

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2015**

VALLEY CENTER MUNICIPAL WATER DISTRICT
VALLEY CENTER, CALIFORNIA

Comprehensive Annual Financial Report

**For The Fiscal Year Ended
June 30, 2015**

Valley Center Municipal Water District

Prepared by:

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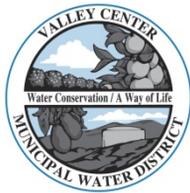
www.valleycenterwater.org

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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 21, 2015

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, 2015. 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, 2015, 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, 2015. 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.

James V. Pugh
Director of Finance

Reporting Entity and Services

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

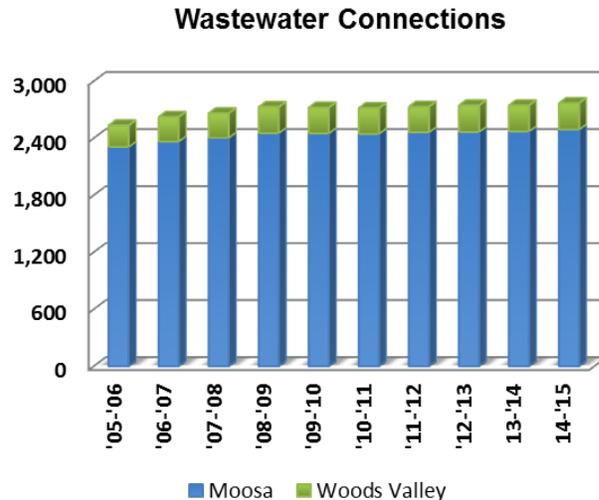
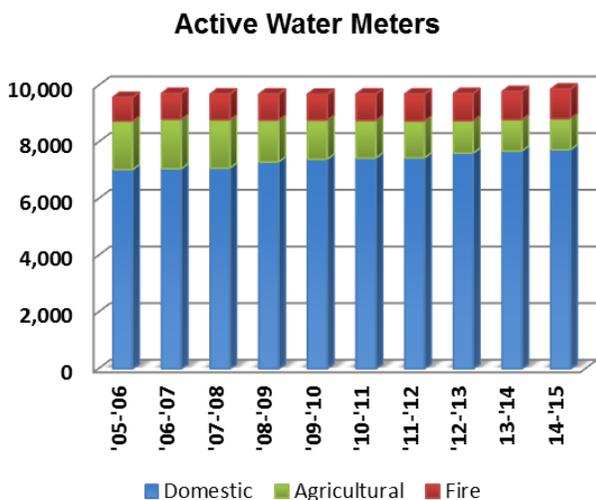
Founded on July 12, 1954; the District was formed under the provisions of the California Municipal Water District Law of 1911 (California Water Code sections 71000 et seq.). It is governed by a five-member Board of Directors, elected by geographic division and serving staggered four-year terms. The Board 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, 2015, there were 62 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, 43 enclosed reservoirs and 1 open reservoir (Lake Turner), 29 pumping stations and 298 miles of water main. At June 30, 2015, there were a total of 9,869 active meters of which 7,733 were domestic, 1,096 were agricultural, and 1,040 were fire meters. See historical graph below.

The District also provides wastewater collection, treatment, and disposal services for 2,769 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.

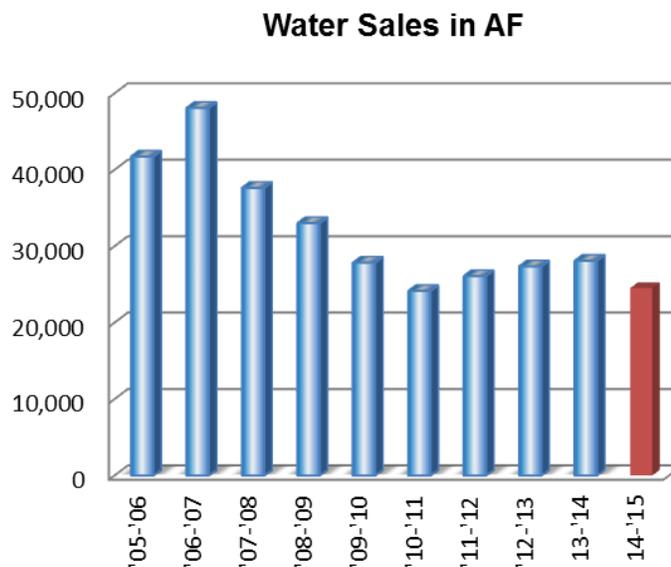
Activity not included as a part of this report is limited to Assessment District No. 96-1, which is described in note 6 of the Notes to the Basic Financial Statements.



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. This includes 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 24,511 acre feet of water as compared to fiscal year 2006-07 when the District sold 48,085 acre feet. This represents a 49% decline in sales volume.



As of June 30, 2015, the estimated population of the area serviced by the District was 25,394. According to the San Diego Association of Governments (SANDAG), as of January 1, 2014, (data for 2015 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 45.1 years. Total housing units in the community totaled 8,674 of which 8,087 were occupied. Median household income, not adjusted for inflation is estimated at \$87,378. At June 30, 2015, unemployment in California was 6.3%, San Diego County was 5.0%, and the local rate in the Valley Center Census Designated Place (CDP) was 3.5%.

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 a 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.

Drought Conditions – On January 17, 2014, the Governor of California issued a drought state of emergency declaration and requested a voluntary 20% water use reduction statewide in response to record-low water levels in California rivers and reservoirs, as well as an abnormally low snowpack in the Sierras. The District responded by taking action in March 2014 by declaring a Level 1 Water Supply Shortage Watch Condition, asking for voluntary adherence to water use restrictions. The voluntary water use restrictions included but were not limited to such actions as discontinuing the washing down of paved surfaces, stopping water waste resulting from inefficient landscape irrigation, irrigating residential and commercial landscape before 10:00 a.m. and after 4:00 p.m., washing vehicles using a bucket and hand-held hose with a positive shut-off nozzle, and repairing all water leaks within 5 days. By June of 2014, the data reported to the State Water Resources Control Board (SWRCB) indicated that statewide water consumption had only been reduced by about 5%, falling well short of the 20% mark that the Governor was looking for. In April 2015, as a response to the failed attempt for voluntary reductions, the Governor issued an Executive Order directing the SWRCB to implement mandatory water reduction in urban areas to reduce potable urban water usage by 25% statewide between June 2015 and February 2016. The local impact is a 36% mandatory cutback to the District's domestic and commercial customers. The drought has and will continue to impact the cost of imported water that the District purchases from the SDCWA as the State prepares for a fifth consecutive year of drought.

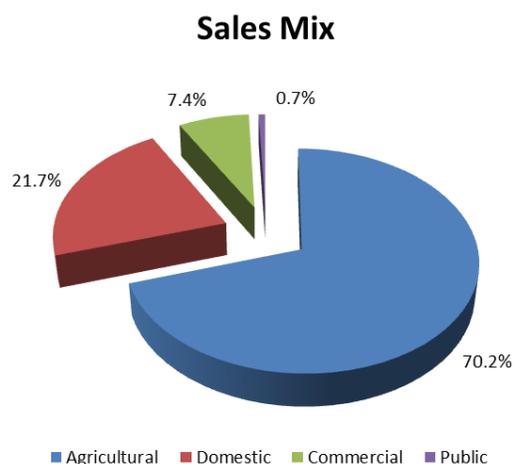
Economic Results

Eighty-six new meter accounts were established during 2014-15, which included 51 fire protection meters. This raised the total number of meter connections within the District to 10,761, of which 1,163 are fire meter accounts. Of the total meter accounts 769 water service accounts and 123 fire service accounts are inactive, resulting in 9,869 revenue generating water meters at the close of the fiscal year. This is an increase of 84 active service accounts (51 fire and 33 water service) compared to the close of 2013-14.

Though there was little actual private development construction completed in fiscal year 2014-15, the District continued to process 21 private development projects containing a total of 689 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, 2015, water sales were 24,511 acre feet, down 3,571 acre feet or 12.7% from sales of 28,082 acre feet in 2013-14. This decrease is due primarily to economic conditions and voluntary cutbacks coupled with higher rainfall from the previous year, 10.1 inches versus 7.3 inches in 2013-14. Water deliveries are broken down as follows: 70.2% was for agricultural purposes, 21.7% for domestic, 7.4% for commercial, and 0.7% was for public use. The total cost of water purchased for the fiscal year was \$30.5 million, or 64% of the District's total operating expenses.



SDCWA Transitional Special Agricultural Water Rate – The San Diego County Water Authority continued to offer the Transitional Special Agricultural Water Rate (TSAWR) which provides a rebate for qualifying agricultural water users. Agricultural agencies, in concert with representatives of the San Diego Agricultural Community, were able to secure an extension of TSAWR through December 31, 2020. TSAWR customers do not pay for, nor do they benefit from, the emergency storage project. In addition, the SDCWA melded rate reflects the costs of the supplemental supplies, such as those from the IID Transfer, the All-American-Coachella Canal Lining, and the Carlsbad Seawater Desalination project which TSAWR customers also do not pay. 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 2015 the discount that certified agricultural customers received totaled \$407 per acre foot, based on water rates effective February 1, 2015. With the extension of the full TSAWR pricing differential, VCMWD participating agricultural customers will pay \$1,383.33 per acre foot, compared to the \$1,915.20 per acre foot that domestic/commercial customers will pay, a 27.7% reduction or savings of \$531 per acre foot in calendar 2016.

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, 2015.

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 entered into a final funding agreement 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%. 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 1,095. Prior to the end of the fiscal year, the District submitted for and has received staff approval from the State Water Resources Control Board for the approval of an increased loan amount equaling \$30,735,000. The construction consists of four project components. The District will enter into final funding agreements for each of the project components as they are issued notices to proceed with the construction.

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 2014-15, the District reconditioned the Tyler #3 pump to 100% efficiency and is in the process of reconditioning Tyler #1 and #2 pumps. All of the newly rebuilt pumps are now constructed with mechanical seals to eliminate the packing leaks caused by wear and tear in the older pump designs.

The District continued to analyze and change pumping schedules assigned to pump stations to take advantage of the most cost effective rate schedule that applies to the Districts pumping demands and needs. San Diego Gas and Electric recently implemented changes for the PAT 1 rate schedule meter, which now includes a non-coincidental demand charge. To off-set the added electrical cost and due to the significant cost reduction of natural gas, the District has implemented more natural gas pumping at two key pump stations, Valley Center and Betsworth, to minimize the non-coincidental demand charges.

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 the energy investments.

