \$ <u><u>770,785</u></u> |

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

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 1 - Summary of Significant Accounting Policies:

(a) Description of Reporting Entity

The Valley Center Municipal Water District (the “District”) is a governmental corporation governed by an elected five-member board of directors. The District was incorporated July 12, 1954, under the provisions of the California Water District Act of 1911. The District’s 100 square mile service area lies in northern San Diego County and the majority of its sales are to agricultural users. The District’s offices are located in Valley Center, California.

In keeping its books and records, the District has established various self-balancing groups of accounts in order to enhance internal control and to further the attainment of other management objectives. These groups of accounts are identified in the District’s books and records as General, Lower Moosa Wastewater Treatment, and Woods Valley Ranch Wastewater. All significant inter-group transactions and accounts are eliminated in the combination of the accounts for the financial statements of the reporting entity.

In addition, the District has established the Assessment District No. 96-1 Lower Moosa Canyon (AD 96-1) to account for the special assessment bonds described in Note 6. The financial position and results of operations of AD 96-1 are excluded from these financial statements.

The criteria used in determining the scope of the reporting entity are based on the provisions of GASB Cod. Sec. 2100 “Defining the Financial Reporting Entity”. The District is the primary government unit. 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. The District has no component units.

(b) Basis of Accounting

The District utilizes accounting principles appropriate for an enterprise fund to record its activities. Accordingly, the statement 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.

The District has not elected to apply the option allowed in GASB Cod. Sec. P80.103 “Proprietary Fund Accounting and Financial Reporting” and as a consequence will continue to apply GASB Statements and Interpretations.

(c) 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 that affect the reported amounts of assets, deferred outflows of resources, liabilities, deferred inflows of resources, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 1 - Summary of Significant Accounting Policies: (Continued)

(d) Revenue Recognition

Revenues from water sales and pumping charges, meter installation fees, and wastewater charges are recognized as they are earned. Taxes and assessments are recognized as revenue based upon amounts reported to the District by the County of San Diego, net of an allowance for estimated uncollectible taxes. The District first utilizes restricted resources to finance qualifying activities.

Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal operations. The principal operating revenues of the District consist of water sales, wastewater service, and connection and installation fees. Nonoperating revenues consist of property taxes and assessments, investment income, and special charges that can be used for either operating or capital purposes. Operating expenses include the cost of sales, operation, maintenance, and administrative expenses, and depreciation on capital assets. Expenses not meeting this definition are reported as nonoperating expenses.

Capital contributions consist of contributed assets and special charges that are legally restricted for capital expenditures by state law or by the Board action that established those charges.

(e) Property Taxes and Assessments

Property taxes and assessments are billed by the County of San Diego to property owners. The District's property tax calendar for the fiscal year ended June 30, 2014, was as follows:

| | |
|------------------|---|
| Lien Date: | January 1 |
| Levy Date: | July 1 |
| Due Date: | First Installment – November 1 Second Installment – February 1 |
| Delinquent Date: | First Installment – December 10 Second Installment – April 10 |

The County collects the taxes from the property owners and remits the funds to the District periodically during the year. The District has an arrangement with the County whereby the County remits taxes which are delinquent as of each June 30 to the District in exchange for the right to retain the delinquent taxes, penalties, and interest when these amounts are subsequently collected.

(f) Cash and Cash Equivalents

Cash and cash equivalents include deposits in SEC-registered money market mutual funds, deposits in external investment pools, and marketable securities that mature within three months of purchase. Such marketable securities and deposits in money market funds are carried at fair value. Investment pool deposits are carried at the District's proportionate share of the fair value of each pool's underlying portfolio.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 1 - Summary of Significant Accounting Policies: (Continued)

(g) Investments

Investments are stated at their fair value, which represents the quoted or stated market value. 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.

(h) Accounts Receivable - Water and Wastewater

Bad debts are recognized on the allowance method based on historical experience, and management's evaluation of outstanding receivables. Water and wastewater accounts receivable of \$7,726,778 have been reduced by an allowance for estimated uncollectible accounts in the amount of \$39,096 at June 30, 2014.

(i) Inventory

Inventory consists primarily of materials used in the construction and maintenance of capital assets and is valued at the lower of current average cost or market. Water inventory is valued at cost.

At June 30, 2014, inventory consists of the following:

| | |
|---------------------|------------|
| Water inventory | \$ 110,289 |
| Materials inventory | 498,531 |
| | \$ 608,820 |

(j) Capital Assets

Capital assets purchased or acquired with a cost exceeding \$2,000 and an estimated useful life of more than two years are reported at historical costs. Contributed assets are recorded at their fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation is calculated on the straight-line method over the following estimated useful lives:

| | <u>Useful Life</u> |
|--------------------------------------|--------------------|
| Transmission and distribution system | 10 - 40 years |
| General plant | 2 - 40 years |

Depreciation totaled \$3,757,012 for the year ended June 30, 2014.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 1 - Summary of Significant Accounting Policies: (Continued)

(k) Compensated Absences

Accumulated unpaid vacation and sick leave totaling \$2,111,207 is accrued when incurred and included in noncurrent liabilities at June 30, 2014. The following is a detail:

| | <u>Balance June 30, 2013</u> | <u>Earned</u> | <u>Used</u> | <u>Balance June 30, 2014</u> | <u>Current Portion</u> |
|----------------------|----------------------------------|---------------|-------------|----------------------------------|----------------------------|
| Compensated absences | \$ 1,939,806 | \$ 618,302 | \$ 446,901 | \$ 2,111,207 | \$ 680,100 |

(l) Interest

Interest costs, less interest earned on related tax-exempt borrowings, are capitalized during the period of major capital asset additions. The capitalized interest is recorded as part of the asset to which it is related and is depreciated over the estimated useful life of the related asset. No interest was capitalized during the year.

(m) Classification of Liabilities

Certain liabilities which are currently payable have been classified as noncurrent because they will be funded from restricted assets.

(n) Unrestricted Net Position

The unrestricted net position of the District is restricted by state law for sole use by the District for its operations. It is reported as unrestricted net position in the accompanying financial statements because this restriction corresponds to the general purpose for which the District has been established. It is unavailable for other government uses and is committed to the ongoing operations of the District, including amounts necessary to cover contingencies, unanticipated expenditures, revenue shortfalls, and weather and economic fluctuations.

(o) Subsequent Events

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through December 15, 2014, the date the financial statements were available to be issued.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 2 - Cash and Investments:

(a) Authorized Investments

The District's Ordinances authorize the District to invest in bonds issued by the District; obligations of the United States Treasury, agencies, and government sponsored enterprises; certificates of deposit at commercial banks and savings and loans when insured or collateralized in accordance with law; shares of beneficial interest issued by a diversified management company as authorized by California Government Code Section 53601(k); the State of California Local Agency Investment Fund; as well as deposits with the Treasurer of the County of San Diego.

These authorized investments are more restrictive than those permitted by the California Government Code, which would also allow investments in prime commercial paper, bankers' acceptances, repurchase and reverse repurchase agreements, financial futures or financial options contracts, obligations of the State of California, and obligations of local agencies within California.

Cash and investments held by the District were comprised of the following at June 30, 2014:

| | <u>Fair Value</u> | <u>Investment Maturities (In Years)</u> | |
|--|----------------------|---|---------------------|
| | | <u>Less Than 1 Year</u> | <u>1 - 5</u> |
| Cash on hand | \$ 1,200 | \$ 1,200 | \$ - |
| California Local Agency Investment Fund (LAIF) | 517,821 | 517,821 | - |
| San Diego County Treasurer's Pooled Money Fund | 17,397,292 | 17,397,292 | - |
| Demand deposits | 1,196,387 | 1,196,387 | - |
| Investments: | | | |
| United States Agency Securities | 1,723,533 | - | 1,723,533 |
| Certificates of Deposit | 4,324,243 | 1,927,716 | 2,396,527 |
| Total Cash and Investments | <u>\$ 25,160,476</u> | <u>\$ 21,040,416</u> | <u>\$ 4,120,060</u> |
| Financial Statement Classification: | | | |
| Cash and Cash Equivalents | \$ 18,401,464 | | |
| Investments | 5,711,448 | | |
| Cash and cash equivalents - Restricted | 711,236 | | |
| Investments - Restricted | 336,328 | | |
| Total | <u>\$ 25,160,476</u> | | |

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 2 - Cash and Investments: (Continued)

(b) Concentration of Credit Risk

The District's policy is that investments should be diversified through limited investment to avoid over-concentration in securities from a specific issuer (excluding U.S. Treasury securities), by varying maturities, and by investing a portion of the portfolio in external investment pools or money market funds to ensure that appropriate liquidity is maintained in order to meet ongoing obligations. The District further limits certificates of deposit to 30 percent of its portfolio. State law limits investment in money market funds by 20% of the total portfolio, and investments in any one fund to 10%. At June 30, no investments represented more than 5% of the District's investment portfolio.

(c) Credit Risk

The District's ordinances subject management of the investment portfolio to the "prudent investor" standard, which states that "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived." Certificates of deposit must be fully insured and have a rating of satisfactory or better. As of June 30, the District's investments were rated by Standard & Poor's and by Moody's Investors Service as follows:

| | <u>Standard & Poor's</u> | <u>Moody's</u> |
|---|------------------------------|----------------|
| California Local Agency Investment Fund | Not rated | Not rated |
| San Diego County Treasurer's Pooled Money Fund | AAA | Not rated |
| United States Government Sponsored Enterprises: | | |
| Federal Home Loan Bank | AA+ | Aaa |
| Federal National Mortgage Association | AA+ | Aaa |
| Federal Home Loan Mortgage Corporation | AA+ | Aaa |

(d) Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. To eliminate custodial credit risk, the District's ordinances require that all demand deposits be entirely insured or collateralized and that all investment securities be in the name of the District and held by an insured depository. At June 30, the District held no deposits or investments that were exposed to custodial credit risk.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 2 - Cash and Investments: (Continued)

(e) Interest Rate Risk

The District's ordinances state that the District will structure the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity. The District cannot invest in any security that could result in zero interest accrual if held to maturity. Maturities are limited to five years.

(f) Foreign Currency Risk

The District is not exposed to foreign currency risk.

Note 3 - Restricted Assets:

Restricted assets were provided by, and are to be used for, the following at June 30, 2014:

| <u>Funding Source</u> | <u>Use</u> | |
|-----------------------|--------------------|---------------------|
| Capacity fees | Facility expansion | \$ 713,512 |
| Customer deposits | Facility expansion | 334,052 |
| | | <u>\$ 1,047,564</u> |

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as necessary.

Note 4 - Capital Assets:

Capital assets consist of the following at June 30:

| | <u>Balance at June 30, 2013</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance at June 30, 2014</u> |
|--|-------------------------------------|---------------------|-----------------------|-------------------------------------|
| Capital Assets Not Being Depreciated: | | | | |
| Land | \$ 5,304,282 | \$ - | \$ - | \$ 5,304,282 |
| Construction in progress | 3,551,470 | 3,506,895 | (1,827,135) | 5,231,230 |
| | <u>8,855,752</u> | <u>3,506,895</u> | <u>(1,827,135)</u> | <u>10,535,512</u> |
| Capital Assets Being Depreciated: | | | | |
| Transmission and distribution system | 125,695,845 | 1,808,939 | (47,446) | 127,457,338 |
| General plant | 14,697,190 | 221,582 | (3,136) | 14,915,636 |
| | <u>140,393,035</u> | <u>2,030,521</u> | <u>(50,582)</u> | <u>142,372,974</u> |
| Less Accumulated Depreciation: | | | | |
| Transmission and distribution system | (61,250,828) | (3,092,371) | 45,230 | (64,297,969) |
| General Plant | (11,721,472) | (664,641) | 2,904 | (12,383,209) |
| | <u>(72,972,300)</u> | <u>(3,757,012)</u> | <u>48,134</u> | <u>(76,681,178)</u> |
| Net Capital Assets Being Depreciated | <u>67,420,735</u> | <u>(1,726,491)</u> | <u>(2,448)</u> | <u>65,691,796</u> |
| Net Capital Assets | <u>\$ 76,276,487</u> | <u>\$ 1,780,404</u> | <u>\$ (1,829,583)</u> | <u>\$ 76,227,308</u> |

Depreciation totaled \$3,757,012 for the year ended June 30, 2014.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 5 - Long-Term Debt:

Installment Sales Agreements

State of California, Water Resources Control Board - The District entered into a contract with the State of California, Water Resources Control Board, for a loan in an amount up to \$1,701,000 for the expansion of the Woods Valley Ranch Reclamation Facility. The loan accrues interest at 2.2% with annual payments of principal and interest in the amount of \$105,679 beginning in March 2016. The loan matures March 31, 2035. The loan is secured by a lien and pledge of the assessments, assessment fund, enterprise funds, net revenues, and any reserve fund specified in the installment sale agreement. Accrued interest totaled \$1,008 at June 30, 2014. \$ 88,000

State of California, Water Resources Control Board - The District entered into a contract with the State of California, Water Resources Control Board, for a loan in an amount up to \$9,464,500 for the expansion of the Woods Valley Ranch Reclamation Facility. The loan accrues interest at 2.2% with annual payments of principal and interest in the amount of \$573,264 beginning in December 2016. The loan matures December 31, 2035. The loan is secured by a lien and pledge of the assessments, assessment fund, enterprise funds, net revenues, and any reserve fund specified in the installment sale agreement. Accrued interest totaled \$5,042 at June 30, 2014. 440,000

State of California, Water Resources Control Board - The District entered into a contract with the State of California, Water Resources Control Board, for a loan in an amount up to \$2,331,500 for the expansion of the Woods Valley Ranch Reclamation Facility. The loan accrues interest at 2.2% with annual payments of principal and interest in the amount of \$145,359 beginning in December 2016. The loan matures December 31, 2035. The loan is secured by a lien and pledge of the assessments, assessment fund, enterprise funds, net revenues, and any reserve fund specified in the installment sale agreement. Accrued interest totaled \$1,699 at June 30, 2014. 148,310

Total Installment Sales Agreements \$ 676,310

Financing Loan Agreement

San Diego Gas & Electric (SDG&E), On Bill Financing Loan Agreement - The District entered into an unsecured and non-interest bearing loan agreement with SDG&E in the amount of \$94,474 to retrofit the West Pump Station and Cool Valley Circulation Pumps. Principal payments of \$794 are included in the monthly invoice from SDG&E. The loan matures in September 2023. \$ 88,123

Total Financing Loan Agreement \$ 88,123

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 5 - Long-Term Debt: (Continued)

Debt service requirements on the long-term debt are as follows:

| Years Ended June 30 | Installment Sales Agreements | | Financing Loan Agreements | | Total | |
|------------------------|------------------------------|-------------------|---------------------------|-------------|-------------------|-------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2015 | \$ - | \$ - | \$ 9,527 | \$ - | \$ 9,527 | \$ - |
| 2016 | 3,550 | 1,936 | 9,527 | - | 13,077 | 1,936 |
| 2017 | 27,363 | 14,801 | 9,527 | - | 36,890 | 14,801 |
| 2018 | 27,965 | 14,199 | 9,527 | - | 37,492 | 14,199 |
| 2019 | 28,580 | 13,583 | 9,527 | - | 38,107 | 13,583 |
| 2020 - 2024 | 152,612 | 58,205 | 40,488 | - | 193,100 | 58,205 |
| 2025 - 2029 | 170,155 | 40,662 | - | - | 170,155 | 40,662 |
| 2030 - 2034 | 189,714 | 21,104 | - | - | 189,714 | 21,104 |
| 2035 - 2036 | 76,371 | 2,470 | - | - | 76,371 | 2,470 |
| | <u>\$ 676,310</u> | <u>\$ 166,960</u> | <u>\$ 88,123</u> | <u>\$ -</u> | <u>\$ 764,433</u> | <u>\$ 166,960</u> |

Note 6 - Special Assessment Bonds:

On February 5, 1997, Valley Center Water District Assessment District No. 96-1 (AD 96-1) issued \$1,743,654 of limited obligation improvement bonds pursuant to the provisions of the Municipal Improvement Act of 1913 and the Improvement Bond Act of 1915. Under the Acts, the District is not obligated to repay the AD 96-1 bonds and the District does not intend in any manner to assume responsibility for the repayment of such debt. The bonds proceeds were used to establish reserve funds, pay bond issuance costs, refund to certain AD 96-1 property owners previous costs advanced, and expand the Lower Moosa Canyon water reclamation facility. AD 96-1 bonds payable at June 30, 2014, totaled \$510,000.