General Water System Upgrades – The District completed retrofitting twelve fire hydrants with new automatic shut-off check valves on Valley Center Road to minimize water loss and property damage caused by high pressures. All of the Valve Maintenance Quad books along with leak detection of the District appurtenances were completed. Twelve reservoir and pump station facilities were Satin sealed and the District's lower yard and entrance were re-paved.



Corporate facility lower yard re-paving.

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 2014-15, cleaning and minor repairs were completed on 9 reservoirs.

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, the District is confident in its ability to preserve 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 its 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 unknown water loss acre feet totals. For calendar year 2014 unaccounted water loss was the lowest on record representing 4.3% of total water sold.

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.

• Wastewater Operations

For the 2014-15 fiscal year, new process control sensors were installed in the aeration basin at the Lower Moosa Canyon Wastewater Reclamation Facility. The process control sensors measure the levels of ammonia and nitrate within the aeration basins, allowing the operators to have real-time data that is used to optimize and streamline the overall process during high and low loading periods. The real-time data is used to make adjustments on pumps and blowers that has reduced electrical consumption, improve effluent quality and lessen bio solids hauling costs. The new process control sensor is also planned to be implemented in the upgrade of the Woods Valley Water Reclamation Facility in 2015-16, to improve and streamline operational control, optimize the treatment process and improve the facilities efficiencies.

With respect to the collection system, upgrades and video surveillance continue to be implemented within the collection and lift stations to prepare for the forecasted 2015-16 El Niño.



Lower Moosa Canyon Wastewater Treatment Facility, winner of the 2014 "Small Plant of the Year" from the California Water Environment Association San Diego County and Statewide.

• Information Technology

Supervisory Control and Data Acquisition (SCADA) System – The District connected 6 sites to the wireless communications system, including Jesmond Dene Pump Station, West Pump Station, Islands Lift Station, MJM Pump Station, and Cirlce R Pump Station. Human Machine Interface (HMI) based control system was integrated with field devices, such as PLCs and sensors. A new SCADA development standards document was created for the upcoming Woods Valley Water Reclamation Facility expansion project. In addition to the new upgraded pump and reservoir sites, multiple improvements were also performed in regards to security cameras and communication radios at various sites throughout the District's service area.

Geographical Information System (GIS) – Staff computers are kept up-to-date with current software updates and the District's infrastructure data is updated on an as-needed basis with base information from other agencies updated quarterly. The District is participating in a multi-agency ortho-imagery acquisition project which will result in updated high resolution imagery (4 inch pixel) of the district service area and 2 foot contour interval topography data in fiscal year 2015-16. A strategy is being developed to link the scanned easement 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 distribution of GIS data and information via the District's Intranet providing a faster more individualized interface.

Wireless Communications Network – The District continued to deploy new wireless network communications infrastructure, extending network coverage to 49 remote sites. Multiple radios were added to several facilities providing added redundancy and increased bandwidth. The network now includes over 106 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 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, currently under evaluation, provides the means to continuously measure, collect, and analyze real-time data from customers' water meters. The District continues to evaluate new technology from different AMI manufacturers in order to meet the District's long term requirements.

Advanced Video Surveillance System – A new video surveillance system was substantially expanded to 27 sites with over 50 cameras, 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 legacy analog video surveillance system that is being phased out while providing much more advanced capabilities.

New Website Development – A new website was launched based on a new flexible content management 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 District began a significant upgrade to the Enterprise Resource Planning (“ERP”) software (accounting, utility billing, and financial reporting) system that the District has used for more than 20 years. In addition to upgrading the accounting software, utility billing, and payroll modules, the District also plans to deploy additional work order, service order, asset management, purchase order, and human resources management modules. Better data integration across different software modules will result in many operating efficiencies by eliminating the need for multiple separate systems, simplifying bank reconciliation and payment processing activities, and providing enhanced financial reporting capabilities.

•Solar Energy

During the fiscal year, the District completed construction of two solar array systems. The first was a 30kW solar array installed at Cobb Reservoir to offset the electrical usage from the circulation and chlorination pumping that maintains the reservoir water quality. A second 30kW solar field was installed at the MJM Pump Station to offset the electrical usage from pumping to MJM Reservoir. 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 Reservoir mixing and re-chlorination pumping system, Rincon Pump Station as well as the Main Corporate Facility.

The District will receive \$67,900 in incentive monies from the CSI program for the Cobb Reservoir and MJM Pump Station solar arrays over the next five years. This money will be reinvested into projects that will generate additional cost savings.



Cobb Reservoir Solar Array.

• Carlsbad Seawater Desalination Project

Through fiscal year 2014-2015, work continued on all segments of the 50 mgd Carlsbad Seawater Desalination Project, including modifications at the SDCWA Twin Oaks Water Treatment Plant to receive and blend the desal water with the treated imported water. Other modifications include 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 Fiscal Year 2014-2015, work on all segments was either completed or well underway and near completion. At the close of Fiscal Year 2014-2015 it was anticipated that the entire project will be completed and operating several months earlier than originally scheduled, delivering desalinated seawater by December of 2015.

• Planning and Construction Projects

Transmission, Distribution, and Storage Facilities Improvements –

Capital improvement work completed during the fiscal year included the Betsworth Reservoir and Tyler Reservoir Coating and Repainting Projects, Country Club Reservoir Upgrade Improvements and Liner/Cover Installation, and the Lilac Reservoir Liner/Cover Replacement. The value of private development work was double the previous year with one completed developer project, Mustafa Line Extension, totaling just over \$281,000 in asset value. Other development activities included awarding concept approval to one project and approving two projects for construction.



Country Club Reservoir Liner/Cover Replacement.

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. Local supplies under consideration include groundwater production, various recycled water projects, and non-potable distribution systems as part of the Meadowood, Lilac Hills Ranch, and South Village Wastewater Expansion projects. Utilizing the planning information developed with these projects, 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 Duffywood Development, Keys Creek, and the Oaks Subdivision.

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 uses. Over the past 30 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 large 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 proceeded, two major property owners in the North Village area, located along Valley Center Road between Miller and Cole Grade Roads had solidified their planning efforts for a residential and commercial development of 800 equivalent dwelling units (EDU's). The North Village developers expressed interest in and requested to participate in the South Village Wastewater Expansion Project for half of their ultimate wastewater demand.



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

Following this request, the District processed additional property owner wastewater capacity reservation requests, coming from both the South Village and the North Village areas, bringing the total expansion project participation to 1,095 EDUs. While the increase in participation will require additional collection facilities and larger treatment and seasonal storage facilities, the project cost per EDU was reduced. Prior to the end of the fiscal year, the District submitted a request to the SWRCB to increase the project SRF Loan amount to \$30,735,000, divided among the four proposed construction project components; the South Village Collection System, Woods Valley Ranch Wastewater Reclamation Facility Phase 2 Expansion, Charlan Road Seasonal Storage Facility, and the North Village Collection System. The District received SWRCB staff approval of the increased loan amount and was instructed to submit the project funding increase with the Final Budget Approval process for each of four project components once a construction contract was awarded. Bids were received for the Woods Valley Ranch Water Reclamation Facility Phase 2 Expansion Project and construction began in June 2015; completion is scheduled for December 2016. Construction of the other three project components is scheduled for Fiscal Year 2015-16 with completion of all project components scheduled for the October to December 2016 time frame.

Meadowood Development – Pardee Homes' Meadowood Development consists of a 267-acre, 850 unit residential, commercial, and institutional development project in the north east quadrant of I-15 and Highway 76. In March 2012, Pardee Homes and the District entered into an agreement for the District to process the annexation of the property into the Valley Center Municipal Water District, the San Diego County Water Authority (SDCWA), and the Metropolitan Water District. In November 2014, the annexation was complete and certified by the San Diego Local Agency Formation Commission (LAFCO).

In the latter part of fiscal year 2012-13, VCMWD staff began discussion with Rainbow Municipal Water District (RMWD) staff on how best to jointly serve the project. Water Service connection with RMWD is proposed in two locations in order to have a redundant source from both the First and Second SDCWA Aqueducts. Wastewater service options of an on-site treatment facility of wastewater service from the City of Oceanside are being evaluated. Oceanside has indicated that service is available in their San Luis Rey Wastewater Reclamation Facility. Capacity in RMWD's wastewater trunk line along State HWY 76 would be required to transport Meadowood's wastewater flows to the Oceanside facility. VCMWD continued discussions with RMWD and the City of Oceanside to determine projected costs for the various service options.

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 (EIR) 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 Wastewater Reclamation Facility. At the close of Fiscal Year 2014-15 the Development entitlement, EIR, and General Plan Amendment for Accretive's project was scheduled for consideration by the San Diego Planning Commission in September 2015. Following Planning Commission approval the project would be presented to the County Board of Supervisors for approval of the development entitlements. County approval of the development entitlements is needed for Accretive to move forward with design of their Phase 1 Improvements.

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, 2014. 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 staff, 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.*

STRATEGIC PLAN PERFORMANCE MEASUREMENT STANDARDS RESULTS FOR CALENDAR YEAR ENDED DECEMBER 31, 2014

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 2014 was 1,266 acre feet, 4.3% of total water sold, representing \$1.3 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, 2014, our Discretionary Reserves, Operating, Rate, and Pump Rate Stabilization, represent 7.2 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% of the Municipal and Industrial and 13.3% of Certified Agricultural total commodity costs.

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

Our pump efficiency was 103.7% of the design criteria.

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

One project was completed in calendar year 2014 at 5.7% 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 no lost time accidents in calendar 2014.

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.*

The weighted average return on all investments was 0.665%, while the 12-month rolling average for U.S. Treasury Bonds was 0.125%.

District Officials

Board of Directors:

<u>Title</u>	<u>Name</u>	<u>Service</u>	<u>Term Expires</u>
President	Gary A. Broomell	46 years	January 2019
Vice-President	Robert A. Polito	27 years	January 2017
Director	Merle J. Aleshire	19 years	January 2019
Director	Charles W. Stone, Jr.	16 years	January 2017
Director	Randy D. Haskell	15 years	January 2019

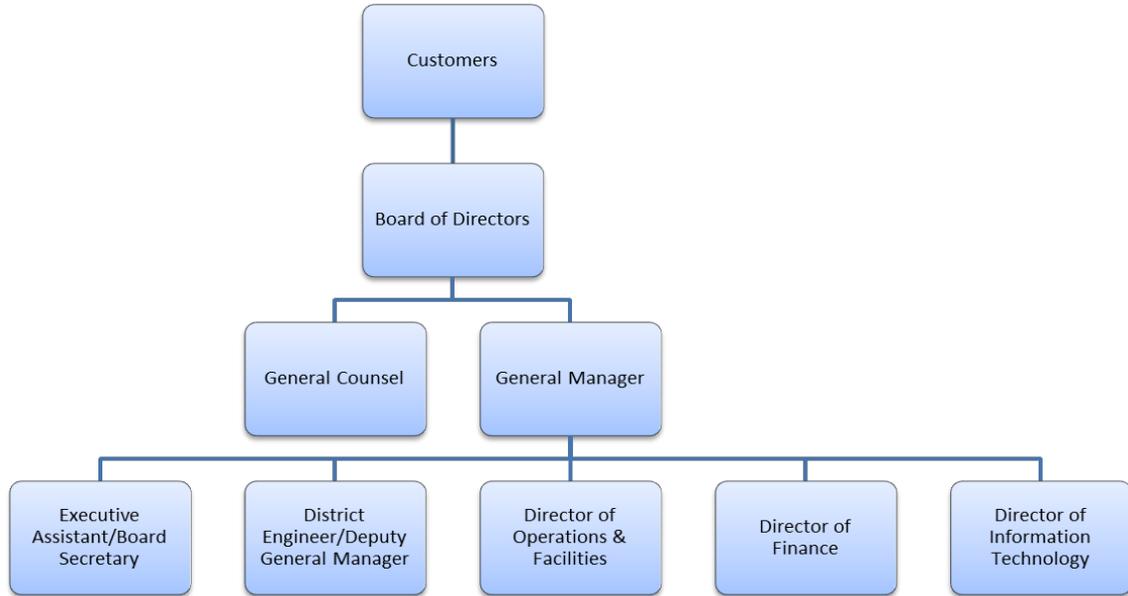
Executive Management:

<u>Title</u>	<u>Name</u>	<u>Service</u>
General Manager	Gary T. Arant	26 years
District Engineer/Deputy GM	Wally T. Grabbe	23 years
Director of Operations/Facilities	Albert G. Hoyle	24 years
Director of Finance/Treasurer	James V. Pugh	12 years
Director of Information Technology	Ando Pilve	7 years
Executive Assistant/Board Secretary	Christine M. Johnson	25 years

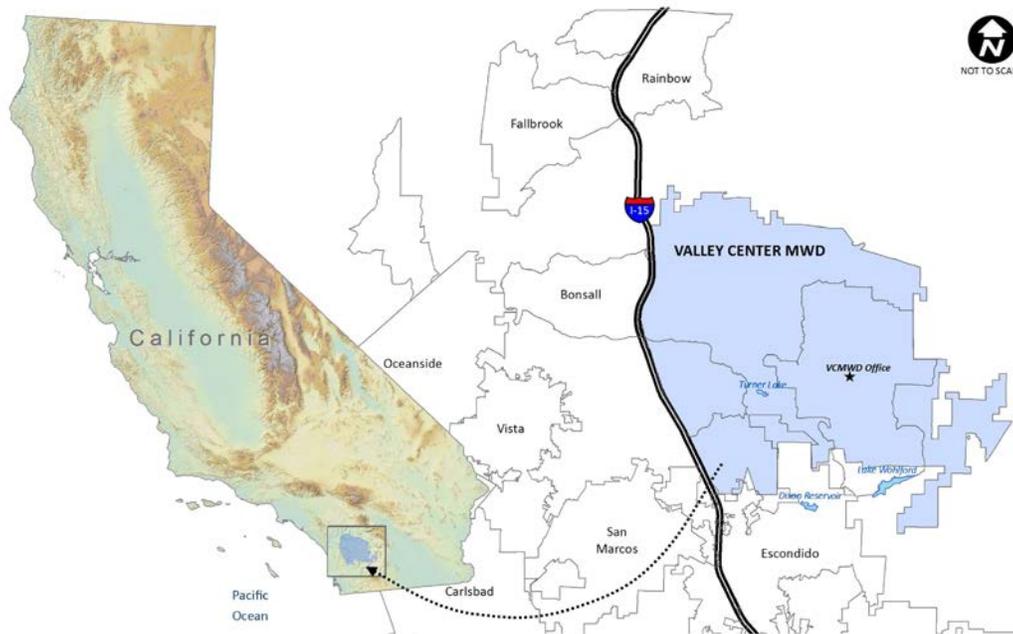
General Counsel:

Best, Best & Krieger, LLP	Paula De Sousa	5 years
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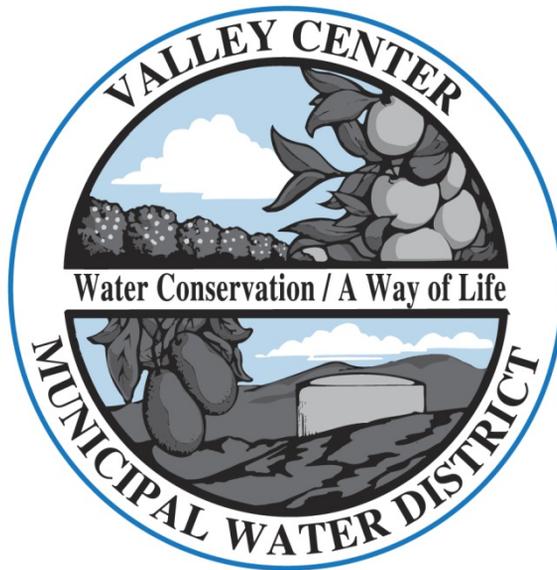
District Organization Chart



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, 2015, 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, 2015, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Change in Accounting Principle

As described in Note 14 to the financial statements, the Valley Center Municipal Water District changed its method of accounting and financial reporting for pensions in order to conform with "Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions." Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of proportionate share of the net pension liability, and the schedule of Plan contributions as identified in the accompanying table of contents be presented to supplement the 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 of Valley Center Municipal Water District. The introductory section, the combining schedule of net position 2015, the combining schedule of revenues, expenses, and changes in net position 2015, 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 2015, the combining schedule of revenues, expenses, and changes in net position 2015 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 2015, and the combining schedule of revenues, expenses, and changes in net position 2015 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, 2014, 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 2014, and the combining schedule of revenues, expenses, and changes in net position 2014 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 2014 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 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 from which they have been derived.

Leaf & Cole LLP

San Diego, California
December 21, 2015

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, 2015. 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

Statement of Net Position provides the basis for evaluating the capital structure of the District and assessing its liquidity and financial flexibility. It 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 displayed in three categories:

- Net Investment in Capital Assets
- Restricted
- Unrestricted

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.

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.

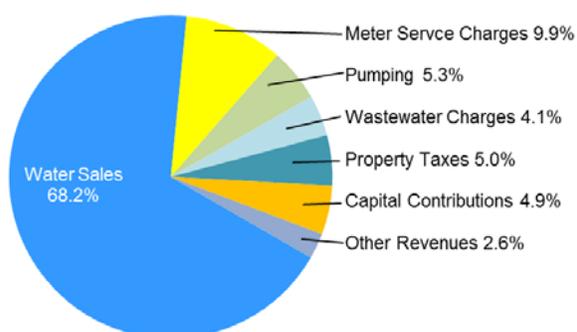
Notes to the Basic Financial Statements provide a description of the accounting policies used to prepare the financial statements and present material disclosures required by generally accepted accounting principles that are not otherwise present in the financial statements.

FINANCIAL HIGHLIGHTS

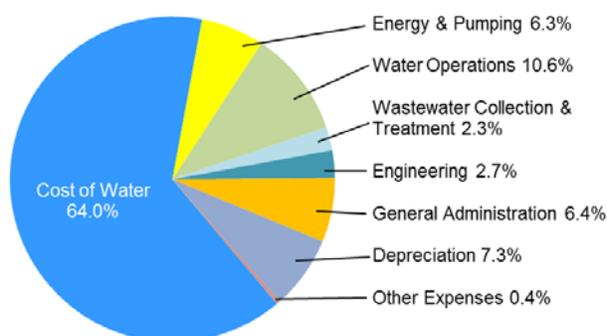
Financial operations for the District were sound during fiscal year 2014-15. Sources of revenue were sufficient to cover the combined operating and non-operating expenses including depreciation. During the year ended June 30, 2015, net position increased by \$3,192,405. Total revenues were \$50,952,468, which included operating revenues of \$45,384,649, non-operating revenues of \$3,057,261, and capital contributions of \$2,510,558. Total revenues were down \$3,261,856 from June 30, 2014. Total expenses of \$47,760,063 decreased \$3,215,054 over the prior year. For the year ended June 30, 2015, operating expenses exceeded operating revenues by \$2,196,779 compared to \$875,467 for the previous year. Non-operating revenues of \$3,057,261 exceeded non-operating expenses of \$178,635. 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.

FINANCIAL ANALYSIS OF THE DISTRICT

Source Of Revenues Fiscal Year Ended June 30, 2015



Source Of Expenses Fiscal Year Ended June 30, 2015



Net Position – Total net position increased by \$3,192,405, or 4.0% compared to the previous year, after adjusting for the implementation of GASB Statement No. 68, “Accounting and Financial Reporting for Pensions”, as more fully described in Note 14. Net investment in capital assets increased \$3,960,455 or 5.2%. Restricted net position decreased \$100,422 or 9.6%, and unrestricted net position decreased \$667,628 or 18.1% including the restatement.

CONDENSED STATEMENT OF NET POSITION

	2015	2014	Increase/ Decrease	% Change
Current Assets	\$ 31,059,299	\$ 33,386,749	\$ (2,327,450)	-7.0%
Restricted Assets	947,142	1,047,564	(100,422)	-9.6%
Capital Assets	79,423,330	76,227,308	3,196,022	4.2%
Total Assets	\$ 111,429,771	\$ 110,661,621	\$ 768,150	0.7%
Deferred Outflows of Resources	\$ 1,764,663	\$ -	\$ 1,764,663	100.0%
Current Liabilities	\$ 8,910,995	\$ 11,301,748	\$ (2,390,753)	-21.2%
Noncurrent Liabilities	19,503,221	2,193,762	17,309,459	789.0%
Total Liabilities	\$ 28,414,216	\$ 13,495,508	\$ 14,918,708	110.5%
Deferred Inflows of Resources	\$ 1,383,002	\$ -	\$ 1,383,002	100.0%
Net Position:				
Net Investment in capital assets	\$ 79,423,330	\$ 75,462,875	\$ 3,960,455	5.2%
Restricted for facility expansion	947,142	1,047,564	(100,422)	-9.6%
Unrestricted	3,026,744	20,655,672	(17,628,928)	-85.3%
Total Net Position	\$ 83,397,216	\$ 97,166,111	\$ (13,768,895)	-14.2%
Restatement ⁽¹⁾	\$ -	\$ (16,961,300)	\$ 16,961,300	-100.0%
Total Net Position, as restated	\$ 83,397,216	\$ 80,204,811	\$ 3,192,405	4.0%

(1) Restatement of 2014 Net Position at Year End per GASB Statement 68 for Pension Liability. See footnote 14 to the financial statements.