The bonds and interest are paid from annual special assessments on property within AD 96-1. The annual assessments are billed to and collected from the AD 96-1 property owners, along with other property taxes and assessments, and remitted to the District. The District remits the annual assessments as well as any prepaid assessments received from property owners to the AD 96-1 trustee (a commercial trust company) for eventual payment to the bondholders.

Note 7 - Unrestricted Net Position:

In addition to the restricted net position (See Note 3), unrestricted net position has been designated by the board of directors for the following purposes as of June 30, 2014:

| | |
|---|----------------------|
| Capital improvements | \$ 12,409,717 |
| Operating reserve | 3,135,853 |
| Wastewater capital replacement reserves | 2,406,200 |
| Pumping rate stabilization | 1,338,500 |
| Rate stabilization | 1,365,402 |
| Unrestricted Net Position | <u>\$ 20,655,672</u> |

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 8 - Defined Benefit Pension Plan:

(a) Plan Description

The District began participation in a defined benefit pension plan, (the "Plan") on June 30, 2001, which provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Plan is part of the Public Agency portion of the California Public Employees Retirement System (CalPERS), a cost-sharing multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. CalPERS requires agencies with less than 100 active members in the plan to participate in a risk pool. A menu of benefit provisions, as well as other provisions, is established by State statutes within the Public Employees' Retirement Law. The Plan selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through District resolution. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

(b) Funding Policy

The District's active plan employees make contributions of 8.00% of their covered salary. The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members at 2.7% at 55 years of age. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the fiscal years ended June 30, 2014 and 2013, were 29.782% and 29.084%, respectively. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS. For the fiscal years ended June 30, 2014, 2013 and 2012, the District's annual pension cost and actual contribution were \$1,736,827, \$1,655,495 and \$1,669,604, respectively, which were equal to the required contributions each year.

Note 9 - Post Employment Benefits:

The District's employees participate in one of two retiree health benefit plans depending on their date of hire. Employees hired before July 1, 2008, participate in a defined benefit plan, while those hired after June 30, 2008, participate in a defined contribution plan.

(a) Defined Benefits Plan:

Plan Description

The District's Board of Directors adopted the Retiree's Health Benefits Plan (Plan) on January 16, 1995, for the benefit of all individuals (excluding members of the Board of Directors) employed by the District. The Plan is permitted under Government Code Section 53200 et. Seq. The Plan was closed to employees hired after June 30, 2008.

In May 2009, the District established an irrevocable trust fund through the California Employers' Retiree Benefits Trust (CERBT), an agent multiple-employer postemployment healthcare trust administered by CalPERS.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 9 - Post Employment Benefits: (Continued)

(a) Defined Benefits Plan: (Continued)

Plan Description (Continued)

The District provides a contribution for continuation of medical coverage for the eligible retirees and eligible spouses, if elected by the retiree. Retirees may be eligible to continue dental and vision coverage on a self-pay basis. In order to participate in the plan, an employee must have at least five years of employment with the District and his or her attained age plus accrued Benefit Units at termination must equal at least 65. Benefit Units are earned based upon the hours worked during a plan year including leave during the year of termination. The District's payment percentage applicable to a plan designated by the District ("Designated Plan") varies based on the sum of the eligible employee's age and Benefits Units at termination. The Designated Plan means the HMO plan offered from time to time by the District or an alternative similar plan designated at the discretion of the District. An eligible employee may elect to participate in the Plan under one of three participant options (Full Spousal Benefits, Reduced Spousal Benefits, and No Spousal Benefits). An election of a participant option is irrevocable once made. Spouse coverage may continue upon death of the retiree. District Directors are not eligible to participate in the Plan unless independently eligible as an employee of the District or as a spouse of an eligible employee.

CalPERS issues a publicly available financial report that includes financial statements and required supplementary information for CERBT. That report may be obtained from CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

Funding Policy and Annual OPEB Costs

The contribution requirements of the District are established and may be amended annually by the Board of Directors. The District's annual other post employment benefit (OPEB) cost (expense) for the Plan is calculated based on the annual required contribution of the District (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 normal costs each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The District's Board of Directors has established a policy of fully funding the ARC. The current ARC rate is 8.0% of annual covered payroll. The following table shows the components of the District's annual OPEB cost for the current year, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation for the year ended June 30, 2014.

| | |
|---|--------------------|
| Annual required contribution | \$ 457,228 |
| Interest on net OPEB obligation | - |
| Adjustment to annual required contribution | - |
| Annual OPEB cost (expense) | <u>457,228</u> |
| Contributions (including benefits paid) | <u>(455,604)</u> |
| Decrease in net OPEB obligation | 1,624 |
| Net OPEB obligation (Asset) - beginning of year | <u>(1,624)</u> |
| Net OPEB obligation (Asset) - end of year | <u><u>\$ -</u></u> |

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 9 - Post Employment Benefits: (Continued)

(a) Defined Benefits Plan: (Continued)

Funding Policy and Annual OPEB Costs (Continued)

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2014 and the two preceding years were as follows:

| <u>Fiscal Year</u> | <u>Annual OPEB Cost</u> | <u>Percentage of APC Contributed</u> | <u>Net Pension Obligation</u> |
|--------------------|-------------------------|--------------------------------------|-------------------------------|
| June 30, 2012 | \$ 459,521 | 99.2% | \$ (200) |
| June 30, 2013 | 443,119 | 100% | (1,624) |
| June 30, 2014 | 457,228 | 100% | - |

The District's actuarial accrued liability for benefits at June 30, 2013, was \$4,496,388 and the covered payroll (annual payroll of active employees covered by the Plan) was \$5,041,000, with a ratio of the Unfunded Accrued Actuarial Liability (UAAL) to the covered payroll of 47.14%.

| <u>Actuarial Valuation Date</u> | <u>Actuarial Value of Assets</u> | <u>Actuarial Accrued Liability Project Unit Credit</u> | <u>Unfunded AAL (UAAL)</u> | <u>Funded Ratio</u> | <u>Covered Payroll</u> | <u>UAAL as a Percentage of Covered Payroll</u> |
|---------------------------------|----------------------------------|--|----------------------------|---------------------|------------------------|--|
| | (A) | (B) | (B-A) | (A/B) | (C) | [(B-A)/C] |
| June 30, 2010 | \$ 815,238 | \$ 3,913,916 | \$ 3,098,678 | 20.8% | \$ 5,301,000 | 58.45% |
| June 30, 2011 | 1,328,611 | 4,008,303 | 2,679,692 | 33.1% | 5,394,000 | 49.68% |
| June 30, 2013 | 2,119,846 | 4,496,388 | 2,376,542 | 47.0% | 5,041,000 | 47.14% |

Funding Status and Funding Progress

In June 2014, the District sent \$277,947 to the CERBT trust account and made benefit payments of \$177,657 for a total contribution of \$455,604.

Actuarial valuations of an ongoing Plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. 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 with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. Through CERBT, the District is required to perform an actuarial valuation every two years.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 9 - Post Employment Benefits: (Continued)

(a) Defined Benefits Plan: (Continued)

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the formal Plan document and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefits and costs between employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial assets, consistent with the long-term perspective of the calculations.

The actuarial cost method used for determining the benefits obligations is the Projected Unit Credit with Service Prorate Method. 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 9 percent initially, reduced by decrements of .5% per year to an ultimate rate of 5% after the eleventh year. Both rates include a 2.8% inflation assumption. The UAAL is being amortized as a level percentage of projected payroll over a closed amortization period of 24 years. It is assumed the District's payroll will increase 3.00% per year.

(b) Defined Contribution Plan

Employees hired on or after July 1, 2008, participate in a defined contribution plan, Retiree Welfare Benefits Plan. The District administers the plan through an agreement with ICMA-RC.

The plan was established by the District's Board of Directors pursuant to Internal Revenue Code Section 115, and may be amended by the Board from time to time.

Employees contribute 1% of their annual covered payroll to the plan, and any sick leave accrued at termination. The District contribution is 1.15% of annual covered payroll plus \$30 per participant. The District has no payment obligation once the employee separates from the District.

During the year ended June 30, 2014, employee contributions were \$2,469 and District contributions were \$2,929 for a total of \$5,398.

Note 10 - Risk Management:

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The District is a member of the Association of California Water Agencies Joint Powers Insurance Authority (JPIA). The JPIA is a risk-pooling self-insurance authority, created under provisions of California Government Code Sections 6500 et. seq. The purpose of the JPIA is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage from commercial insurance carriers to reduce its exposure to large losses.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 10 - Risk Management: (Continued)

The District pays annual premiums for its liability (auto, general, and public officials), property loss, workers' compensation, and fidelity bond coverage. They are subject to retrospective adjustments based on claims experience. The nature and amounts of these adjustments cannot be estimated and are charged or credited to expense as invoiced. The District's insurance expense for the year ended June 30, 2014, was \$90,889. There were no instances in the past three years where a settlement exceeded the District's coverage.

Note 11 - Economic Dependency:

All water sold by the District is purchased from the San Diego County Water Authority. Almost all electricity and natural gas used by the District for pumping and operations is purchased from San Diego Gas and Electric.

Note 12 - Commitments and Contingencies:

(a) Contracts

The District has entered into various contracts for the purchase of material, and construction of the capital assets. The amounts contracted for are based on the contractors' estimated cost of construction. At June 30, 2014, the total unpaid amount on these contracts is approximately \$2,072,212.

(b) Litigation

There are pending lawsuits in which the District is involved. The District's management and legal counsel estimate that the potential claims against the District, not covered by insurance, if unfavorable decisions are rendered in these pending legal actions, would not materially affect the operations or financial condition of the District.

Note 13 - New Governmental Accounting Standards:

GASB No. 66

In March 2012, the Governmental Accounting Standards Board issued Statement No. 66, "Technical Corrections - 2012 - an amendment of GASB Statements No. 10 and No. 62". This pronouncement is effective for periods beginning after December 15, 2012. This statement resolves conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", and No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements". This Statement amends Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. This Statement also amends Statement No. 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) service fee rate. These changes clarify how to apply Statement No. 13, "Accounting for Operating Leases with Scheduled Rent Increases", and result in guidance that is consistent with the requirements in Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues", respectively. This pronouncement did not have a material effect on the financial statements of the District in the year of implementation.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 13 - New Governmental Accounting Standards: (Continued)

GASB No. 67

In June 2012, the Governmental Accounting Standards Board issued Statement No. 67, "Financial Reporting for Pension Plans - an Amendment of GASB Statement No. 25". This pronouncement is effective for periods beginning after June 15, 2013. This Statement replaces the requirements of Statements No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans", and No. 50, "Pension Disclosures", as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. This pronouncement did not have a material effect on the financial statements of the District in the year of implementation.

GASB No. 68

In June 2012, the Governmental Accounting Standards Board issued Statement No. 68, "Accounting and Financial Reporting for Pensions". This pronouncement is effective for periods beginning after June 15, 2014. This pronouncement establishes accounting and financial reporting requirements related to pensions for governments whose employees are provided with pensions through pension plans, as well as for nonemployer governments that have a legal obligation to contribute to those plans. The District has not determined the effects of this pronouncement on the financial statements of the District in the year of implementation.

GASB No. 69

In January 2013, The Governmental Accounting Standard Board issued Statement No. 69, "Government Combinations and Disposals of Government Operations." This pronouncement is effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013 and should be applied on a prospective basis. Earlier application is encouraged. This statement requires the use of carrying values to measure the assets and liabilities in a government merger. Conversely, this statement requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. This statement also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. This statement provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold. This pronouncement is not anticipated to have a material effect on the financial statements of the District.

VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note 13 - New Governmental Accounting Standards: (Continued)

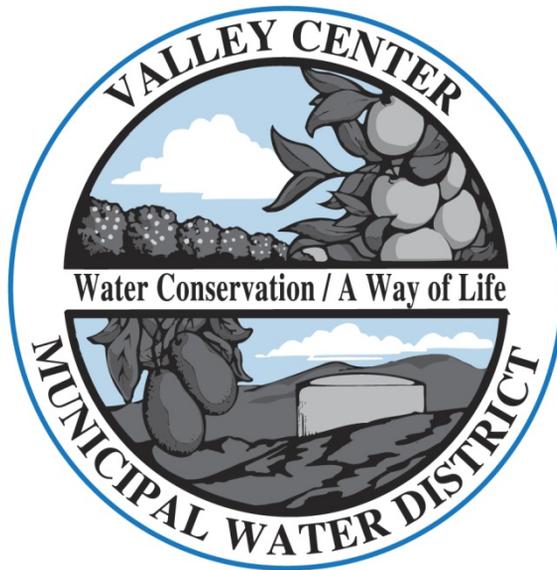
GASB No. 70

In April 2013, The Governmental Accounting Standard Board issued Statement No. 70, “Accounting and Financial Reporting for Nonexchange Financial Guarantees.” This pronouncement is effective for financial reporting periods beginning after June 15, 2013. Earlier application is encouraged. This statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data indicate that the government will be required to make a payment on the guarantee. The Government that issued the obligation guaranteed in a nonexchange transaction should recognize revenue to the extent that its guaranteed obligations have been reduced. If that government is required to repay a guarantor for making a payment, they should continue to reflect the liability until legally released as an obligor. This pronouncement is not anticipated to have a material effect on the financial statements of the District.