CHANGE IN NET POSITION

	2015	2014	Increase/ (Decrease)	% Change
<u>Operating Revenues:</u>				
Water sales and pumping charges	\$42,495,149	\$47,238,881	(\$4,743,732)	-10.0%
Wastewater charges	2,090,109	2,088,881	1,228	0.1%
Meter installation fees	233,939	139,563	94,376	67.6%
Other water operating revenues	565,452	622,128	(56,676)	-9.1%
Total operating revenues	<u>\$45,384,649</u>	<u>\$50,089,453</u>	<u>(\$4,704,804)</u>	<u>-9.4%</u>
<u>Operating Expenses:</u>				
Cost of water sold	\$30,583,409	\$33,822,193	(\$3,238,784)	-9.6%
Energy and pumping costs	3,019,017	2,766,632	252,385	9.1%
Water systems operations	5,047,286	5,123,092	(75,806)	-1.5%
Wastewater collection and treatment	1,104,544	1,086,185	18,359	1.7%
Engineering	1,313,336	1,548,003	(234,667)	-15.2%
General and administrative	3,048,293	2,861,803	186,490	6.5%
Depreciation	3,465,543	3,757,012	(291,469)	-7.8%
Total operating expenses	<u>\$47,581,428</u>	<u>\$50,964,920</u>	<u>(\$3,383,492)</u>	<u>-6.6%</u>
Operating (Loss)	<u>(\$2,196,779)</u>	<u>(\$875,467)</u>	<u>(\$1,321,312)</u>	<u>150.9%</u>
<u>Nonoperating Revenues and (Expenses):</u>				
Property taxes and assessments	\$2,558,443	\$2,486,977	\$71,466	2.9%
Investment income	157,024	130,887	26,137	20.0%
Other nonoperating revenues	341,794	323,813	17,981	5.6%
Interest expense	(15,030)	(7,749)	(7,281)	94.0%
Other nonoperating expenses	(163,605)	(2,448)	(161,157)	6583.2%
Total Nonoperating Revenues and (Expenses)	<u>\$2,878,626</u>	<u>\$2,931,480</u>	<u>(\$52,854)</u>	<u>-1.8%</u>
Income Before Contributions	681,847	2,056,013	(1,374,166)	-66.8%
Capital contributions	<u>2,510,558</u>	<u>1,183,194</u>	<u>1,327,364</u>	<u>112.2%</u>
Change in Net Position	<u>\$3,192,405</u>	<u>\$3,239,207</u>	<u>(\$46,802)</u>	<u>-1.4%</u>
Net Position at Beginning of Year, as restated	<u>\$80,204,811</u>	<u>\$93,926,904</u>	<u>(13,722,093)</u>	<u>-14.6%</u>
Restatement ⁽¹⁾	<u>\$0</u>	<u>(\$16,961,300)</u>	<u>16,961,300</u>	<u>-100.0%</u>
NET POSITION AT END OF YEAR, as restated	<u><u>\$83,397,216</u></u>	<u><u>\$80,204,811</u></u>	<u><u>\$3,192,405</u></u>	<u><u>4.0%</u></u>

(1) Restatement of 2014 Net Position at End of Year per GASB Statement 68 for Pension Liability. See footnote 14 to the financial statements.

Change in Net Position - The District's operating revenues decreased \$4,704,804, or 9.4%, to \$45,384,649 as a result of a 12.7% decrease in the volume of water sold.

Operating expenses for the District decreased \$3,383,492 or 6.6% to \$47,581,428 due to decreased water purchases. The cost of water sold went down \$3,238,784, or 9.6%, from the previous year. Despite the decrease in the volume of water purchased, energy and pumping costs increased \$252,385 or 9.1% because of electric rate increases of 39.6% when compared to 2013-14. General and administrative expenses increased \$186,490 or 6.5% compared to 2013-14. Wastewater collection and treatment costs increased \$18,359. These increases are offset by lower engineering, water system operations, and depreciation expenses, when combined, were \$601,942 lower than last year.

Investment income for the District increased \$26,137, as yields on investments were up slightly. Property taxes and assessments were up \$71,466, or 2.9%, to \$2,558,443 and other nonoperating revenues showed an increase of \$17,981.

Other nonoperating expenses were \$161,157 more than the previous year due to an increase of assets written off.

ANALYSIS OF OPERATIONS

Water Operations

WATER OPERATIONS CHANGE IN NET POSITION

	2015	2014	Increase/ (Decrease)	% Change
Revenues:				
Water sales	\$34,768,303	\$39,188,170	(\$4,419,867)	-11.3%
Meter service charges	5,024,241	4,925,941	98,300	2.0%
Pumping and energy charges	2,702,605	3,124,770	(422,165)	-13.5%
Meter installation fees	233,939	139,563	94,376	67.6%
Other water operating revenues	565,452	622,128	(56,676)	-9.1%
Property taxes and assessments	2,558,443	2,486,977	71,466	2.9%
Investment income	118,473	94,748	23,725	25.0%
Other nonoperating revenues	341,794	323,813	17,981	5.6%
Capital contributions	482,740	260,449	222,291	85.3%
Total revenues	<u>\$46,795,990</u>	<u>\$51,166,559</u>	<u>(\$4,370,569)</u>	<u>-8.5%</u>
Expenses:				
Cost of water sold	\$30,583,409	\$33,822,193	(\$3,238,784)	-9.6%
Energy and pumping costs	2,890,919	2,661,948	228,971	8.6%
Water systems operations	5,047,286	5,123,092	(75,806)	-1.5%
Engineering	1,313,336	1,548,003	(234,667)	-15.2%
General and administrative	2,804,662	2,598,805	205,857	7.9%
Depreciation	2,850,602	3,049,994	(199,392)	-6.5%
Other nonoperating expenses	151,091	2,216	148,875	6718.2%
Total expenses	<u>\$45,641,305</u>	<u>\$48,806,251</u>	<u>(\$3,164,946)</u>	<u>-6.5%</u>
Change in Net Position	<u>\$1,154,685</u>	<u>\$2,360,308</u>	<u>(\$1,205,623)</u>	<u>-51.1%</u>

Revenues for the year ended June 30, 2015, totaled \$46,795,990, which is a decrease of \$4,370,569, or 8.5% from the prior year. Details of this decrease in revenues are as follows:

- Water sales revenue decreased by 11.3% or \$4,419,867, from the prior year. The prolonged drought caused the State Water Resources Control Board to impose mandatory use restrictions on all domestic customers. The use restrictions caused a 12.7% decrease in the volume of water sold. In 2014-15 water sales were 24,511 acre feet as compared to 28,082 acre feet in the prior year. This decrease was offset by higher water rates. Effective January 1, 2014, water rate increases were 5.0% for domestic and 3.2% for the San Diego County Water Authority Transitional Special Agricultural Water Rate (TSAWR). In addition, rates went up again on January 1, 2015 by 4.6% for domestic and 1.6% for TSAWR. These increases are due to increases in wholesale costs from the District's supplier.
- Meter service charges were \$98,300 or 2.0% higher at \$5,024,241 in 2014-15 compared to \$4,925,941 in 2013-14. Monthly meter service charges increased 4.6% on January 1, 2015. In addition, the number of active meters increased by 84 bringing the 2014-15 count to 9,869 as compared to 9,785 in the prior year.
- Pumping and energy charges were down 13.5%, or \$422,165, due to the decrease in the volume of water sold.
- Meter installation fees for the year were up 67.6% or \$94,376 from the prior year due to an increase in the amount of water meters and backflow devices purchased and installed.

- Property taxes and assessments increased slightly by 2.9%, or \$71,466, from 2013-14 to 2014-15. 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 25.0%, or \$23,725, from the prior year. The increase is a result of slightly higher yields earned during the year coupled with higher cash balances.
- Capital contributions, which vary based on developer projects, increased by \$222,291 or 85.3% from the prior year.

Expenses for the year ended June 30, 2015, totaled \$45,641,305, a decrease of 6.5% or \$3,164,946. Certain significant expenses are as follows:

- Cost of water sold decreased 9.6% over the prior year. Water purchases were down significantly from the prior year, which were offset by higher wholesale water prices. In 2013-14, the District purchased 29,607 acre feet of water at an average price of \$1,142 per acre foot. In the current year, the District purchased 25,598 acre feet of water at an average price of \$1,195 per acre foot, an increase of 4.6% or \$53 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.
- Agricultural rebates from the SDCWA on their melded water rate during the year were \$2,729,757. This cost reduction for agricultural water is passed through to the District's qualified agricultural customers and is included in the Cost of water sold.
- Energy and pumping costs associated with the distribution of water for the District were up \$228,971 or 8.6% when compared to last year. The District purchased 3,571 acre feet of water less in 2014-15 than in 2013-14. Although sales volume decreased, electric rates were 39.6% higher than the previous year, resulting in an increase of \$379,539 for the costs of electricity. The increase in the cost of electricity was offset by decreased labor, outside services, and a 2.7% decrease in natural gas rates, resulting in a decrease of \$94,943 for gas. There have been no increases in the pumping rates since January 2006 as there have been sufficient funds in the Pumping Rate Stabilization Reserve to cover the increases.
- Water systems operations expenses showed a decrease of \$75,806 or 1.5% from last year, due to decreased labor, maintenance, and outside services.
- Engineering expenses for 2014-15 were 15.2%, or \$234,667, lower than 2013-14. This is a result of lower labor expense and outside services.
- General and administrative expenses increased 7.9% or \$205,857 due to a combination of factors, the largest being increased legal expenses in the amount of \$91,879 as a result of increased projects, personnel matters and labor of \$93,918.
- Depreciation expense in 2014-15 decreased 6.5%, or \$199,392, from the prior year.
- Other nonoperating expenses showed an increase of \$148,875 due to an increase in assets written off.

Wastewater Treatment Operations

Lower Moosa Canyon Water Reclamation Facility serves 2,492 customers in a limited geographic area on the west side of the District. Total revenues were \$1,585,775, a decrease of \$3,110 or 0.2% from the prior year. This decrease is attributable to a one-time incentive payment from San Diego Gas & Electric in the amount of \$11,918 that was received in 2013-14. The decrease is offset by increases in capital contributions of \$10,920 or 129.6% and investment income in the amount of \$2,873 or 24.2%.

LOWER MOOSA CHANGE IN NET POSITION

	2015	2014	Increase/ (Decrease)	% Change
Revenues:				
Wastewater service charges	\$1,551,666	\$1,568,569	(\$16,903)	-1.1%
Investment income	14,764	11,891	2,873	24.2%
Capital contributions	19,345	8,425	10,920	129.6%
Total revenues	<u>\$1,585,775</u>	<u>\$1,588,885</u>	<u>(\$3,110)</u>	<u>-0.2%</u>
Expenses:				
Energy	\$85,359	\$64,535	\$20,824	32.3%
Wastewater collection and treatment	886,928	875,927	11,001	1.3%
General and administrative	172,474	194,699	(22,225)	-11.4%
Depreciation	334,105	326,921	7,184	2.2%
Other nonoperating expenses	12,514	232	12,282	5294.0%
Total expenses	<u>\$1,491,380</u>	<u>\$1,462,314</u>	<u>\$29,066</u>	<u>2.0%</u>
Change in Net Position	<u>\$94,395</u>	<u>\$126,571</u>	<u>(\$32,176)</u>	<u>-25.4%</u>

Expenses for the year ended June 30, 2015, totaled \$1,491,380, an increase of 2.0% or \$29,066. Certain significant expenses are as follows:

- Energy costs were higher than the prior year by \$20,824 due to increased energy rates.
- Wastewater collection and treatment costs were 1.3% higher than last year, or \$11,001. This increase is due to higher labor, chemical expenses and maintenance costs, offset by lower outside services.
- General and administrative expenses had a decrease of \$22,225 or 11.4% which is mainly the result of lower administrative overhead.
- Depreciation expense in 2014-15 increased 2.2%, or \$7,184, from the prior year.
- Other nonoperating expenses were higher in 2014-15 at \$12,514 compared to \$232 in 2013-14. The difference is attributable to increased disposal costs 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.

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

	2015	2014	Increase/ (Decrease)	% Change
Revenues:				
Wastewater service charges	\$538,443	\$520,312	\$18,131	3.5%
Investment income	23,787	24,248	(461)	-1.9%
Capital contributions	2,008,473	914,320	1,094,153	119.7%
Total revenues	<u>\$2,570,703</u>	<u>\$1,458,880</u>	<u>\$1,111,823</u>	<u>76.2%</u>
Expenses:				
Energy	\$42,739	\$40,149	\$2,590	6.5%
Wastewater collection and treatment	217,616	210,258	7,358	3.5%
General and administrative	71,157	68,299	2,858	4.2%
Depreciation	280,836	380,097	(99,261)	-26.1%
Interest expense	15,030	7,749	7,281	100.0%
Total expenses	<u>\$627,378</u>	<u>\$706,552</u>	<u>(\$79,174)</u>	<u>-11.2%</u>
Change in Net Position	<u>\$1,943,325</u>	<u>\$752,328</u>	<u>\$1,190,997</u>	<u>158.3%</u>

- Total revenues were \$1,111,823 higher than the previous year. Capital contributions were the main reason for this increase at \$1,094,153 more than in 2013-14. Wastewater service charges are up slightly, 3.5% or \$18,131.
- Total expenses were \$79,174 lower than the previous year. Depreciation expense was down by \$99,261. It was offset by higher costs for wastewater collection and treatment of \$7,358, higher energy of \$2,590, increased general and administration costs of \$2,858, and interest expense increase of \$7,281 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, 2015, the District had \$158,577,493 in capital assets with \$79,154,163 of accumulated depreciation. This represents a net increase (additions less deductions) of \$3,196,022 or 4.2% over the prior year. Annual depreciation usually approximates the amount transferred to reserves and in turn is reinvested in the capital plant.

Significant additions to general plant and transmission and distribution include the Country Club Reservoir upgrade, SCADA system improvements, Cobb Pump Station Solar, and a 12-yard Dump Truck. Significant additions to construction in progress include the Lilac Reservoir cover replacement, Tyler reservoir repainting/coating, and the Woods Valley Wastewater Reclamation Facility Expansion.

CAPITAL ASSETS

	2015	2014	Increase/ (Decrease)	% Change
Land	\$5,304,282	\$5,304,282	\$0	0.0%
Construction in progress	7,552,970	5,231,229	2,321,741	44.4%
Transmission and distribution system	130,239,725	127,457,339	2,782,386	2.2%
General plant	15,480,516	14,915,636	564,880	3.8%
Total capital assets	<u>\$158,577,493</u>	<u>\$152,908,486</u>	<u>\$5,669,007</u>	<u>3.7%</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 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 2014-15. There has been a significant increase in the participation of the expansion project. The original project was for an expansion to accommodate 350 equivalent dwelling units (EDUs). The number of EDU's currently is 1,095. The District submitted a request to increase the project SRF Loan amount to \$30,735,000 and has received State Water Resources Control Board staff approval of the increased amount.

The District had no general obligation bonded debt at June 30, 2015. As the District has issued no bonded debt for public placement since 1968, it is not rated by any investment rating service.

More detailed information regarding long-term debt activity is presented in Note 5 to the financial statements.

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, 2015, the District had designated \$4,197,247 of its unrestricted net assets as a water operating reserve to mitigate the potential of these effects. This represents approximately four months operating and maintenance expenses. By including the pumping rate stabilization and rate stabilization reserve funds this increases 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, 2015**

ASSETS

Current Assets: (Notes 1, 2 and 9)

Cash and cash equivalents	\$ 19,199,112
Investments	5,063,027
Accounts receivable - water and wastewater, net	5,330,666
Interest receivable	37,458
Taxes receivable	4,131
Other receivables	34,253
Inventory	584,433
Prepaid expenses and deposits	230,810
Work in progress for others	575,409
Total Current Assets	31,059,299

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

Restricted Assets:

Cash and cash equivalents	396,529
Investments	550,613
Total Restricted Assets	947,142

Capital Assets:

Nondepreciable capital assets	12,857,252
Depreciable capital assets, net	66,566,078
Total Capital Assets	79,423,330

Total Noncurrent Assets	80,370,472
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TOTAL ASSETS	\$ 111,429,771
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DEFERRED OUTFLOWS OF RESOURCES: (Notes 1, 8 and 14)

Deferred outflows related to contributions	1,764,663
Total Deferred Outflows of Resources	1,764,663

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

**VALLEY CENTER MUNICIPAL WATER DISTRICT
STATEMENT OF NET POSITION (CONTINUED)
JUNE 30, 2015**

LIABILITIES

Current Liabilities: (Notes 1 and 5)

Accounts payable	\$ 5,440,327
Accrued payroll	297,682
Accrued compensated absences	685,100
Customer deposits	2,465,581
Current portion of loans payable	22,305
Total Current Liabilities	8,910,995

Noncurrent Liabilities: (Notes 1, 5 and 8)

Long-Term Debt:

Loans payable, net of current portion	791,323
Interest payable	22,779
Total Long-Term Debt	814,102

Other Noncurrent Liabilities:

Net pension liability	17,234,744
Accrued compensated absences, net of current portion	1,454,375
Total Other Noncurrent Liabilities	18,689,119

Total Noncurrent Liabilities	19,503,221
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Total Liabilities	28,414,216
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DEFERRED INFLOWS OF RESOURCES: (Notes 1, 8 and 14)

Deferred inflows related to pensions	1,383,002
Total Deferred Inflows of Resources	1,383,002

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

NET POSITION: (Note 7)

Net investment in capital assets	79,423,330
Restricted for facility expansion	947,142
Unrestricted	3,026,744
Total Net Position	\$ 83,397,216

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, 2015**

Operating Revenues:

Water sales and pumping charges	\$ 42,495,149
Wastewater charges	2,090,109
Meter installation fees	233,939
Other water operating revenues	565,452
Total Operating Revenues	45,384,649

Operating Expenses:

Cost of water sold	30,583,409
Energy and pumping costs	3,019,017
Water systems operations	5,047,286
Wastewater collection and treatment	1,104,544
Engineering	1,313,336
General and administrative	3,048,293
Depreciation	3,465,543
Total Operating Expenses	47,581,428

Operating Loss	(2,196,779)
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Nonoperating Revenues (Expenses):

Property taxes and assessments	2,558,443
Investment income	157,024
Other nonoperating revenues	341,794
Interest expense	(15,030)
Other nonoperating expenses	(163,605)
Total Nonoperating Revenues (Expenses)	2,878,626

Income Before Contributions	681,847
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Capital Contributions	2,510,558
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Change in Net Position	3,192,405
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Net Position at Beginning of Year, as Restated (Note 14)	80,204,811
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NET POSITION AT END OF YEAR	\$ 83,397,216
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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, 2015**

Cash Flow From Operating Activities:

Receipts from customers	\$ 47,823,018
Payments to suppliers for goods and services	(36,605,630)
Payments to employees for services	(9,952,448)
Change in work in progress for others	(16,233)
Change in customer deposits	19,853
Other nonoperating revenue	341,794
Net Cash Provided by Operating Activities	1,610,354

Cash Flow From Noncapital Financing Activities:

Property taxes and assessments received	2,558,133
Net Cash Provided by Noncapital Financing Activities	2,558,133

Cash Flows From Capital and Related Financing Activities:

Acquisition and construction of capital assets	(6,633,549)
Principal paid on loans payable	(9,527)
Capital contributions	2,367,533
Net Cash Used in Capital and Related Financing Activities	(4,275,543)

Cash Flows From Investing Activities:

Proceeds from investments reaching maturity	434,136
Investment income received	155,861
Net Cash Provided by Investing Activities	589,997

Net Increase in Cash and Cash Equivalents 482,941

Cash and Cash Equivalents at Beginning of Year 19,112,700

CASH AND CASH EQUIVALENTS AT END OF YEAR **\$ 19,595,641**

(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, 2015**

Reconciliation of Operating Loss to Net

Cash Provided by Operating Activities:

Operating loss	\$ (2,196,779)
Adjustments to reconcile operating loss	
to net cash provided by operating activities:	
Depreciation	3,465,543
Other nonoperating revenues	341,794
Change in current assets and liabilities:	
Accounts receivable - water and wastewater, net	2,357,016
Other receivables	81,353
Inventory	24,387
Prepaid expenses and deposits	31,627
Work in progress for others	(16,233)
Deferred outflows related to contributions	(27,837)
Accounts payable	(2,430,115)
Accrued payroll	11,857
Accrued compensated absences	28,268
Customer deposits	19,853
Net pension liability	(1,463,382)
Deferred inflows related to pensions	1,383,002
Net Cash Provided by Operating Activities	<u><u>\$ 1,610,354</u></u>

Cash and Cash Equivalents:

Financial Statement Classification

Cash and cash equivalents	\$ 19,199,112
Restricted cash and cash equivalents	396,529
Total Cash and Cash Equivalents	<u><u>\$ 19,595,641</u></u>

Noncash Investing, Capital and Financing Activities

Capital assets included in decrease in accounts payable	\$ <u>10,126</u>
Capital assets contributed	\$ <u>143,025</u>
Capital assets acquired with loans payable	\$ <u>58,722</u>

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

VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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, 2015**

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, 2015, 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, 2015**

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 \$5,330,666 have been reduced by an allowance for estimated uncollectible accounts in the amount of \$102,873 at June 30, 2015.