GASB No. 71

In November 2013, The Governmental Accounting Standards Board issue Statement No. 71, “Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68. This pronouncement is effective simultaneously with the implementation of Statement 68. This statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The District has not determined the effects of this pronouncement on the financial statements of the District in the year of implementation.

Combining Schedules



**VALLEY CENTER MUNICIPAL WATER DISTRICT
COMBINING SCHEDULE OF NET POSITION
JUNE 30, 2014**

| | ASSETS | | | |
|---|----------------|----------------|-----------------------------------|--|
| | <u>Total</u> | <u>General</u> | <u>Lower Moosa Wastewater</u> | <u>Woods Valley Ranch Wastewater</u> |
| <u>Current Assets:</u> | | | | |
| Cash and cash equivalents | \$ 18,401,464 | \$ 13,375,934 | \$ 1,581,426 | \$ 3,444,104 |
| Investments | 5,711,448 | 5,711,448 | - | - |
| Accounts receivable - water and wastewater, net | 7,687,682 | 7,687,682 | - | - |
| Interest receivable | 36,295 | 36,295 | - | - |
| Taxes receivable | 3,821 | 3,821 | - | - |
| Other receivables | 115,606 | 115,606 | - | - |
| Inventory | 608,820 | 608,820 | - | - |
| Prepaid expenses and deposits | 262,437 | 262,437 | - | - |
| Work in progress for others | 559,176 | 559,176 | - | - |
| Total Current Assets | 33,386,749 | 28,361,219 | 1,581,426 | 3,444,104 |
| <u>Noncurrent Assets:</u> | | | | |
| Restricted Assets: | | | | |
| Cash and cash equivalents | 711,236 | 334,052 | 377,184 | - |
| Investments | 336,328 | 336,328 | - | - |
| Total Restricted Assets | 1,047,564 | 670,380 | 377,184 | - |
| Capital Assets: | | | | |
| Nondepreciable capital assets | 10,535,512 | 7,504,510 | 307,326 | 2,723,676 |
| Depreciable capital assets, net | 65,691,796 | 49,759,662 | 7,166,755 | 8,765,379 |
| Total Capital Assets | 76,227,308 | 57,264,172 | 7,474,081 | 11,489,055 |
| Total Noncurrent Assets | 77,274,872 | 57,934,552 | 7,851,265 | 11,489,055 |
| TOTAL ASSETS | \$ 110,661,621 | \$ 86,295,771 | \$ 9,432,691 | \$ 14,933,159 |

**VALLEY CENTER MUNICIPAL WATER DISTRICT
COMBINING SCHEDULE OF NET POSITION (CONTINUED)
JUNE 30, 2014**

LIABILITIES AND NET POSITION

| | <u>Total</u> | <u>General</u> | <u>Lower Moosa Wastewater</u> | Woods Valley Ranch <u>Wastewater</u> |
|---------------------------------------|-------------------|-------------------|-----------------------------------|--|
| <u>Current Liabilities:</u> | | | | |
| Accounts payable | \$ 7,880,568 | \$ 7,880,568 | \$ - | \$ - |
| Accrued payroll | 285,825 | 285,825 | - | - |
| Accrued compensated absences | 680,100 | 680,100 | - | - |
| Customer deposits | 2,445,728 | 827,056 | 31,444 | 1,587,228 |
| Current portion of loans payable | 9,527 | 9,527 | - | - |
| Total Current Liabilities | <u>11,301,748</u> | <u>9,683,076</u> | <u>31,444</u> | <u>1,587,228</u> |
| <u>Noncurrent Liabilities:</u> | | | | |
| Long-Term Debt: | | | | |
| Loans payable, net of current portion | 754,906 | 78,596 | - | 676,310 |
| Interest payable | 7,749 | - | - | 7,749 |
| Total Long-Term Debt | <u>762,655</u> | <u>78,596</u> | <u>-</u> | <u>684,059</u> |
| Other Noncurrent Liabilities: | | | | |
| Accrued compensated absences | <u>1,431,107</u> | <u>1,431,107</u> | <u>-</u> | <u>-</u> |
| Total Noncurrent Liabilities | <u>2,193,762</u> | <u>1,509,703</u> | <u>-</u> | <u>684,059</u> |
| Total Liabilities | <u>13,495,510</u> | <u>11,192,779</u> | <u>31,444</u> | <u>2,271,287</u> |
| <u>Net Position:</u> | | | | |
| Net investment in capital assets | 75,462,875 | 57,176,049 | 7,474,081 | 10,812,745 |
| Restricted for facility expansion | 1,047,564 | 670,380 | 377,184 | - |
| Unrestricted | 20,655,672 | 17,256,562 | 1,549,982 | 1,849,128 |
| Total Net Position | <u>97,166,111</u> | <u>75,102,991</u> | <u>9,401,247</u> | <u>12,661,873</u> |

**VALLEY CENTER MUNICIPAL WATER DISTRICT
COMBINING SCHEDULE OF NET POSITION
JUNE 30, 2013**

| | ASSETS | | | |
|---|-----------------------|----------------------|-----------------------------------|--|
| | <u>Total</u> | <u>General</u> | <u>Lower Moosa Wastewater</u> | <u>Woods Valley Ranch Wastewater</u> |
| <u>Current Assets:</u> | | | | |
| Cash and cash equivalents | \$ 12,917,315 | \$ 9,030,725 | \$ 1,337,600 | \$ 2,548,990 |
| Investments | 6,086,879 | 6,086,879 | - | - |
| Accounts receivable - water and wastewater, net | 7,523,522 | 7,523,522 | - | - |
| Interest receivable | 25,880 | 25,880 | - | - |
| Taxes receivable | 2,492 | 2,492 | - | - |
| Other receivables | 26,095 | 26,095 | - | - |
| Inventory | 725,166 | 725,166 | - | - |
| Prepaid expenses and deposits | 824,818 | 824,818 | - | - |
| Work in progress for others | 609,651 | 609,651 | - | - |
| Total Current Assets | <u>28,741,818</u> | <u>24,855,228</u> | <u>1,337,600</u> | <u>2,548,990</u> |
| <u>Noncurrent Assets:</u> | | | | |
| Restricted Assets: | | | | |
| Cash and cash equivalents | 368,759 | - | 368,759 | - |
| Investments | 259,259 | 259,259 | - | - |
| Total Restricted Assets | <u>628,018</u> | <u>259,259</u> | <u>368,759</u> | <u>-</u> |
| Capital Assets: | | | | |
| Nondepreciable capital assets | 8,855,752 | 7,144,022 | 208,470 | 1,503,260 |
| Depreciable capital assets, net | 67,420,736 | 50,897,903 | 7,377,541 | 9,145,292 |
| Total Capital Assets | <u>76,276,488</u> | <u>58,041,925</u> | <u>7,586,011</u> | <u>10,648,552</u> |
| Other Assets: | | | | |
| OPEB asset | <u>1,624</u> | <u>1,624</u> | <u>-</u> | <u>-</u> |
| Total Noncurrent Assets | <u>76,906,130</u> | <u>58,302,808</u> | <u>7,954,770</u> | <u>10,648,552</u> |
| TOTAL ASSETS | <u>\$ 105,647,948</u> | <u>\$ 83,158,036</u> | <u>\$ 9,292,370</u> | <u>\$ 13,197,542</u> |

**VALLEY CENTER MUNICIPAL WATER DISTRICT
COMBINING SCHEDULE OF NET POSITION (CONTINUED)
JUNE 30, 2013**

LIABILITIES AND NET POSITION

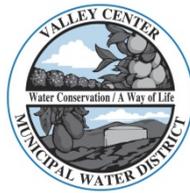
| | <u>Total</u> | <u>General</u> | <u>Lower Moosa Wastewater</u> | <u>Woods Valley Ranch Wastewater</u> |
|---------------------------------------|----------------------|----------------------|-----------------------------------|--|
| <u>Current Liabilities:</u> | | | | |
| Accounts payable | \$ 6,926,408 | \$ 6,926,408 | \$ - | \$ - |
| Accrued payroll | 217,893 | 217,893 | - | - |
| Compensated absences | 652,400 | 652,400 | - | - |
| Customer deposits | <u>2,636,937</u> | <u>1,331,246</u> | <u>17,694</u> | <u>1,287,997</u> |
| Total Current Liabilities | <u>10,433,638</u> | <u>9,127,947</u> | <u>17,694</u> | <u>1,287,997</u> |
| <u>Noncurrent Liabilities:</u> | | | | |
| Compensated absences | <u>1,287,406</u> | <u>1,287,406</u> | <u>-</u> | <u>-</u> |
| Total Noncurrent Liabilities | <u>1,287,406</u> | <u>1,287,406</u> | <u>-</u> | <u>-</u> |
| Total Liabilities | <u>11,721,044</u> | <u>10,415,353</u> | <u>17,694</u> | <u>1,287,997</u> |
| <u>Net Position:</u> | | | | |
| Net investment in capital assets | 76,276,487 | 58,041,925 | 7,586,011 | 10,648,551 |
| Restricted for facility expansion | 628,018 | 259,259 | 368,759 | - |
| Unrestricted | <u>17,022,399</u> | <u>14,441,499</u> | <u>1,319,906</u> | <u>1,260,994</u> |
| Total Net Position | <u>\$ 93,926,904</u> | <u>\$ 72,742,683</u> | <u>\$ 9,274,676</u> | <u>\$ 11,909,545</u> |

**VALLEY CENTER MUNICIPAL WATER DISTRICT
COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014**

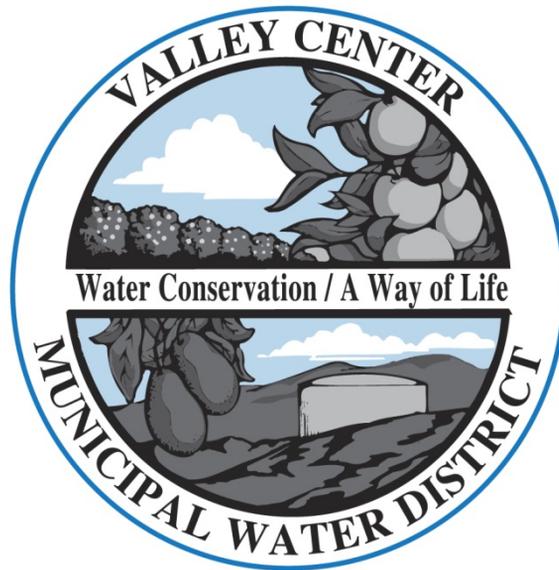
| | <u>Total</u> | <u>General</u> | <u>Lower Moosa Wastewater</u> | <u>Woods Valley Ranch Wastewater</u> |
|---|----------------------|----------------------|-----------------------------------|--|
| <u>Operating Revenues:</u> | | | | |
| Water sales and pumping charges | \$ 47,238,881 | \$ 47,238,881 | \$ - | \$ - |
| Wastewater charges | 2,088,881 | - | 1,568,569 | 520,312 |
| Meter installation fees | 139,563 | 139,563 | - | - |
| Other water operating revenues | 622,128 | 622,128 | - | - |
| Total Operating Revenues | <u>50,089,453</u> | <u>48,000,572</u> | <u>1,568,569</u> | <u>520,312</u> |
| <u>Operating Expenses:</u> | | | | |
| Cost of water sold | 33,822,193 | 33,822,193 | - | - |
| Energy and pumping costs | 2,766,632 | 2,661,948 | 64,535 | 40,149 |
| Water systems operations | 5,123,092 | 5,123,092 | - | - |
| Wastewater collection and treatment | 1,086,185 | - | 875,927 | 210,258 |
| Engineering | 1,548,003 | 1,548,003 | - | - |
| General and administrative | 2,861,803 | 2,598,805 | 194,699 | 68,299 |
| Depreciation | 3,757,012 | 3,049,994 | 326,921 | 380,097 |
| Total Operating Expenses | <u>50,964,920</u> | <u>48,804,035</u> | <u>1,462,082</u> | <u>698,803</u> |
| Operating Income (Loss) | <u>(875,467)</u> | <u>(803,463)</u> | <u>106,487</u> | <u>(178,491)</u> |
| <u>Nonoperating Revenues (Expenses):</u> | | | | |
| Property taxes and assessments | 2,486,977 | 2,486,977 | - | - |
| Investment income | 130,887 | 94,748 | 11,891 | 24,248 |
| Other nonoperating revenues | 323,813 | 323,813 | - | - |
| Interest expense | (7,749) | - | - | (7,749) |
| Other nonoperating expenses | (2,448) | (2,216) | (232) | - |
| Total Nonoperating Revenues (Expenses) | <u>2,931,480</u> | <u>2,903,322</u> | <u>11,659</u> | <u>16,499</u> |
| Income (Loss) Before Contributions | 2,056,013 | 2,099,859 | 118,146 | (161,992) |
| Capital Contributions | <u>1,183,194</u> | <u>260,449</u> | <u>8,425</u> | <u>914,320</u> |
| Change in Net Position | 3,239,207 | 2,360,308 | 126,571 | 752,328 |
| Net Position at Beginning of Year | <u>93,926,904</u> | <u>72,742,683</u> | <u>9,274,676</u> | <u>11,909,545</u> |
| NET POSITION AT END OF YEAR | <u>\$ 97,166,111</u> | <u>\$ 75,102,991</u> | <u>\$ 9,401,247</u> | <u>\$ 12,661,873</u> |

**VALLEY CENTER MUNICIPAL WATER DISTRICT
COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2013**

| | <u>Total</u> | <u>General</u> | <u>Lower Moosa Wastewater</u> | <u>Woods Valley Ranch Wastewater</u> |
|---|----------------------|----------------------|-----------------------------------|--|
| <u>Operating Revenues:</u> | | | | |
| Water sales and pumping charges | \$ 43,743,266 | \$ 43,743,266 | \$ - | \$ - |
| Wastewater charges | 1,870,259 | - | 1,489,852 | 380,407 |
| Meter installation fees | 101,930 | 101,930 | - | - |
| Other water operating revenues | 532,841 | 532,841 | - | - |
| Total Operating Revenues | <u>46,248,296</u> | <u>44,378,037</u> | <u>1,489,852</u> | <u>380,407</u> |
| <u>Operating Expenses:</u> | | | | |
| Cost of water sold | 31,113,969 | 31,113,969 | - | - |
| Energy and pumping costs | 2,482,530 | 2,386,513 | 60,761 | 35,256 |
| Water systems operations | 4,810,835 | 4,810,835 | - | - |
| Wastewater collection and treatment | 1,058,507 | - | 838,108 | 220,399 |
| Engineering | 1,642,298 | 1,642,298 | - | - |
| General and administrative | 2,892,713 | 2,638,724 | 190,741 | 63,248 |
| Depreciation | 4,451,395 | 3,574,041 | 299,264 | 578,090 |
| Total Operating Expenses | <u>48,452,247</u> | <u>46,166,380</u> | <u>1,388,874</u> | <u>896,993</u> |
| Operating Income (Loss) | <u>(2,203,951)</u> | <u>(1,788,343)</u> | <u>100,978</u> | <u>(516,586)</u> |
| <u>Nonoperating Revenues (Expenses):</u> | | | | |
| Property taxes and assessments | 2,543,153 | 2,543,153 | - | - |
| Investment income | 82,496 | 62,915 | 10,280 | 9,301 |
| Other nonoperating revenues | 291,832 | 291,832 | - | - |
| Interest expense | (15) | (15) | - | - |
| Other nonoperating expenses | (37,238) | (9,228) | (28,010) | - |
| Total Nonoperating Revenues (Expenses) | <u>2,880,228</u> | <u>2,888,657</u> | <u>(17,730)</u> | <u>9,301</u> |
| Income (Loss) Before Capital Contributions | 676,277 | 1,100,314 | 83,248 | (507,285) |
| Capital Contributions | <u>702,111</u> | <u>87,345</u> | <u>253,897</u> | <u>360,869</u> |
| Change in Net Position | 1,378,388 | 1,187,659 | 337,145 | (146,416) |
| Net Position at Beginning of Year | <u>92,548,516</u> | <u>71,555,024</u> | <u>8,937,531</u> | <u>12,055,961</u> |
| NET POSITION AT END OF YEAR | <u>\$ 93,926,904</u> | <u>\$ 72,742,683</u> | <u>\$ 9,274,676</u> | <u>\$ 11,909,545</u> |



Statistical Section



STATISTICAL SECTION

This part of the Valley Center Municipal Water District’s (the “District”) comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the District’s overall financial health.

| CONTENTS | PAGE |
|---|------|
| Financial Trends | 43 |
| <i>These schedules contain trend information to help the reader understand how the District’s financial performance and well-being have changed over time.</i> | |
| Revenue Capacity | 45 |
| <i>These schedules contain information to help the reader access the District’s two most significant local revenue sources, water sales and property levies.</i> | |
| Debt Capacity | 54 |
| <i>These schedules present information to help the reader access the affordability of the District’s current levels of outstanding debt and the District’s ability to issue additional debt in the future.</i> | |
| Demographic and Economic Information | 56 |
| <i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the District’s financial activities take place.</i> | |
| Operating Information | 58 |
| <i>These schedules contain service and infrastructure data to help the reader understand how the information in the District’s financial report relates to the services the District provides and the activities it performs.</i> | |

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

Table I
Net Position by Component (Last Ten Fiscal Years)

| | Fiscal year ended | | | | |
|---------------------------------------|---------------------------|----------------------|----------------------|----------------------|----------------------|
| | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> |
| Primary government | | | | | |
| Net investment in capital assets | \$ 76,462,875 | \$ 76,276,487 | \$ 77,829,804 | \$ 81,249,809 | \$ 83,824,468 |
| Restricted for facility expansion | 1,047,564 | 628,018 | 302,877 | 276,993 | 268,225 |
| Unrestricted | <u>20,655,672</u> | <u>17,022,399</u> | <u>14,415,835</u> | <u>12,745,389</u> | <u>14,300,005</u> |
| Total primary government net position | <u>\$ 97,166,111</u> | <u>\$ 93,926,904</u> | <u>\$ 92,548,516</u> | <u>\$ 94,272,191</u> | <u>\$ 98,392,698</u> |
| | | | | | |
| | <u>2009⁽¹⁾</u> | <u>2008</u> | <u>2007</u> | <u>2006</u> | <u>2005</u> |
| Primary government | | | | | |
| Net investment in capital assets | \$ 85,622,542 | \$ 72,376,226 | \$ 68,354,318 | \$ 62,887,148 | \$ 61,272,644 |
| Restricted for facility expansion | 503,862 | 652,253 | 1,300,411 | 2,363,055 | 2,112,513 |
| Unrestricted | <u>15,843,119</u> | <u>15,976,619</u> | <u>16,617,224</u> | <u>16,292,789</u> | <u>16,996,464</u> |
| Total primary government net position | <u>\$101,969,523</u> | <u>\$ 89,005,098</u> | <u>\$ 86,271,953</u> | <u>\$ 81,542,992</u> | <u>\$ 80,381,621</u> |

(1) As restated (See Table II, Note 5).

Source: Valley Center Municipal Water District

Net Position

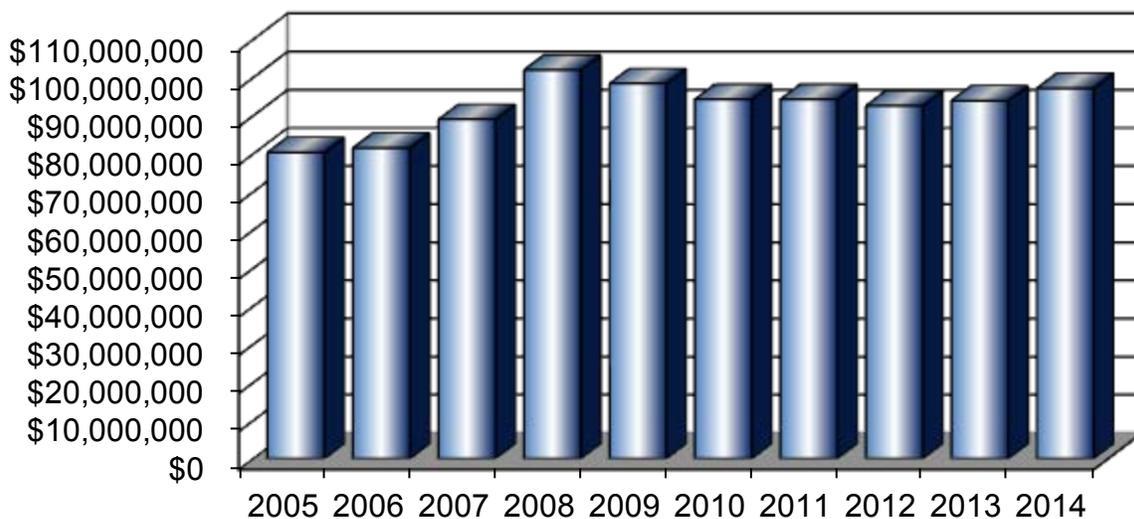


Table II
Changes in Net Position (Last Ten Fiscal Years)

| | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Operating Revenues: | | | | | | | | | | |
| Water sales ⁽¹⁾ | \$ 44,114,111 | \$ 40,703,792 | \$ 35,457,375 | \$ 29,258,333 | \$ 29,772,214 | \$ 28,987,435 | \$ 29,326,068 | \$ 33,074,620 | \$ 27,880,263 | \$ 22,330,102 |
| Pumping charges | 3,124,770 | 3,039,474 | 2,940,227 | 2,726,802 | 3,187,965 | 3,838,476 | 4,489,845 | 5,668,077 | 4,542,651 | 3,842,082 |
| Wastewater charges | 2,088,881 | 1,870,259 | 1,811,397 | 1,761,685 | 1,675,877 | 1,576,437 | 1,561,495 | 1,501,180 | 1,516,327 | 1,476,617 |
| Meter installation fees | 139,563 | 101,930 | 88,834 | 57,748 | 87,065 | 155,358 | 128,342 | 210,145 | 474,070 | 479,791 |
| Other water operating revenues | 622,128 | 532,841 | 510,083 | 554,997 | 798,548 | 797,534 | 974,774 | 502,240 | 567,040 | 320,187 |
| Total operating revenues | \$ 50,089,453 | \$ 46,248,296 | \$ 40,807,916 | \$ 34,359,565 | \$ 35,521,669 | \$ 35,355,240 | \$ 36,480,524 | \$ 40,956,262 | \$ 34,980,351 | \$ 28,448,779 |
| Operating Expenses: | | | | | | | | | | |
| Cost of water sold | \$ 33,822,193 | \$ 31,113,969 | \$ 27,385,538 | \$ 23,522,162 | \$ 23,884,810 | \$ 21,820,598 | \$ 21,146,786 | \$ 24,526,923 | \$ 20,902,095 | \$ 17,202,614 |
| Energy and pumping costs | 2,766,632 | 2,482,530 | 2,522,694 | 2,525,600 | 2,944,042 | 4,082,268 | 4,214,599 | 5,027,801 | 4,506,674 | 3,927,593 |
| Water systems operations | 5,123,092 | 4,810,835 | 5,008,872 | 5,091,000 | 5,133,041 | 4,821,920 | 4,695,861 | 4,477,871 | 4,125,970 | 3,900,188 |
| Wastewater collection and treatment | 1,086,185 | 1,058,507 | 1,019,208 | 907,388 | 841,443 | 866,812 | 748,447 | 784,551 | 641,189 | 638,092 |
| Engineering | 1,548,003 | 1,642,298 | 1,661,797 | 1,716,551 | 1,591,578 | 1,580,009 | 1,368,868 | 1,308,093 | 1,208,598 | 1,164,938 |
| General and administrative | 2,861,803 | 2,892,713 | 3,116,844 | 3,187,920 | 3,072,738 | 3,207,975 | 3,138,119 | 2,913,737 | 2,780,531 | 2,779,509 |
| Depreciation | 3,757,012 | 4,451,395 | 4,753,297 | 4,908,607 | 5,003,462 | 4,137,915 | 3,748,039 | 3,567,080 | 3,174,992 | 2,914,462 |
| Total operating expenses | \$ 50,964,920 | \$ 48,452,247 | \$ 45,468,250 | \$ 41,859,228 | \$ 42,471,114 | \$ 40,517,497 | \$ 39,060,719 | \$ 42,606,056 | \$ 37,340,049 | \$ 32,527,396 |
| Operating (Loss) | \$ (875,467) | \$ (2,203,951) | \$ (4,660,334) | \$ (7,499,663) | \$ (6,949,445) | \$ (5,162,257) | \$ (2,580,195) | \$ (1,649,794) | \$ (2,359,698) | \$ (4,078,617) |
| Nonoperating Revenues and (Expenses): | | | | | | | | | | |
| Property taxes and assessments | \$ 2,486,977 | \$ 2,543,153 | \$ 2,499,875 | \$ 2,513,255 | \$ 2,595,610 | \$ 2,764,166 | \$ 2,810,946 | \$ 2,667,856 | \$ 1,363,904 | \$ 1,061,881 |
| Investment income | 130,887 | 82,496 | 127,900 | 132,978 | 220,489 | 476,566 | 898,899 | 1,003,835 | 564,566 | 575,887 |
| Other nonoperating revenues ⁽²⁾ | 323,813 | 291,832 | 289,382 | 315,542 | 208,413 | 192,882 | 256,550 | 551,289 | 225,686 | 887,902 |
| Interest expense | (7,749) | (15) | (1,709) | (3,883) | (5,929) | (9,470) | (20,289) | (28,791) | (28,564) | (23,099) |
| Other nonoperating expenses ⁽³⁾ | (2,448) | (37,238) | (8,399) | (22,217) | (51,146) | (31,275) | (66,492) | (1,339) | (190,155) | (91,909) |
| Total Nonoperating Revenues and (Expenses) | \$ 2,931,480 | \$ 2,880,228 | \$ 2,907,049 | \$ 2,935,675 | \$ 2,967,437 | \$ 3,392,869 | \$ 3,879,614 | \$ 4,192,850 | \$ 1,935,437 | \$ 2,410,662 |
| Income (Loss) Before Contributions | \$ 2,056,013 | \$ 676,277 | \$ (1,753,285) | \$ (4,563,988) | \$ (3,982,008) | \$ (1,769,388) | \$ 1,299,419 | \$ 2,543,056 | \$ (424,261) | \$ (1,667,955) |
| Capital contributions | 1,183,194 | 702,111 | 29,610 | 443,481 | 405,183 | 12,296,892 | 1,433,726 | 2,185,905 | 1,585,632 | 2,303,708 |
| Change in Net Assets | \$ 3,239,207 | \$ 1,378,388 | \$ (1,723,675) | \$ (4,120,507) | \$ (3,576,825) | \$ 10,527,504 | \$ 2,733,145 | \$ 4,728,961 | \$ 1,161,371 | \$ 635,753 |
| Net Position at Beginning of Year | \$ 93,926,904 | \$ 92,548,516 | \$ 94,272,191 | \$ 98,392,698 | \$ 101,969,523 | \$ 89,005,098 | \$ 86,271,953 | \$ 81,542,992 | \$ 80,381,621 | \$ 79,745,868 |
| Restatement ⁽⁴⁾ | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 2,436,921 | \$ - | \$ - | \$ - | \$ - |
| Restated Net Position at Beginning of Year | \$ 93,926,904 | \$ 92,548,516 | \$ 94,272,191 | \$ 98,392,698 | \$ 101,969,523 | \$ 91,442,019 | \$ 86,271,953 | \$ 81,542,992 | \$ 80,381,621 | \$ 79,745,868 |
| NET POSITION AT END OF YEAR | \$ 97,166,111 | \$ 93,926,904 | \$ 92,548,516 | \$ 94,272,191 | \$ 98,392,698 | \$ 101,969,523 | \$ 89,005,098 | \$ 86,271,953 | \$ 81,542,992 | \$ 80,381,621 |

(1) A detailed schedule of water sales is presented in Table III.

(2) Includes energy settlement of \$248,270 in 2007 and \$473,798 in 2005.

(3) Includes loss on termination of projects and disposition of assets.

(4) Restatement of prior balance of \$2,491,415 in 2009 per GASB 45 for Retirement Health Plan Liability recorded as expense in prior years and \$(54,494) per GASB 51 for Feasibility Study recorded as capital asset in prior year.