(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, 2015, inventory consists of the following:

Water inventory	\$ 95,040
Materials inventory	489,393
	\$ 584,433

(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 \$3,465,543 for the year ended June 30, 2015.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

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

(k) Compensated Absences

Accumulated unpaid vacation and sick leave totaling \$2,139,475 is accrued when incurred and included in noncurrent liabilities at June 30, 2015. The following is a detail:

	<u>Balance at June 30, 2014</u>	<u>Earned</u>	<u>Used</u>	<u>Balance at June 30, 2015</u>	<u>Current Portion</u>
Compensated absences	\$ <u>2,111,207</u>	\$ <u>475,168</u>	\$ <u>(446,900)</u>	\$ <u>2,139,475</u>	\$ <u>685,100</u>

(l) Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows of resources and deferred inflows of resources are defined as a consumption of net assets by the government that is applicable to a future period and an acquisition of net assets by the government that is applicable to a future reporting period respectively. Deferred outflows of resources include a deferred amount on refunding. Deferred outflows of resources and deferred inflows of resources related to pensions are more fully described in Note 8.

(m) 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.

(n) Classification of Liabilities

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

(o) Pensions

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

(p) 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.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

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

(q) Subsequent Events

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through December 21, 2015, the date the financial statements were available to be issued.

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, 2015:

	<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)	88,951	88,951	-
San Diego County Treasurer's Pooled Money Fund	18,040,119	18,040,119	-
Demand deposits	1,465,371	1,465,371	-
Investments:			
United States Government Sponsored Enterprises	1,077,557	-	1,077,557
Certificates of Deposit	4,536,083	240,987	4,295,096
Total Cash and Investments	<u>\$ 25,209,281</u>	<u>\$ 19,836,628</u>	<u>\$ 5,372,653</u>
Financial Statement Classification:			
Cash and Cash Equivalents	\$ 19,199,112		
Investments	5,063,027		
Cash and cash equivalents - Restricted	396,529		
Investments - Restricted	550,613		
Total	<u>\$ 25,209,281</u>		

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

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	AAAf	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.

(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.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 2 - Cash and Investments: (Continued)

(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, 2015:

<u>Funding Source</u>	<u>Use</u>	
Capacity fees	Facility expansion	\$ <u>947,142</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, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2015</u>
Capital Assets Not Being Depreciated:				
Land	\$ 5,304,282	\$ -	\$ -	\$ 5,304,282
Construction in progress	5,231,230	5,770,988	(3,449,248)	7,552,970
	<u>10,535,512</u>	<u>5,770,988</u>	<u>(3,449,248)</u>	<u>12,857,252</u>
Capital Assets Being Depreciated:				
Transmission and distribution system	127,457,338	3,938,550	(1,156,163)	130,239,725
General plant	14,915,636	564,880	-	15,480,516
	<u>142,372,974</u>	<u>4,503,430</u>	<u>(1,156,163)</u>	<u>145,720,241</u>
Less Accumulated Depreciation:				
Transmission and distribution system	(64,297,969)	(2,884,038)	992,558	(66,189,449)
General Plant	(12,383,209)	(581,505)	-	(12,964,714)
	<u>(76,681,178)</u>	<u>(3,465,543)</u>	<u>992,558</u>	<u>(79,154,163)</u>
Net Capital Assets Being Depreciated	<u>65,691,796</u>	<u>1,037,887</u>	<u>(163,605)</u>	<u>66,566,078</u>
Net Capital Assets	<u>\$ 76,227,308</u>	<u>\$ 6,808,875</u>	<u>\$ (3,612,853)</u>	<u>\$ 79,423,330</u>

Depreciation totaled \$3,465,543 for the year ended June 30, 2015.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 5 - Noncurrent Liabilities:

Noncurrent liabilities consist of the following at June 30, 2015:

	Balance at <u>June 30, 2014</u>	<u>Additions</u>	<u>Deletions</u>	Balance at <u>June 30, 2015</u>	Current <u>Portion</u>
<u>Long-Term Debt:</u>					
Loan payable	\$ 764,433	\$ 58,721	\$ (9,526)	\$ 813,628	\$ 22,305
Interest payable	<u>7,749</u>	<u>15,030</u>	<u>-</u>	<u>22,779</u>	<u>-</u>
Total Long-Term Debt	<u>772,182</u>	<u>73,751</u>	<u>(9,526)</u>	<u>836,407</u>	<u>22,305</u>
<u>Other Noncurrent Liabilities:</u>					
Net pension liability	18,698,126	-	(1,463,382)	17,234,744	-
Accrued compensated absences	<u>2,111,207</u>	<u>654,566</u>	<u>(626,298)</u>	<u>2,139,475</u>	<u>685,100</u>
Total Other Noncurrent Liabilities	<u>20,809,333</u>	<u>654,566</u>	<u>(2,089,680)</u>	<u>19,374,219</u>	<u>685,100</u>
Total Noncurrent Liabilities	<u>\$ 21,581,515</u>	<u>\$ 728,317</u>	<u>\$ (2,099,206)</u>	<u>\$ 20,210,626</u>	<u>\$ 707,405</u>

(a) 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. Interest payable totaled \$2,964 at June 30, 2015.

\$ 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. Interest payable totaled \$14,820 at June 30, 2015.

440,000

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 5 - Noncurrent Liabilities: (Continued)

(a) Long-Term Debt (Continued)

Installment Sales Agreements (Continued)

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. Interest payable totaled \$4,995 at June 30, 2015.

Total Installment Sales Agreements

148,310
\$ 676,310

Financing Loan Agreement

San Diego Gas & Electric (SDG&E), On Bill Financing Loan Agreement - The District entered into unsecured and non-interest bearing loan agreements with SDG&E totaling \$147,670 to retrofit the West Pump Station and Cool Valley Circulation Pumps. Principal payments of \$1,633 are included in the monthly invoice from SDG&E. The loan matures in September 2023.

Total Financing Loan Agreement

\$ 137,318
\$ 137,318

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
2016	\$ 3,550	\$ 1,936	\$ 18,755	\$ -	\$ 22,305	\$ 1,936
2017	27,363	14,801	19,593	-	46,956	14,801
2018	27,965	14,199	19,594	-	47,559	14,199
2019	28,580	13,583	19,593	-	48,173	13,583
2020	29,210	12,955	19,594	-	48,804	12,955
2021 - 2025	155,970	54,847	40,189	-	196,159	54,847
2026 - 2030	173,898	36,919	-	-	173,898	36,919
2031 - 2035	193,887	16,930	-	-	193,887	16,930
2036	35,887	790	-	-	35,887	790
	\$ <u><u>676,310</u></u>	\$ <u><u>166,960</u></u>	\$ <u><u>137,318</u></u>	\$ <u><u>-</u></u>	\$ <u><u>813,628</u></u>	<u><u>166,960</u></u>

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

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, 2015, totaled \$395,000.

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:

Unrestricted net position has been designated by the board of directors for the following purposes at June 30, 2015:

Capital improvements	\$ 10,401,843
Operating reserve	4,766,770
Wastewater capital replacement reserves	1,949,504
Pumping rate stabilization	1,284,500
Rate stabilization	184,136
Pension obligation	<u>(15,560,009)</u>
Unrestricted Net Position	<u>\$ 3,026,744</u>

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 8 - Defined Benefit Pension Plan:

(a) General Information About the Pension Plans

Plan Descriptions - All qualified permanent and probationary employees are eligible to participate in the Miscellaneous Plan of the Valley Center Municipal Water District, (All Plans) a cost-sharing multiple employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and Local Government resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided - CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. The District participates in the miscellaneous 2.7% at age 55 pool, for those employees hired before January 1, 2013. New employees with no prior CalPERS membership and those with prior CalPERS membership with a break in service greater than six months, hired after January 1, 2013 participate in the miscellaneous 2% at age 62 pool. Employees hired on or after January 1, 2013 with prior CalPERS membership with less than six months break in service participate in the miscellaneous 2.7% at age 55 pool.

The Plan's provisions and benefits in effect at June 30, 2015, are summarized as follows:

Hire Date	Miscellaneous	
	Prior to January 1, 2013	On or After January 1, 2013
Benefit formula	2.7% @ 55	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	Monthly for life	Monthly for life
Retirement age	50	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%	1.0% to 2.5%
Required employee contribution rates	8.00%	6.25%
Required employer contribution rates	31.719%	31.719%

Contributions - Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 8 - Defined Benefit Pension Plan: (Continued)

General Information About the Pension Plans (Continued)

(b) Pension Liabilities, Pension Expenses and Deferred Outflow/Inflows of Resources Related to Pensions

As of June 30, 2015, the District reported net pension liabilities for its proportionate shares of the net pension liability of each Plan as follows:

	Proportionate Share of Net Pension Liability
2.7% @ 55	\$ 17,234,744
2.0% @ 62	-
Total Net Pension Liability	\$ 17,234,744

The District's net pension liability for each plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2014, and the total pension liability for each plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30 2014 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for each Plan as of June 2013 and 2014 was as follows:

	2.7% @ 55	2% @ 62
Proportion - June 30, 2013	N/A	N/A
Proportion - June 30, 2014	0.27698%	-
Change - Increase (Decrease)	N/A	N/A

For the year ended June 30, 2015, the District recognized pension expense of \$1,656,447. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 1,764,663	\$ -
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	-	176,162
Additional deferral	-	(700,645)
Net difference between projected and actual earnings on plan investments	-	1,907,485
Total	\$ 1,764,663	\$ 1,383,002

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 8 - Defined Benefit Pension Plan: (Continued)

General Information About the Pension Plans (Continued)

(b) Pension Liabilities, Pension Expenses and Deferred Outflow/Inflows of Resources Related to Pensions (Continued)

The \$1,764,663 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Years Ended June 30	
2016	\$ (289,556)
2017	(289,556)
2018	(327,018)
2019	(476,872)
2020	-
Thereafter	-
Total	<u>\$ (1,383,002)</u>

Actuarial Assumptions - The total pension liabilities in the June 30, 2013 actuarial valuations were determined using the following actuarial assumptions:

	<u>2.7% @ 55</u>	<u>2% @ 62</u>
Valuation Date	June 30, 2013	June 30, 2013
Measurement Date	June 30, 2014	June 30, 2014
Actuarial Cost Method	Entry-Age Cost Method	Entry-Age Cost Method
Actuarial Assumptions:		
Discount Rate	7.5%	7.5%
Inflation	2.75%	2.75%
Payroll Growth	3.0%	3.0%
Projected Salary Increase	3.3% - 14.2%(1)	3.3% - 14.2%(1)
Investment Rate of Return	7.5% (2)	7.5% (2)
Mortality	CalPERS Specific	CalPERS Specific

(1) Depending on age, service and type of employment

(2) Net of pension plan investment expenses, including inflation

The underlying mortality assumption and all other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details for the Experience Study can be found on the CalPERS website.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 8 - Defined Benefit Pension Plan: (Continued)

General Information About the Pension Plans (Continued)

(b) Pension Liabilities, Pension Expenses and Deferred Outflow/Inflows of Resources Related to Pensions (Continued)

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

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

Asset Class	New Strategic <u>Allocation</u>	Real Return <u>Years 1 - 10 (a)</u>	Real Return <u>Years 11 + (b)</u>
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	12.0%	6.83%	6.95%
Real Estate	11.0%	4.50%	5.13%
Infrastructure and Forestland	3.0%	4.50%	5.09%
Liquidity	2.0%	(0.55%)	(1.05%)
Total	<u>100.0%</u>		

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

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

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 8 - Defined Benefit Pension Plan: (Continued)

General Information About the Pension Plans (Continued)

(b) Pension Liabilities, Pension Expenses and Deferred Outflow/Inflows of Resources Related to Pensions (Continued)

Discount Rate - The discount rate used to measure the total pension liability was 7.50% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent is applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained from the CalPERS website under the GASB 68 Section.