Source: Valley Center Municipal Water District

Table III
Water Sales by User Type (1) (Last Ten Fiscal Years)

| Fiscal Year Ended | Domestic | | Commercial | | Certified Agricultural (3) | | Total | | Average Direct Rate (2) |
|-------------------|--------------|-----------|-------------|-----------|----------------------------|-----------|--------------|-----------|-------------------------|
| | Value | Acre Feet | Value | Acre Feet | Value | Acre Feet | Value | Acre Feet | |
| 2014 | \$13,709,488 | 6,221.0 | \$3,893,594 | 2,210.7 | \$26,511,029 | 19,650.4 | \$44,114,111 | 28,082.1 | \$1,571 |
| 2013 | \$12,508,073 | 6,038.3 | \$4,083,843 | 2,545.8 | \$24,111,876 | 18,786.3 | \$40,703,792 | 27,370.4 | \$1,487 |
| 2012 | \$10,529,179 | 5,486.0 | \$3,891,893 | 2,661.7 | \$21,036,302 | 17,942.8 | \$35,457,375 | 26,090.5 | \$1,359 |
| 2011 | \$9,180,184 | 5,388.9 | \$3,204,462 | 2,506.4 | \$16,873,687 | 16,247.9 | \$29,258,333 | 24,143.2 | \$1,212 |
| 2010 | \$8,744,895 | 5,917.6 | \$2,655,302 | 2,254.0 | \$18,372,017 | 19,665.7 | \$29,772,214 | 27,837.3 | \$1,070 |
| 2009 | \$8,840,040 | 7,187.3 | \$2,196,162 | 2,104.7 | \$17,951,233 | 23,722.1 | \$28,987,435 | 33,014.1 | \$878 |
| 2008 | \$8,667,234 | 7,725.8 | \$1,570,149 | 1,653.5 | \$19,088,685 | 28,256.7 | \$29,326,068 | 37,636.0 | \$779 |
| 2007 | \$8,452,264 | 8,088.4 | \$1,591,979 | 1,829.0 | \$23,030,377 | 38,167.6 | \$33,074,620 | 48,085.0 | \$688 |
| 2006 | \$7,834,755 | 7,081.3 | \$1,320,201 | 1,729.3 | \$18,725,307 | 32,917.4 | \$27,880,263 | 41,728.0 | \$668 |
| 2005 | \$5,959,185 | 6,324.7 | \$1,321,841 | 1,744.7 | \$15,049,076 | 28,020.4 | \$22,330,102 | 36,089.8 | \$619 |

- (1) Water sales include monthly meter charges but exclude pumping charges. Amounts in acre feet are water billed.
- (2) Calculated average rate, including commodity and monthly meter charges. See Table IX for actual rates.
- (3) Includes only sales under interruptible agricultural water rates.

Source: Valley Center Municipal Water District

Water Sales in Acre Feet

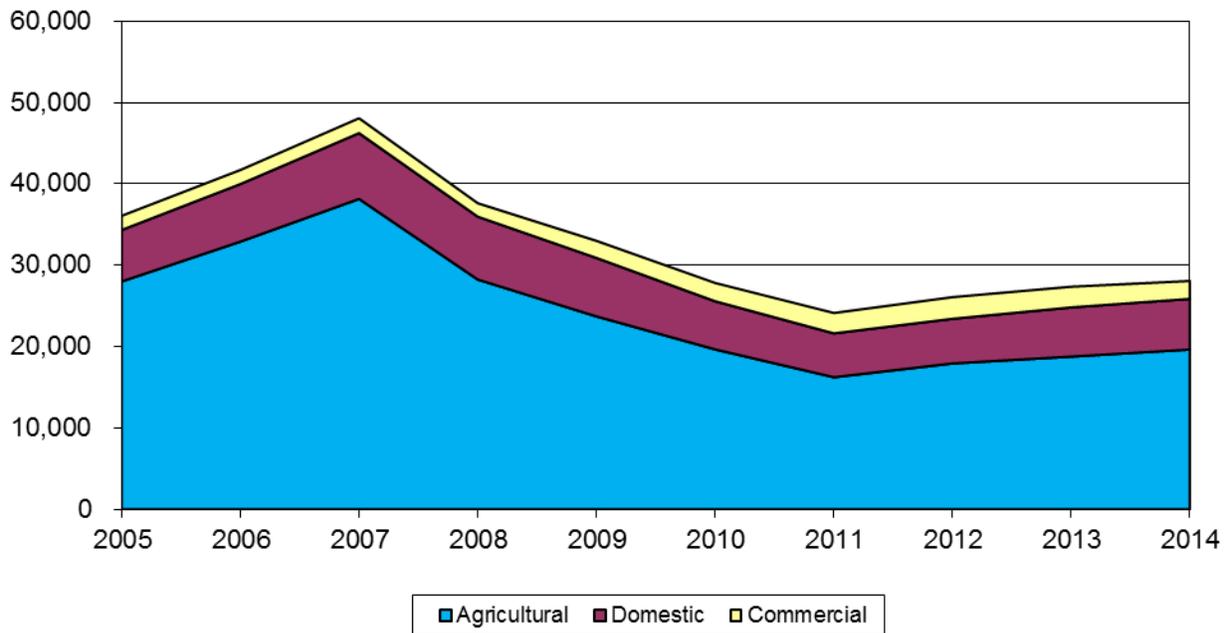


Table IV
Active Water Meters and Wastewater Services (Last Ten Fiscal Years)

| Fiscal Year Ended | Domestic | Commercial | Certified Agricultural ⁽¹⁾ | Total Active | All Inactive Meters | Total | Wastewater EDUs |
|-------------------|----------|------------|---------------------------------------|--------------|---------------------|--------|----------------------|
| 2014 | 8,242 | 432 | 1,111 | 9,785 | 890 | 10,675 | 2,746 |
| 2013 | 8,157 | 412 | 1,146 | 9,715 | 901 | 10,616 | 2,745 |
| 2012 | 7,904 | 486 | 1,304 | 9,694 | 903 | 10,597 | 2,731 |
| 2011 | 7,880 | 486 | 1,326 | 9,692 | 884 | 10,576 | 2,717 |
| 2010 | 7,844 | 466 | 1,378 | 9,688 | 868 | 10,556 | 2,722 |
| 2009 | 7,749 | 461 | 1,480 | 9,690 | 803 | 10,493 | 2,729 |
| 2008 | 7,699 | 297 | 1,700 | 9,696 | 712 | 10,408 | 2,663 |
| 2007 | 7,667 | 299 | 1,746 | 9,712 | 639 | 10,351 | 2,624 |
| 2006 | 7,533 | 325 | 1,709 | 9,567 | 613 | 10,180 | 2,535 ⁽²⁾ |
| 2005 | 7,134 | 313 | 1,725 | 9,172 | 617 | 9,789 | 2,615 |

(1) Includes only meters participating in an interruptible agricultural water rate.

(2) 2006 figure net of 222 EDU's for Skyline Ranch reverted back to property owner in May 2006.

Source: Valley Center Municipal Water District

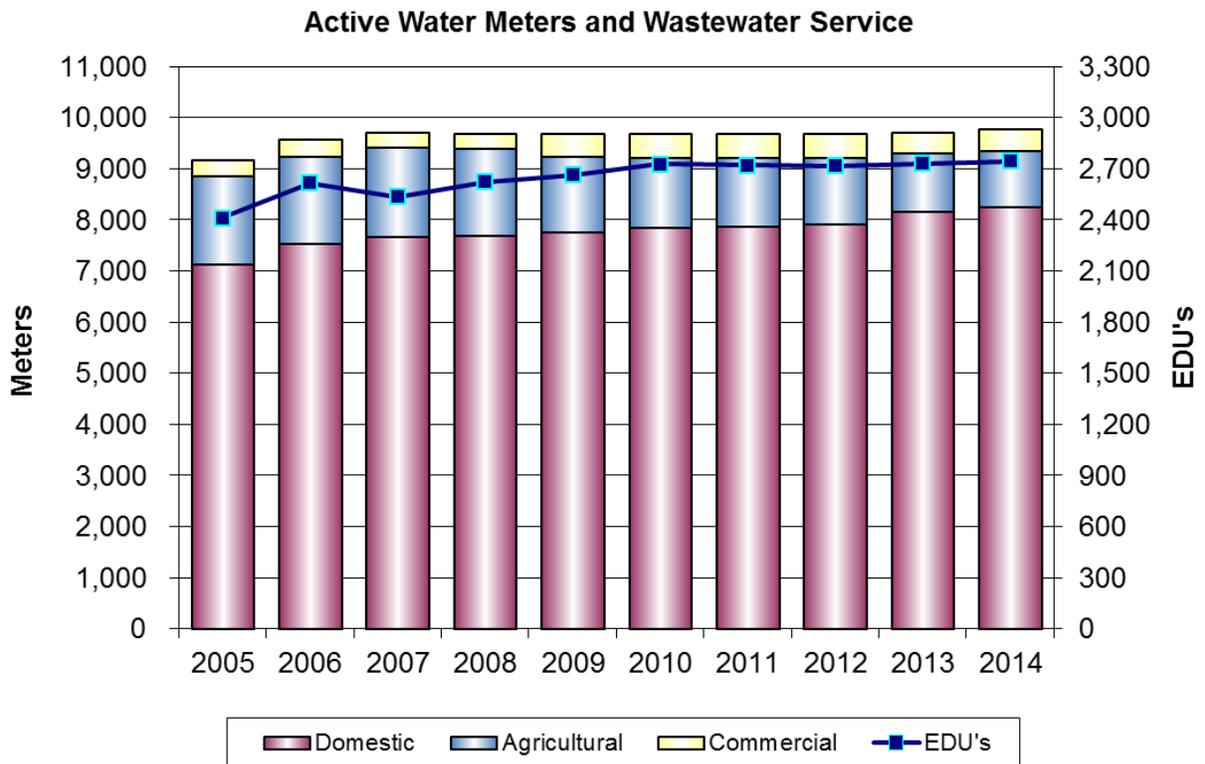


Table V
Assessed Value of Taxable Property (Last Ten Fiscal Years)

| Fiscal Year Ended | Secured | | | Net Assessed Value | Assessed Unsecured Value | Total Assessed Value |
|-------------------|-----------------|-------------------|--------------|--------------------|--------------------------|----------------------|
| | Real Property | Personal Property | Exemptions | | | |
| 2014 | \$3,706,577,321 | \$1,376,872 | \$28,443,008 | \$3,679,511,185 | \$20,755,618 | \$3,700,266,803 |
| 2013 | 3,740,016,370 | 1,265,751 | 27,317,686 | 3,713,964,435 | 20,078,143 | 3,734,042,578 |
| 2012 | 3,831,030,133 | 325,570 | 25,754,739 | 3,805,600,964 | 24,459,608 | 3,830,060,572 |
| 2011 | 3,878,894,450 | 176,496 | 24,763,190 | 3,854,307,756 | 25,180,931 | 3,879,488,687 |
| 2010 | 4,008,313,358 | 297,477 | 25,760,391 | 3,982,850,444 | 27,925,200 | 4,010,775,644 |
| 2009 | 4,226,310,595 | 375,035 | 19,968,104 | 4,206,717,526 | 30,378,264 | 4,237,095,790 |
| 2008 | 4,226,755,026 | 283,045 | 24,891,870 | 4,202,146,201 | 26,580,918 | 4,228,727,119 |
| 2007 | 3,910,428,520 | 325,217 | 20,317,262 | 3,890,436,475 | 23,202,625 | 3,913,639,100 |
| 2006 | 3,434,024,564 | 310,601 | 18,187,509 | 3,416,147,656 | 18,989,987 | 3,435,137,643 |
| 2005 | 2,872,402,815 | 284,993 | 16,703,521 | 2,855,984,287 | 18,674,290 | 2,874,658,577 |

Source: Office of the Auditor Controller, County of San Diego

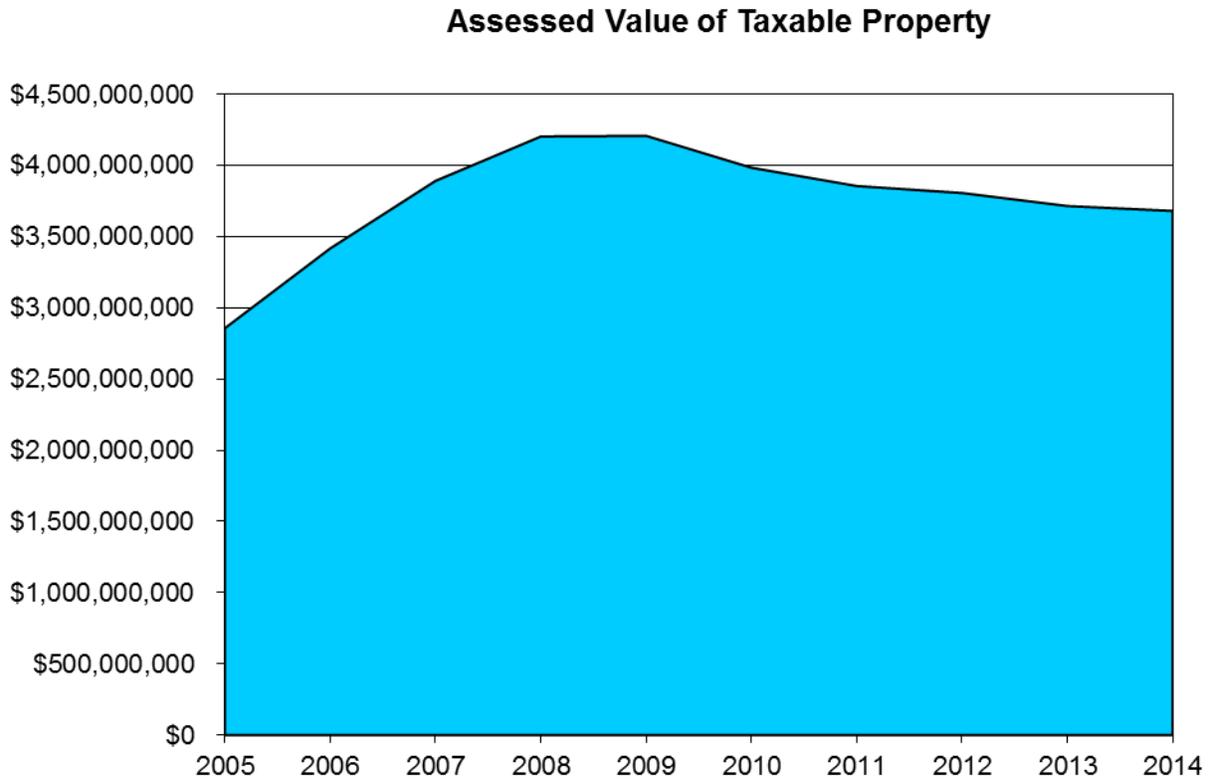


Table VI
Property Taxes and Assessment Levies and Collections (1) (Last Ten Fiscal Years)

| Fiscal Year Ended | Levy | | | Total Collections ⁽²⁾ | Net Delinquent ⁽³⁾ | Percent Delinquent ⁽⁴⁾ |
|-------------------|--------------------------|------------------------------------|-------------|----------------------------------|-------------------------------|-----------------------------------|
| | Property Taxes | Special Assessments ⁽⁵⁾ | Total Levy | | | |
| 2014 | \$1,979,568 | \$1,253,812 | \$3,233,380 | \$3,204,819 | \$28,561 | 0% |
| 2013 | \$1,983,638 | \$1,068,855 | \$3,052,493 | \$3,025,479 | \$27,014 | 0% |
| 2012 | \$2,003,970 | \$1,074,342 | \$3,078,312 | \$3,051,951 | \$26,361 | 0% |
| 2011 | \$2,031,695 | \$1,231,558 | \$3,263,253 | \$3,235,076 | \$28,177 | 0% |
| 2010 | \$2,098,464 | \$1,210,270 | \$3,308,734 | \$3,276,702 | \$32,032 | 0% |
| 2009 | \$2,240,385 | \$1,139,600 | \$3,379,985 | \$3,353,350 | \$26,635 | 0% |
| 2008 | \$2,293,346 | \$1,091,130 | \$3,384,476 | \$3,344,856 | \$39,620 | 0% |
| 2007 | \$2,154,285 | \$1,076,625 | \$3,230,910 | \$3,195,668 | \$35,242 | 0% |
| 2006 | \$833,152 ⁽⁶⁾ | \$1,082,859 | \$1,916,011 | \$1,881,717 | \$34,294 | 0% |
| 2005 | \$524,063 ⁽⁶⁾ | \$1,080,827 | \$1,604,890 | \$1,570,775 | \$34,115 | 0% |

- (1) Percent delinquencies for assessments and property taxes are the same since they are both collected on one tax bill.
- (2) Collections do not include miscellaneous adjustments.
- (3) Net Delinquent includes uncollectible portion.
- (4) Percent delinquent represents current secured only. Beginning in fiscal year 1993-94, the County of San Diego remits to the District 100% of the secured property taxes and special assessments assessed. The County of San Diego then pursues collection of any remaining delinquencies through the Teeter Plan.
- (5) Includes special assessments for limited obligation bonds.
- (6) Property Taxes net of \$1,097,331 each year as a result of SB1096 Property Tax Shift.

Source: Valley Center Municipal Water District and the Office of the Auditor Controller, County of San Diego

Property Tax Collections

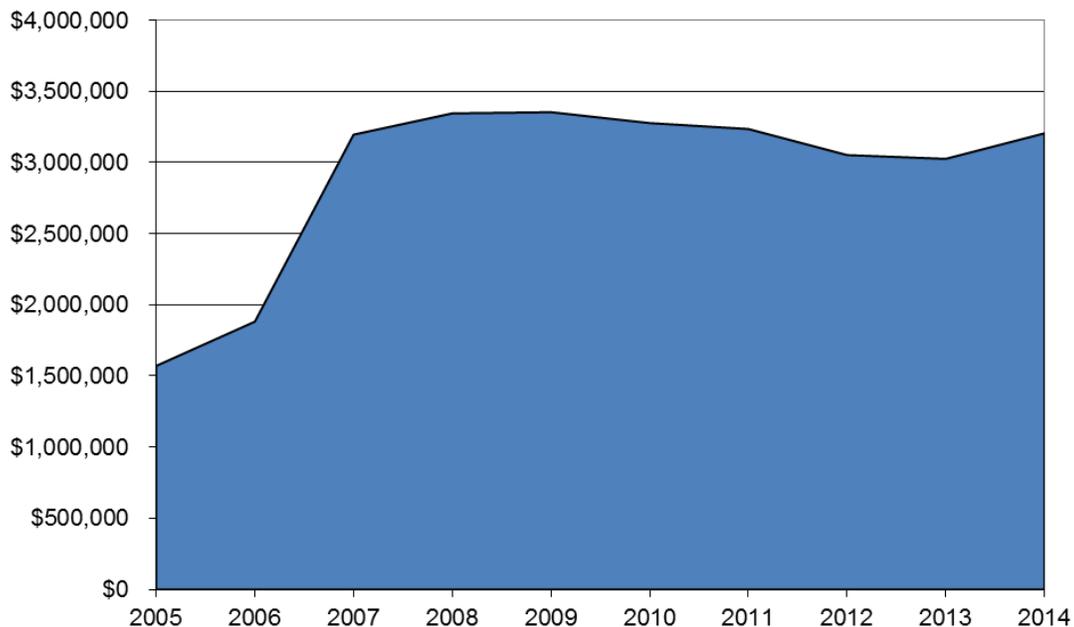


Table VII
Direct and Overlapping Bonded Debt (June 30, 2014)

2013-14 Assessed Valuation: \$3,700,266,803

| | Total Debt | % | District's Share of |
|--|------------------|-----------------------|---------------------------------------|
| | <u>6/30/2014</u> | <u>Applicable (1)</u> | <u>Debt 6/30/14</u> |
| <u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u> | | | |
| Metropolitan Water District | \$132,275,000 | 0.169 | \$223,545 |
| Palomar Pomerado Hospital District | 474,823,578 | 5.661 | 26,879,763 |
| Palomar Community College District | 312,768,901 | 3.964 | 12,398,159 |
| Escondido Union High School District | 97,117,515 | 6.179 | 6,000,891 |
| Fallbrook Union High School District | 8,020,071 | 1.495 | 119,900 |
| Bonsall Union School District | 15,499,680 | 3.939 | 610,532 |
| Escondido Union School District | 41,259,622 | 6.403 | 2,641,854 |
| Valley Center-Pauma Unified School District | 1,190,669 | 96.647 | 1,150,746 |
| Valley Center-Pauma Unified School District Community Facilities | | | |
| District No. 2003-1 | 8,855,000 | 100.000 | 8,855,000 |
| City of Escondido | 73,965,000 | 0.037 | 27,367 |
| Valley Center Municipal Water District | 0 | 100.000 | 0 |
| Valley Center Municipal Water District Assessment District No. 96-1 | 510,000 | 100.000 | 510,000 |
| TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT | | | <u>\$59,417,757</u> |
| <u>OVERLAPPING GENERAL FUND DEBT:</u> | | | |
| San Diego County General Fund Obligations | \$379,835,000 | 0.937 | \$3,559,054 |
| San Diego County Pension Obligations | 720,855,256 | 0.937 | 6,754,414 |
| San Diego County Superintendent of Schools Certificates of Participation | 16,125,000 | 0.937 | 151,091 |
| Palomar Community College District Certificates of Participation | 4,855,000 | 3.964 | 192,452 |
| Escondido Union High School District Certificates of Participation | 59,525,000 | 6.179 | 3,678,050 |
| Bonsall Union School District Certificates of Participation | 1,700,000 | 3.939 | 66,963 |
| Escondido Union School District Certificates of Participation | 20,490,000 | 6.403 | 1,311,975 |
| City of Escondido Certificates of Participation | 5,270,000 | 0.037 | 1,950 |
| TOTAL OVERLAPPING GENERAL FUND DEBT | | | <u>\$15,715,949</u> |
| TOTAL DIRECT DEBT | | | \$0 |
| TOTAL OVERLAPPING DEBT | | | <u>\$75,133,706</u> |
| COMBINED TOTAL DEBT | | | <u><u>\$75,133,706</u></u> (2) |

Ratios to Assessed Valuation:

| | |
|--|--------------|
| Direct Debt | 0.00% |
| Total Direct and Overlapping Tax and Assessment Debt | 1.61% |
| Combined Total Debt | 2.03% |

2013-14 TYPICAL TOTAL TAX RATE (TRA 94-075): 1.10116

(1) The percentage of overlapping debt applicable to the District is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the overlapping District's assessed value that is within the boundaries of the water district divided by the overlapping District's total taxable assessed value.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, and non-bonded capital lease obligations.

Source: California Municipal Statistics, Inc.

Table VIII
Property Owners by Highest Cumulative Net Assessed Property Value (Current Fiscal Year)

| Property Owner | Cumulative Net Assessed Value | Percent of District Total Net Assessed Value |
|---|-------------------------------|--|
| Welk Resort Platinum Owners Association | \$38,498,009 | 1.04% |
| Bell Holdings LLC | 11,634,315 | 0.31% |
| Welk Resort Properties Inc. | 11,576,996 | 0.31% |
| A T C Realty Sixteen Inc | 9,006,600 | 0.24% |
| Skyline Ranch Country Club LLC | 8,903,235 | 0.24% |
| Welk Mountain Villas | 7,406,892 | 0.20% |
| San Pasqual Band of Mission Indians | 6,827,391 | 0.18% |
| Federal Boulevard Properties LLC | 6,505,572 | 0.18% |
| Welk Garden Villas Inc. | 6,178,206 | 0.17% |
| Fairfield Farms | 6,107,651 | 0.17% |
| Total Top Ten Property Owners | \$112,644,867 | 3.04% |
| Other Property Owners | \$3,587,621,936 | 96.96% |
| Total Assessed Valuation | \$3,700,266,803 | 100.00% |

Data Source: 2013 Master Property Records from San Diego County Used for 2013-14 Property Taxes.

Data for the period ended June 30, 2005, is not available.

PRINCIPAL PROPERTY OWNERS

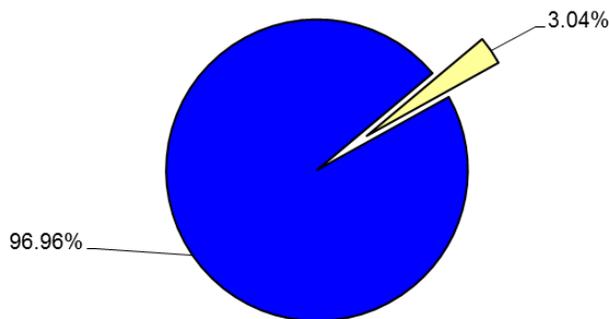


Table IX
Water Rates (Last Ten Fiscal Years)

| (1) Fiscal Year Ended | Commodity Charge ⁽²⁾ | | | | | | | | | Monthly Meter Charge ⁽⁴⁾ | |
|--------------------------------|---------------------------------|-------|---------|----------------------------|-------|-------|----------------------------|-------|---------|--|----------------------------|
| | Domestic | | | IAWP ⁽⁵⁾ | | | TSAWR ⁽⁶⁾ | | | 3/4" Meter | 1" Meter ⁽³⁾ |
| | MWD/ SDCWA Wholesale | VCMWD | Total | MWD/ SDCWA Wholesale | VCMWD | Total | MWD/ SDCWA Wholesale | VCMWD | Total | | |
| 2014 | \$1,490 | \$175 | \$1,665 | - | - | - | \$1,139 | \$175 | \$1,314 | \$31.55 | \$43.10 |
| 2013 | 1,419 | 166 | 1,585 | - | - | - | 1,107 | 166 | 1,273 | 31.55 | 43.10 |
| 2012 | 1,292 | 152 | 1,444 | 1,018 | 152 | 1,170 | 1,058 | 152 | 1,210 | 28.00 | 38.25 |
| 2011 | 1,166 | 137 | 1,303 | 899 | 137 | 1,036 | 968 | 137 | 1,105 | 24.50 | 33.50 |
| 2010 | 1,017 | 102 | 1,119 | 778 | 102 | 880 | 883 | 102 | 985 | 20.50 | 28.00 |
| 2009 | 872 | 102 | 974 | 621 | 102 | 723 | 752 | 102 | 854 | 20.50 | 28.00 |
| 2008 | 806 | 102 | 908 | 562 | 102 | 664 | - | - | - | 20.50 | 28.00 |
| 2007 | 731 | 102 | 833 | 524 | 102 | 626 | - | - | - | 20.50 | 28.00 |
| 2006 | 666 | 93 | 759 | 461 | 93 | 554 | - | - | - | 19.50 | 27.00 |
| 2005 | 619 | 87 | 706 | 442 | 87 | 529 | - | - | - | 18.75 | 26.00 |

- (1) Rate as of January 1.
- (2) Excludes pumping charges.
- (3) Larger meters are multiples of the charge for a 1" meter.
- (4) Excludes SDCWA Infrastructure Access Charge.
- (5) Interim Agricultural Water Program. Phased out by MWD on December 31, 2012.
- (6) Transitional Special Agricultural Water Rate implemented by SDCWA effective January 1, 2009.

Source: Valley Center Municipal Water District

Water Rates

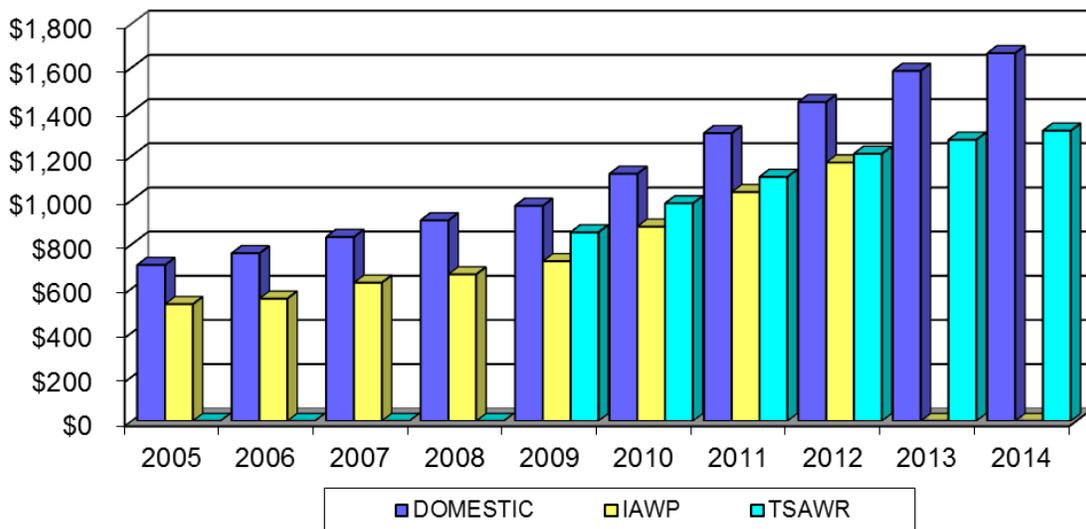


Table X
Wastewater Rates (2) (Last Ten Fiscal Years)

| Fiscal Year Ended (1) | Moosa Gravity | Moosa Pressure | Woods Valley Ranch |
|-----------------------|---------------|----------------|--------------------|
| 2014 | \$51.20 | \$93.45 | \$98.60 |
| 2013 | \$51.20 | \$93.45 | \$98.60 |
| 2012 | \$48.75 | \$89.00 | \$98.60 |
| 2011 | \$46.50 | \$84.90 | \$98.60 |
| 2010 | \$44.50 | \$81.25 | \$98.60 |
| 2009 | \$40.50 | \$74.00 | \$98.60 |
| 2008 | \$40.50 | \$74.00 | \$98.60 |
| 2007 | \$40.50 | \$74.00 | \$98.60 |
| 2006 | \$38.00 | \$70.50 | \$98.60 |
| 2005 | \$37.00 | \$68.00 | \$98.60 |

(1) Rate as of January 1.

(2) Rates per equivalent dwelling unit (EDU).