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

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

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

The following presents the net pension liability of each Plan, as of the measurement date calculated using the discount rate of 7.5%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>2.7% @ 55</u>	<u>2.0% @ 62</u>
1% Decrease Net Pension Liability	6.5% \$ 23,209,845	6.5% \$ -
Current Discount Rate Net Pension Liability	7.5% \$ 17,234,744	7.5% \$ -
1% Increase Net Pension Liability	8.5% \$ 12,275,977	8.5% \$ -

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 8 - Defined Benefit Pension Plan: (Continued)

Pension Plan Fiduciary Net Position - Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

Payable to the Pension Plan

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

Note 9 - 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.

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.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 9 - Post Employment Benefits: (Continued)

(a) Defined Benefits Plan: (Continued)

Plan Description (Continued)

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 7.9% 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, 2015.

Annual required contribution	\$ 410,824
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	410,824
Contributions (including benefits paid)	(411,034)
Decrease in net OPEB obligation	(210)
Net OPEB obligation (Asset) - beginning of year	-
Net OPEB obligation (Asset) - end of year	\$ (210)

The OPEB asset is included in prepaid expenses and deposits.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

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 2015 and the four preceding years were as follows:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of ARC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2011	\$ 446,180	98.9%	\$ (3,709)
June 30, 2012	459,521	99.2%	(200)
June 30, 2013	443,119	100%	(1,624)
June 30, 2014	457,228	100%	-
June 30, 2015	410,824	100%	(210)

The District's actuarial accrued liability for benefits at June 30, 2015, was \$6,552,310 and the covered payroll (annual payroll of active employees covered by the Plan) was \$5,063,000, with a ratio of the Unfunded Accrued Actuarial Liability (UAAL) to the covered payroll of 69.98%.

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (A)</u>	<u>Actuarial Accrued Liability Project Unit Credit (B)</u>	<u>Unfunded AAL (UAAL) (B-A)</u>	<u>Funded Ratio (A/B)</u>	<u>Covered Payroll (C)</u>	<u>UAAL as a Percentage of Covered Payroll [(B-A)/C]</u>
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%
June 30, 2015	3,009,135	6,552,310	3,543,175	45.9%	5,063,000	69.98%

Funding Status and Funding Progress

In June 2015, the District sent \$227,772 to the CERBT trust account and made benefit payments of \$183,262 for a total contribution of \$411,034.

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, 2015**

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 7.5% 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 2.75% 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, 2015, employee contributions were \$2,854 and District contributions were \$3,378 for a total of \$6,232.

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, 2015**

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, 2015, was \$68,621. 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, 2015, the total unpaid amount on these contracts is approximately \$413,185 for water operations and \$10,773,545 for wastewater operations.

(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. 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 effects of this pronouncement on the financial statements of the District in the year of implementation are more fully described in Note 14.

VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Note 13 - New Governmental Accounting Standards: (Continued)

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 did not have a material effect on the financial statements of the District in the year of implementation.

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. The District has not extended any nonexchange financial guarantees at the date of these financial statements.

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 effects of this pronouncement on the financial statements of the District in the year of implementation are more fully described in Note 14.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 13 - New Governmental Accounting Standards: (Continued)

GASB No. 72

In February 2015, The Governmental Accounting Standards Board issued Statement No. 72, “Fair Value Measurement and Application.” This pronouncement provides guidance for determining fair value measurement for financial reporting purposes and provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. Governments are required to use valuation techniques that are appropriate under the circumstances and for which sufficient data is available to measure fair value. Required disclosures include the level of fair value hierarchy and valuation techniques and should be organized by type of asset or liability. This pronouncement is effective for financial statements for periods beginning after June 15, 2015. Earlier application is encouraged. The District has not yet determined the effects of this pronouncement on the financial statements of the District in the year of implementation.

GASB No. 73

In June 2015, The Governmental Accounting Standards Board issued Statement No. 73, “Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.” This pronouncement establishes requirements for defined benefit pension plans that are not with the scope of Statement No. 68, as well as assets accumulated for purposes of providing those pensions. It establishes requirements for defined contribution pension plans that are not within the scope of Statement No. 68 and amends certain provisions of Statement No. 67. The pronouncement extends the approach to accounting and financial reporting established in Statement 68 to all pensions with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement 68 be included in the notes and required supplementary information by all similarly situated employers and nonemployer contributing entities. The requirements of this statement addressing accounting and financial reporting for employers that are not within the scope of GASB 68 are effective for financial statements for fiscal years beginning after June 15, 2016. All other provisions are effective for periods beginning after June 15, 2015. 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, 2015**

Note 14 - Change in Accounting Principle:

Effective July 1, 2014, the District changed its method of accounting for retirement expense and the related pension liability as well any deferred inflows of resources and deferred outflows of resources in order to conform with Governmental Accounting Standards Board Statement No. 68, "Accounting and Financial Reporting for Pensions", as amended by Governmental Accounting Standards Board Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date".

This Statement requires cost-sharing employers such as the District to recognize a liability for its proportionate share of the net pension liability (of all employers for benefits provided through the plan) – the collective net pension liability. A cost-sharing employer is required to recognize pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions for its proportionate share of collective pension expense and collective deferred outflows of resources and deferred inflows of resources related to pensions. Employer contributions to the pension plan subsequent to the measurement date of the collective net pension liability are also required to be reported as deferred outflows related to pensions. As a result, the District established the following net pension liability and deferred outflow of resources resulting in a reduction in net position reported at June 30, 2014:

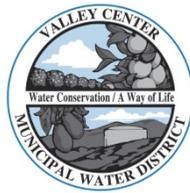
Net pension liability	\$ (18,698,126)
Deferred outflows related to contributions	<u>1,736,826</u>
Net Effect of a Change in Accounting Principle	(16,961,300)
 Net Position as Originally Stated	 <u>97,166,111</u>
 Net Position as Restated	 <u><u>\$ 80,204,811</u></u>

**VALLEY CENTER MUNICIPAL WATER DISTRICT
 SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 JUNE 30, 2015**

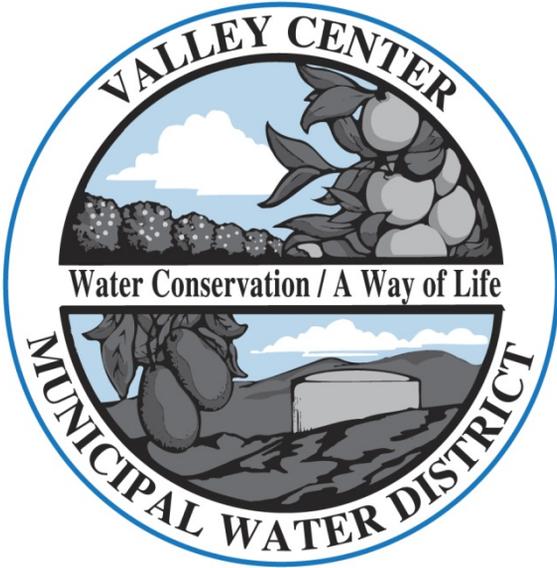
	2014
<u>Miscellaneous Plan:</u>	
Plan's proportion of the net pension liability (asset)	0.27698%
Plan's proportionate share of the net pension liability (asset)	\$ 17,234,744
Plan's covered-employee payroll	\$ 5,410,424
Plan's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	318.55%
Plan's fiduciary net position as a percentage of the total pension liability	61.73%

**VALLEY CENTER MUNICIPAL WATER DISTRICT
SCHEDULE OF PLAN CONTRIBUTIONS
JUNE 30, 2015**

	2014
<u>Miscellaneous Plan:</u>	
Contractually required contribution	\$ 1,556,351
Contributions in relation to the contractually required contribution	\$ <u>(1,591,356)</u>
Contribution deficiency (excess)	\$ <u>(35,005)</u>
District's covered-employee payroll	\$ 5,410,424
Contributions as a percentage of covered-employee payroll	29.41%



Combining Schedules



**VALLEY CENTER MUNICIPAL WATER DISTRICT
COMBINING SCHEDULE OF NET POSITION
JUNE 30, 2015**

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	\$ 19,199,112	\$ 13,846,846	\$ 1,947,314	\$ 3,404,952
Investments	5,063,027	5,063,027	-	-
Accounts receivable - water and sewer, net	5,330,666	5,330,666	-	-
Interest receivable	37,458	37,458	-	-
Taxes receivable	4,131	4,131	-	-
Other receivables	34,253	34,253	-	-
Inventory	584,433	584,433	-	-
Prepaid expenses and deposits	230,810	230,810	-	-
Work in progress for others	575,409	575,409	-	-
Total Current Assets	<u>31,059,299</u>	<u>25,707,033</u>	<u>1,947,314</u>	<u>3,404,952</u>
<u>Noncurrent Assets:</u>				
Restricted Assets:				
Cash and cash equivalents	396,529	-	396,529	-
Investments	550,613	550,613	-	-
Total Restricted Assets	<u>947,142</u>	<u>550,613</u>	<u>396,529</u>	<u>-</u>
Capital Assets:				
Nondepreciable capital assets	12,857,252	7,713,803	255,254	4,888,195
Depreciable capital assets, net	66,566,078	51,149,796	6,931,739	8,484,543
Total Capital Assets	<u>79,423,330</u>	<u>58,863,599</u>	<u>7,186,993</u>	<u>13,372,738</u>
Total Noncurrent Assets	<u>80,370,472</u>	<u>59,414,212</u>	<u>7,583,522</u>	<u>13,372,738</u>
TOTAL ASSETS	<u>\$ 111,429,771</u>	<u>\$ 85,121,245</u>	<u>\$ 9,530,836</u>	<u>\$ 16,777,690</u>
<u>DEFERRED OUTFLOWS OF RESOURCES:</u>				
Deferred outflows related to contributions	\$ 1,764,663	\$ 1,764,663	\$ -	\$ -
Total Deferred Outflows of Resources	<u>1,764,663</u>	<u>1,764,663</u>	<u>-</u>	<u>-</u>