Source: Valley Center Municipal Water District

Wastewater Rates

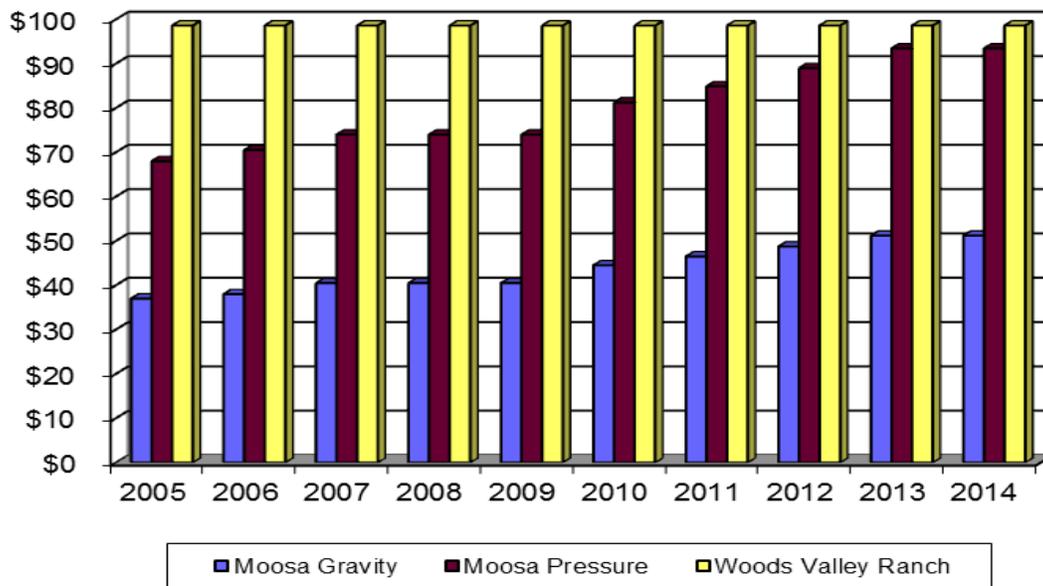


Table XI
Principal Water Customers

| Fiscal year ended June 30, 2014 | | | Fiscal year ended June 30, 2005 | | |
|---------------------------------|--------------------|-----------------------|---------------------------------|--------------------|-----------------------|
| Customer | Usage in Acre Feet | Percent of Water Sold | Customer | Usage in Acre Feet | Percent of Water Sold |
| Coykendall, H. C. J. | 665.4 | 2.37% | Stehly, N. J. C. | 927.0 | 2.57% |
| Harlan Beck & Associates | 635.5 | 2.26% | Sierra Pacific Farms | 855.2 | 2.37% |
| Grandon Ranch Corp. | 559.3 | 1.99% | BSTCO | 790.4 | 2.19% |
| Rancho Sereno | 434.4 | 1.55% | Harlan Beck & Associates | 618.3 | 1.71% |
| Gregory Wang | 371.5 | 1.32% | Grandon Ranch Corp. | 496.3 | 1.37% |
| Mission Produce Inc | 347.7 | 1.24% | DeJong, John | 489.5 | 1.36% |
| Rancho Trio | 340.1 | 1.21% | Coykendall, H. C. J. | 361.3 | 1.00% |
| Sundance Natural Foods | 319.4 | 1.14% | Rancho Sereno | 361.3 | 1.00% |
| Rancho Erico | 308.8 | 1.10% | Clayes, Dr. Joseph | 310.8 | 0.86% |
| Stehly, N. J. C. | 285.7 | 1.02% | Bauer Farms, LLC | 305.4 | 0.85% |
| Total Top Ten Customers | 4,267.8 | 15.20% | Total Top Ten Customers | 5,515.5 | 15.29% |
| Other Customers | 23,814.3 | 84.80% | Other Customers | 30,574.3 | 84.71% |
| Total Water Sales | 28,082.1 | 100.00% | Total Water Sales | 36,089.8 | 100.00% |

Source: Valley Center Municipal Water District

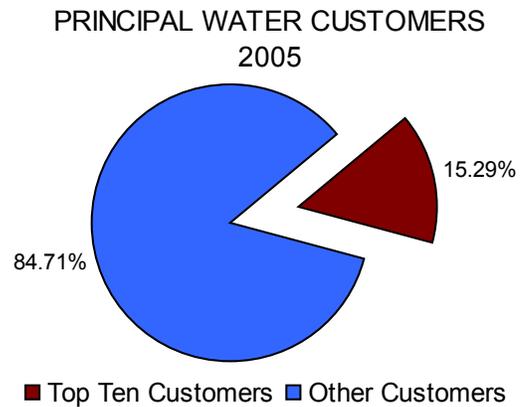
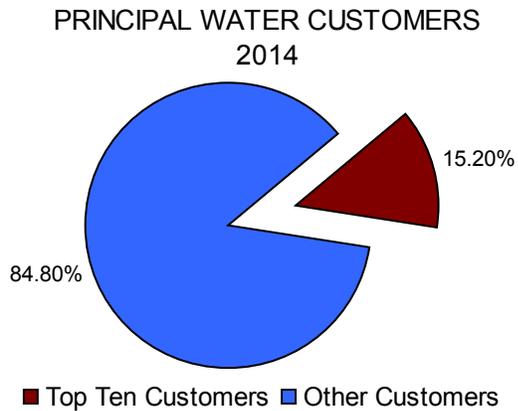


Table XII
Ratios of Outstanding Debt by Type (Last Ten Fiscal Years)

| Fiscal Year Ended | General Obligation Bonds (2) | Revenue Bonds | Notes Payable SRF Loan | Total | Percentage of Personal Income (1) | Per Capita (1) |
|-------------------|------------------------------|---------------|------------------------|-----------|-----------------------------------|----------------|
| 2014 | \$0 | \$0 | \$676,310 | \$676,310 | 0.07% | 27.46 |
| 2013 | 0 | 0 | 0 | 0 | 0.00% | 0 |
| 2012 | 0 | 55,000 | 0 | 55,000 | 0.01% | 2 |
| 2011 | 0 | 165,000 | 0 | 165,000 | 0.02% | 6 |
| 2010 | 0 | 265,000 | 0 | 265,000 | 0.03% | 10 |
| 2009 | 0 | 360,000 | 0 | 360,000 | 0.04% | 14 |
| 2008 | 0 | 450,000 | 0 | 450,000 | 0.06% | 18 |
| 2007 | 0 | 535,000 | 0 | 535,000 | 0.07% | 21 |
| 2006 | 0 | 615,000 | 0 | 615,000 | 0.08% | 24 |
| 2005 | 0 | 695,000 | 0 | 695,000 | 0.10% | 28 |

- (1) See Table XIV for personal income and population Data.
- (2) The District has had no General Obligation Bonded Debt since 1999.
- (3) State Revolving Fund Loan.

Source: Valley Center Municipal Water District

Outstanding Debt

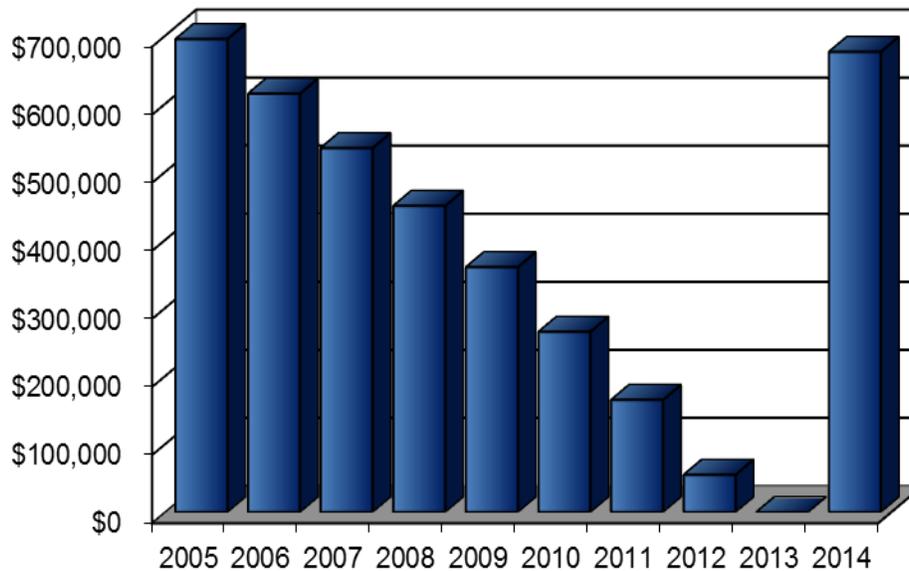


Table XIII
Pledged-Revenue Coverage (Last Ten Fiscal Years)

| Fiscal Year Ended | Operating Revenues(1) | Nonoperating Revenues(1)(2) | Gross Revenues | Less: Operating Expenses(1)(2) | Net Available Revenues | Debt Service Principal | Debt Service Interest | Total | Coverage Ratio |
|-------------------|-----------------------|-----------------------------|----------------|--------------------------------|------------------------|------------------------|-----------------------|-----------|----------------|
| 2014 | \$50,089,453 | \$2,941,678 | \$53,031,131 | \$47,207,910 | \$5,823,221 | \$676,310 | \$7,749 | \$684,059 | 8.51 |
| 2013 | \$46,248,296 | \$2,917,481 | \$49,165,777 | \$44,000,852 | \$5,164,925 | \$55,000 | \$15 | \$55,015 | 93.88 |
| 2012 | \$40,807,916 | \$2,917,157 | \$43,725,073 | \$40,714,953 | \$3,010,120 | \$110,000 | \$1,709 | \$111,709 | 26.95 |
| 2011 | \$34,359,565 | \$2,961,775 | \$37,321,340 | \$36,950,621 | \$370,719 | \$100,000 | \$3,883 | \$103,883 | 3.57 |
| 2010 | \$35,521,669 | \$3,024,512 | \$38,546,181 | \$37,467,652 | \$1,078,529 | \$95,000 | \$5,929 | \$100,929 | 10.69 |
| 2009 | \$35,355,240 | \$3,433,614 | \$38,788,854 | \$36,379,582 | \$2,409,272 | \$90,000 | \$9,470 | \$99,470 | 24.22 |
| 2008 | \$36,480,524 | \$3,966,395 | \$40,446,919 | \$35,312,680 | \$5,134,239 | \$85,000 | \$20,289 | \$105,289 | 48.76 |
| 2007 | \$40,956,262 | \$4,222,980 | \$45,179,242 | \$39,038,976 | \$6,140,266 | \$80,000 | \$28,564 | \$108,564 | 56.56 |
| 2006 | \$34,980,351 | \$2,154,156 | \$37,134,507 | \$34,165,057 | \$2,969,450 | \$80,000 | \$23,099 | \$103,099 | 28.80 |
| 2005 | \$28,448,779 | \$2,525,670 | \$30,974,449 | \$29,612,934 | \$1,361,515 | \$70,000 | \$23,099 | \$93,099 | 14.62 |

(1) See Table II

(2) Operating expenses excluding depreciation.

Source: Valley Center Municipal Water District

Coverage Ratio

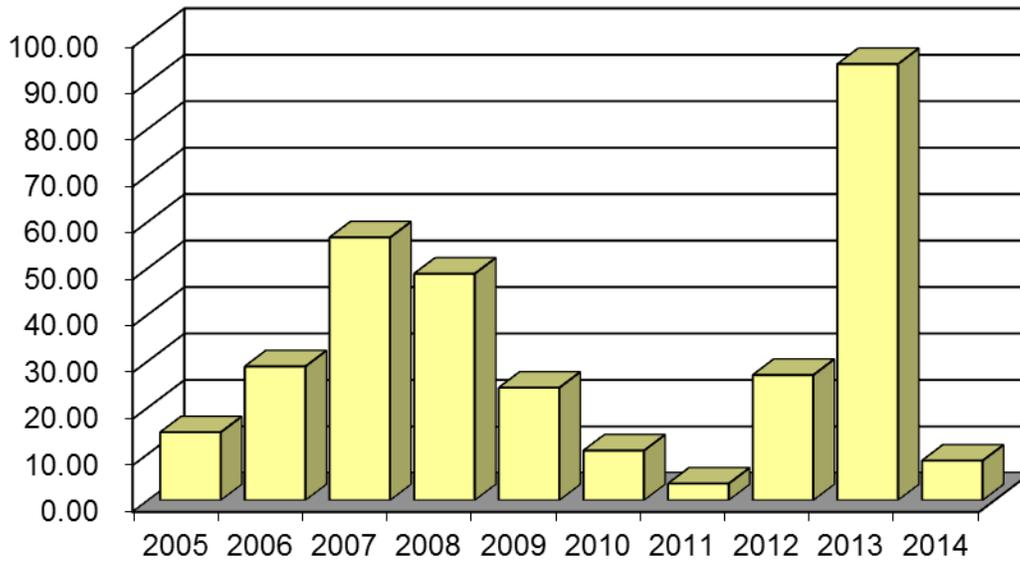


Table XIV
Demographic and Economic Statistics (Last Ten Fiscal Years)

| Fiscal Year Ended | Population (1) | Total Personal Income (2) | Per Capita Personal Income (3) | Unemployment Rate (4) |
|-------------------|----------------|---------------------------|--------------------------------|-----------------------|
| 2014 | 25,248 | 913,978,000 | 36,200 | 2.9% |
| 2013 | 25,286 | 897,653,000 | 35,500 | 3.6% |
| 2012 | 25,453 | 885,764,000 | 34,800 | 4.5% |
| 2011 | 25,450 | 867,845,000 | 34,100 | 5.1% |
| 2010 | 25,378 | 848,488,000 | 33,434 | 5.2% |
| 2009 | 25,337 | 838,655,000 | 33,100 | 4.7% |
| 2008 | 25,350 | 768,105,000 | 29,500 | 2.7% |
| 2007 | 25,337 | 739,840,000 | 29,200 | 2.1% |
| 2006 | 25,129 | 726,228,000 | 28,900 | 1.9% |
| 2005 | 24,485 | 688,029,000 | 28,100 | 2.0% |

Other Statistics: ⁽⁵⁾

| | |
|-------------------------------|-------|
| Jobs in area | 5,491 |
| Median age | 44.8 |
| % High school graduate | 86% |
| % Bachelor's degree or higher | 35% |

- (1) Population at the end of fiscal year 2010 from the San Diego Association of Governments (SanDAG). Other years estimated by VCMWD using average household size estimated by SanDAG.
- (2) Calculated using estimated per capita personal income.
- (3) Per capita personal income for base year 2010 by U.S. Census Bureau for the Valley Center Census Designated Place (CDP) which is a close approximation of the VCMWD area. Other years estimated using percentage change for San Diego region.
- (4) Source: State of California Employment Development Department for the Valley Center Census Designated Place (CDP) which is a close approximation of the VCMWD area.
- (5) Source: U.S. Census Bureau, 2010 Census.

Source: Valley Center Municipal Water District except as noted.

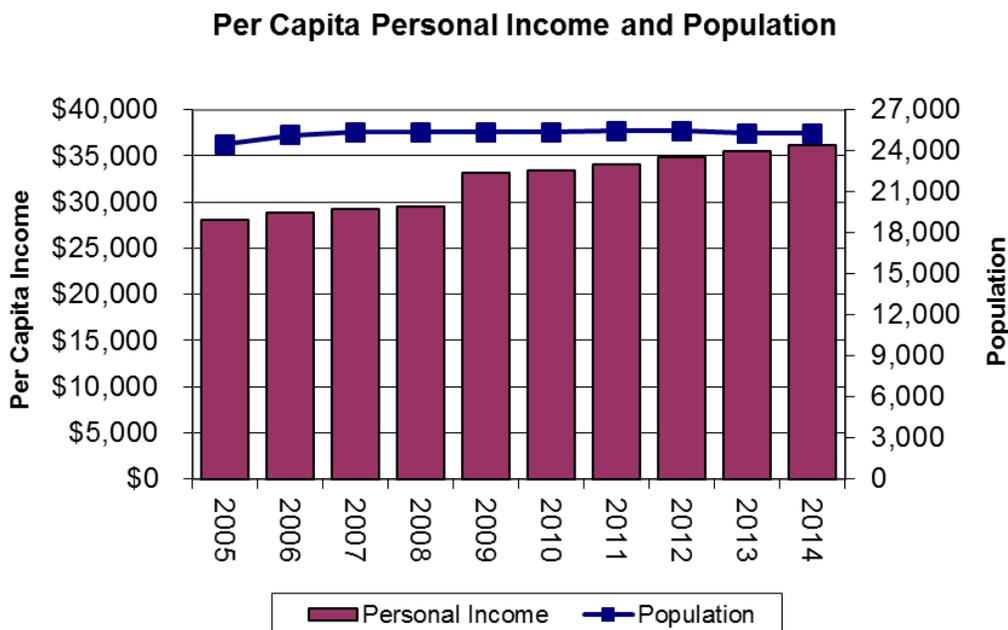


Table XV
Principle Employers – County of San Diego (Current Fiscal Year and Nine Years Prior)

| Fiscal year ended June 30, 2014 | | | Fiscal year ended June 30, 2005 | | |
|--|------------------|-----------------------|--|------------------|-----------------------|
| Employer | # Employees | % of Total Employment | Employer | # Employees | % of Total Employment |
| State of California | 43,300 | 2.87% | University of California at San Diego | 24,790 | 1.74% |
| University of California at San Diego | 28,672 | 1.90% | San Diego Unified School District | 21,073 | 1.48% |
| Federal Government | 24,200 | 1.60% | City of San Diego | 20,700 | 1.45% |
| U.S. Department of Defense | 21,500 | 1.43% | County of San Diego | 18,900 | 1.32% |
| County of San Diego | 20,100 | 1.33% | Sharp Healthcare | 13,872 | 0.97% |
| City of San Diego | 18,000 | 1.19% | US Postal Service | 11,611 | 0.81% |
| Sharp Healthcare | 15,865 | 1.05% | Scripps Health | 10,313 | 0.72% |
| Scripps Health | 13,750 | 0.91% | Kaiser Foundation Hospital | 7,386 | 0.52% |
| San Diego Unified School District | 13,559 | 0.90% | Qualcomm | 6,000 | 0.42% |
| Kaiser San Diego Medical Center | 8,900 | 0.59% | San Diego Community College District | 5,600 | 0.39% |
| Total Top Ten | <u>207,846</u> | 13.78% | Total Top Ten | <u>140,245</u> | 9.82% |
| 2014 Total Number employed in San Diego County | <u>1,508,000</u> | | 2005 Total Number employed in San Diego County | <u>1,427,900</u> | |

Source: Courtesy of San Diego County Water Authority

Table XVI
Number of Employees (Last Ten Fiscal Years)

| | Full-Time-Equivalent Employees Authorized as of June 30, | | | | | | | | | |
|--------------------------------------|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 |
| Pumping | 3.16 | 3.42 | 4.21 | 4.55 | 5.44 | 5.24 | 5.54 | 5.59 | 5.21 | 5.49 |
| Water Systems Operations | 31.40 | 31.89 | 32.42 | 34.04 | 33.80 | 36.14 | 39.14 | 39.34 | 37.14 | 37.37 |
| Wastewater Collection and Treatment | 5.75 | 5.66 | 5.44 | 5.45 | 5.64 | 6.11 | 5.91 | 4.90 | 5.07 | 3.93 |
| Engineering | 9.40 | 9.60 | 10.82 | 12.46 | 13.46 | 11.27 | 13.52 | 12.90 | 9.96 | 9.44 |
| General and Administrative | 10.00 | 12.00 | 12.25 | 12.50 | 13.00 | 13.00 | 15.00 | 14.00 | 13.00 | 13.00 |
| Capital Outlay ⁽¹⁾ | 3.46 | 3.60 | 3.06 | 4.36 | 2.50 | 3.31 | 6.21 | 5.42 | 5.90 | 6.05 |
| Developer Projects ⁽²⁾ | 0.83 | 0.83 | 1.05 | 1.14 | 1.16 | 4.93 | 4.68 | 3.85 | 3.72 | 2.72 |
| Total Employees⁽³⁾ | 64.00 | 67.00 | 69.25 | 74.50 | 75.00 | 80.00 | 90.00 | 86.00 | 80.00 | 78.00 |
| Average Years of Service | 14.18 | 13.20 | 12.46 | 11.37 | 10.37 | 10.24 | 9.07 | 9.37 | 10.91 | 10.25 |

(1) Capitalized into construction in progress.

(2) Charged to work in progress for others.

(3) Authorized number of budgeted employees by year. For Fiscal Years 2008 and 2009, actual number of employees was 78.

Source: Valley Center Municipal Water District

Employees

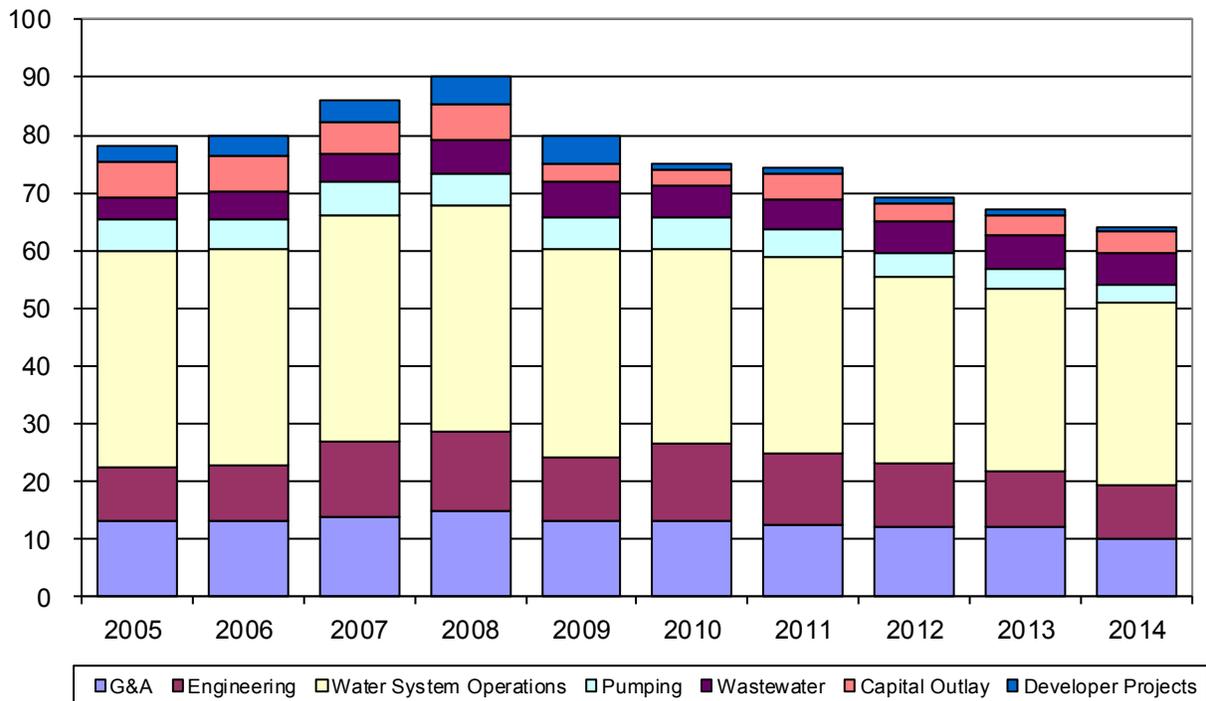


Table XVII
Operating and Capital Indicators (Last Ten Fiscal Years)

| | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> | <u>2006</u> | <u>2005</u> |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Water: | | | | | | | | | | |
| Service area (acres) | 64,253 | 64,253 | 64,253 | 64,253 | 64,253 | 64,253 | 64,253 | 64,253 | 64,253 | 64,253 |
| Miles of water main (8 inches and larger) | 298 | 297 | 297 | 297 | 297 | 297 | 295 | 294 | 291 | 289 |
| Number of enclosed reservoirs | 42 | 42 | 42 | 42 | 42 | 42 | 42 | 42 | 42 | 41 |
| Capacity of enclosed reservoirs (AF) | 421 | 421 | 421 | 421 | 421 | 421 | 421 | 421 | 421 | 415 |
| Number of open reservoirs (emergency water only) | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Capacity of open reservoirs (AF) | 1,612 | 1,612 | 1,612 | 1,612 | 1,612 | 1,612 | 1,612 | 1,612 | 1,612 | 1,612 |
| Number of pump stations | 27 | 26 | 26 | 26 | 26 | 26 | 26 | 26 | 26 | 26 |
| Number of pumps | 110 | 106 | 100 | 100 | 100 | 96 | 96 | 96 | 96 | 96 |
| Total pump capacity (horsepower) | 20,185 | 20,185 | 20,050 | 19,785 | 19,785 | 19,785 | 19,940 | 19,940 | 19,940 | 19,940 |
| Number of service connections | 10,675 | 10,616 | 10,597 | 10,576 | 10,556 | 10,493 | 10,408 | 10,392 | 10,251 | 9,853 |
| Number of meters in service | 9,785 | 9,715 | 9,694 | 9,692 | 9,688 | 9,690 | 9,696 | 9,745 | 9,621 | 9,217 |
| Production peak (m.g.d.) | 55.84 | 55.45 | 49.87 | 55.30 | 65.27 | 53.96 | 78.90 | 84.98 | 81.70 | 80.46 |
| Average production (m.g.d.) | 26.43 | 26.13 | 24.77 | 22.80 | 26.35 | 30.33 | 35.12 | 45.04 | 40.26 | 34.02 |
| Total rainfall (inches) | 7.29 | 8.51 | 12.21 | 23.94 | 19.01 | 14.10 | 19.33 | 7.56 | 13.47 | 33.96 |
| Average daily temperature (F.) | 63.5 | 62.3 | 61.3 | 61.1 | 61.6 | 62.7 | 63.3 | 63.1 | 63.8 | 62.3 |
| Electricity purchased (1,000 kWh) | 15,351 | 16,276 | 15,595 | 16,984 | 18,480 | 25,362 | 29,839 | 36,000 | 31,828 | 27,418 |
| Natural gas purchased (1,000 therms) | 318 | 407 | 163 | 99 | 390 | 190 | 209 | 362 | 347 | 368 |
| Mainline repairs | 15 | 18 | 18 | 16 | 11 | 31 | 39 | 37 | 21 | 42 |
| Wastewater: | | | | | | | | | | |
| Miles of sewer lines | 57 | 57 | 57 | 57 | 56 | 56 | 56 | 55 | 54 | 53 |
| Number of treatment plants | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 3 |
| Maximum capacity of treatment plants (m.g.d.) | 0.57 | 0.57 | 0.57 | 0.57 | 0.57 | 0.57 | 0.55 | 0.55 | 0.55 | 0.56 |
| Average dry weather flow (m.g.d.) | 0.37 | 0.37 | 0.37 | 0.39 | 0.37 | 0.35 | 0.37 | 0.34 | 0.34 | 0.35 |
| Number of sewer connections | 2,746 | 2,745 | 2,731 | 2,717 | 2,722 | 2,729 | 2,663 | 2,689 | 2,600 (1) | 2,685 |

AF - Acre feet

m.g.d. - Million gallons per day

(1) Net of 222 EDU's for Skyline Ranch reverted back to property owner in May 2006.

Source: Valley Center Municipal Water District

VALLEY CENTER MUNICIPAL WATER DISTRICT EMPLOYEES
2013-14

| | | |
|------------------------|-------------------|--------------------|
| PAUL ADRIAN | RYAN HUGHES | TIMOTHY PETER |
| GARY ARANT | TONY JACQUEZ | THANG PHAM |
| GERALD BARNETT | CHRISTINE JOHNSON | ANDO PILVE |
| RICHARD BEATH | DOUGLAS JOHNSON | JAMES PUGH |
| CALVIN BREWER | THAD KLIMAS | CLIFFORD REEH |
| LEONARD BROWN | CHRISTOPHER KRATZ | ROY RUTHERFORD |
| RONALD BURKE | ERIC LAVENTURE | JULEE SCOTT |
| JEFFREY BURTON | ANTHONY LOPRESTI | YVETTE SERRATO |
| FERNANDO CARRILLO | BRIAN LOVELADY | DANIEL SHUBIN |
| DANIELLE CATTANEO | JESSICA LOVELADY | MOSES SHUBIN |
| RAMIRO DE ALBA-JIMENEZ | RYAN MADSON | TIMOTHY SJOBRING |
| ROMAN DE MANRIQUEZ | JOHN MARTINEAU | JAMES SULLINS |
| DANIEL DENTINO | JAMIE MARTINEZ | JARED THOMAS |
| FRANCISCO DUMBRIQUE | MARLENE MARTINEZ | DEBORAH TILLEY |
| COREY ELMENDORF | ESTHER MAY | ROBERT TRUESDALE |
| GREG FEIK | WILLIAM MORRIS | GLENDA VALENZUELA |
| PATRICIA GARCIA | ISMAEL NAVARRO | PAUL VILLALOBOS |
| TROY GOSWICK | JESON NIKRASCH | GERARD VILLALPANDO |
| WALLY GRABBE | EDWARD OLSON | DENNIS WILLIAMS |
| CLARENCE HICKS | GABRIELA OLSON | KATHERINE WILSON |
| ALBERT HOYLE | ROBERT PANEK | JAMES WOOTEN |

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