**VALLEY CENTER MUNICIPAL WATER DISTRICT
COMBINING SCHEDULE OF NET POSITION (CONTINUED)
JUNE 30, 2015**

LIABILITIES AND NET POSITION

	Total	General	Lower Moosa Wastewater	Woods Valley Ranch Wastewater
<u>Current Liabilities:</u>				
Accounts payable	\$ 5,440,327	\$ 5,440,327	\$ -	\$ -
Accrued payroll	297,682	297,682	-	-
Accrued compensated absences	685,100	685,100	-	-
Customer deposits	2,465,581	956,984	35,194	1,473,403
Current portion of loans payable	22,305	22,305	-	-
Total Current Liabilities	<u>8,910,995</u>	<u>7,402,398</u>	<u>35,194</u>	<u>1,473,403</u>
<u>Noncurrent Liabilities:</u>				
Long-term debt:				
Loans payable, net of current portion	791,323	78,596	-	712,727
Interest payable	22,779	-	-	22,779
Total Long-Term Debt	<u>814,102</u>	<u>78,596</u>	<u>-</u>	<u>735,506</u>
Other Noncurrent Liabilities:				
Net pension liability	17,234,744	17,234,744	-	-
Compensated absences, net of current portion	1,454,375	1,454,375	-	-
Total Other Noncurrent Liabilities	<u>18,689,119</u>	<u>18,689,119</u>	<u>-</u>	<u>-</u>
Total Noncurrent Liabilities	<u>19,503,221</u>	<u>18,767,715</u>	<u>-</u>	<u>735,506</u>
Total Liabilities	<u>28,414,216</u>	<u>26,170,113</u>	<u>35,194</u>	<u>2,208,909</u>
<u>DEFERRED INFLOWS OF RESOURCES:</u>				
Deferred inflows related to pensions	1,383,002	1,383,002	-	-
Total Deferred Inflows of Resources	<u>1,383,002</u>	<u>1,383,002</u>	<u>-</u>	<u>-</u>
<u>NET POSITION:</u>				
Net investment in capital assets	79,423,330	58,863,599	7,186,993	13,372,738
Restricted for facility expansion	947,142	550,613	396,529	-
Unrestricted	3,026,744	(117,836)	1,912,120	1,232,460
Total Net Position	<u>83,397,216</u>	<u>59,296,376</u>	<u>9,495,642</u>	<u>14,605,198</u>

**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	<u>33,386,749</u>	<u>28,361,219</u>	<u>1,581,426</u>	<u>3,444,104</u>
<u>Noncurrent Assets:</u>				
Restricted Assets:				
Cash and cash equivalents	711,236	334,052	377,184	-
Investments	336,328	336,328	-	-
Total Restricted Assets	<u>1,047,564</u>	<u>670,380</u>	<u>377,184</u>	<u>-</u>
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	<u>76,227,308</u>	<u>57,264,172</u>	<u>7,474,081</u>	<u>11,489,055</u>
Total Noncurrent Assets	<u>77,274,872</u>	<u>57,934,552</u>	<u>7,851,265</u>	<u>11,489,055</u>
TOTAL ASSETS	<u>\$ 110,661,621</u>	<u>\$ 86,295,771</u>	<u>\$ 9,432,691</u>	<u>\$ 14,933,159</u>

**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>	<u>Woods Valley Ranch 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, net of current portion	1,431,107	1,431,107	-	-
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 REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2015**

	<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	\$ 42,495,149	\$ 42,495,149	\$ -	\$ -
Wastewater charges	2,090,109	-	1,551,666	538,443
Meter installation fees	233,939	233,939	-	-
Other water operating revenues	565,452	565,452	-	-
Total Operating Revenues	<u>45,384,649</u>	<u>43,294,540</u>	<u>1,551,666</u>	<u>538,443</u>
<u>Operating Expenses:</u>				
Cost of water sold	30,583,409	30,583,409	-	-
Energy and pumping costs	3,019,017	2,890,919	85,359	42,739
Water systems operations	5,047,286	5,047,286	-	-
Wastewater collection and treatment	1,104,544	-	886,928	217,616
Engineering	1,313,336	1,313,336	-	-
General and administrative	3,048,293	2,804,662	172,474	71,157
Depreciation	3,465,543	2,850,602	334,105	280,836
Total Operating Expenses	<u>47,581,428</u>	<u>45,490,214</u>	<u>1,478,866</u>	<u>612,348</u>
Operating Income (Loss)	<u>(2,196,779)</u>	<u>(2,195,674)</u>	<u>72,800</u>	<u>(73,905)</u>
<u>Nonoperating Revenues and (Expenses):</u>				
Property taxes and assessments	2,558,443	2,558,443	-	-
Investment income	157,024	118,473	14,764	23,787
Other nonoperating revenues	341,794	341,794	-	-
Interest expense	(15,030)	-	-	(15,030)
Other nonoperating expenses	(163,605)	(151,091)	(12,514)	-
Total Nonoperating Revenues and (Expenses)	<u>2,878,626</u>	<u>2,867,619</u>	<u>2,250</u>	<u>8,757</u>
Income (Loss) Before Contributions	681,847	671,945	75,050	(65,148)
Capital Contributions	<u>2,510,558</u>	<u>482,740</u>	<u>19,345</u>	<u>2,008,473</u>
Change in Net Position	3,192,405	1,154,685	94,395	1,943,325
Net Position at Beginning of Year, as Restated	<u>80,204,811</u>	<u>58,141,691</u>	<u>9,401,247</u>	<u>12,661,873</u>
NET POSITION AT END OF YEAR	<u>\$ 83,397,216</u>	<u>\$ 59,296,376</u>	<u>\$ 9,495,642</u>	<u>\$ 14,605,198</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	<u>622,128</u>	<u>622,128</u>	<u>-</u>	<u>-</u>
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	<u>3,757,012</u>	<u>3,049,994</u>	<u>326,921</u>	<u>380,097</u>
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	<u>(2,448)</u>	<u>(2,216)</u>	<u>(232)</u>	<u>-</u>
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>



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.

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Financial Trends	53
<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	55
<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	64
<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	66
<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	68
<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>2015 (1)</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Primary government					
Net investment in capital assets	\$ 79,423,330	\$ 76,462,875	\$ 76,276,487	\$ 77,829,804	\$ 81,249,809
Restricted for facility expansion	947,142	1,047,564	628,018	302,877	276,993
Unrestricted	<u>3,026,744</u>	<u>20,655,672</u>	<u>17,022,399</u>	<u>14,415,835</u>	<u>12,745,389</u>
Total primary government net position	<u>\$ 83,397,216</u>	<u>\$ 97,166,111</u>	<u>\$ 93,926,904</u>	<u>\$ 92,548,516</u>	<u>\$ 94,272,191</u>
	<u>2010</u>	<u>2009 (1)</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Primary government					
Net investment in capital assets	\$ 83,824,468	\$ 85,622,542	\$ 72,376,226	\$ 68,354,318	\$ 62,887,148
Restricted for facility expansion	268,225	503,862	652,253	1,300,411	2,363,055
Unrestricted	<u>14,300,005</u>	<u>15,843,119</u>	<u>15,976,619</u>	<u>16,617,224</u>	<u>16,292,789</u>
Total primary government net position	<u>\$ 98,392,698</u>	<u>\$101,969,523</u>	<u>\$ 89,005,098</u>	<u>\$ 86,271,953</u>	<u>\$ 81,542,992</u>

(1) As restated (See Table II, Note 4).

Source: Valley Center Municipal Water District

Net Position

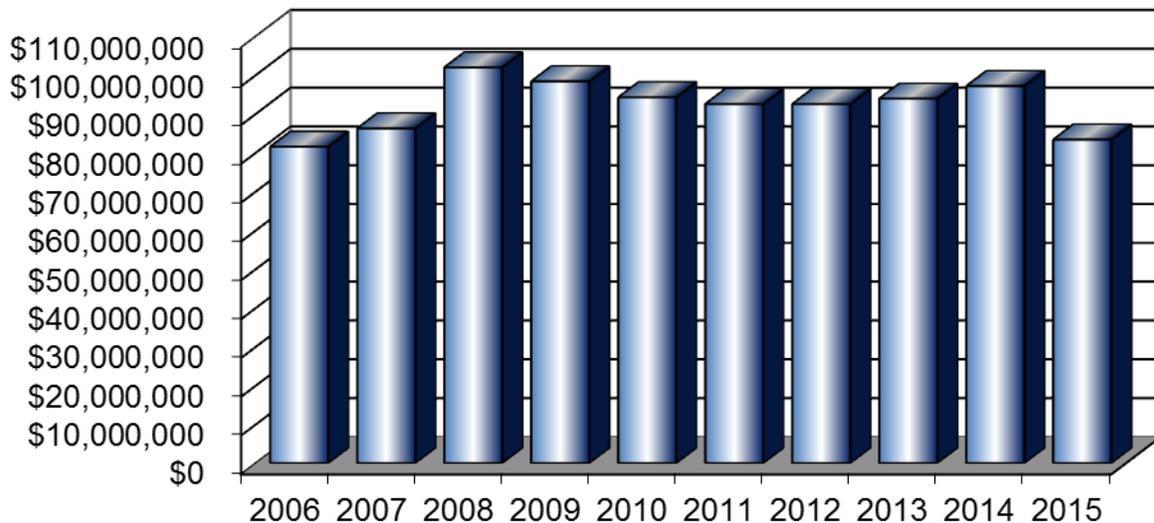


Table II
Changes in Net Position (Last Ten Fiscal Years)

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Operating Revenues:										
Water sales ⁽¹⁾	\$ 39,792,544	\$ 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
Pumping charges	2,702,605	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
Wastewater charges	2,090,109	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
Meter installation fees	233,939	139,563	101,930	88,834	57,748	87,065	155,358	128,342	210,145	474,070
Other water operating revenues	565,452	622,128	532,841	510,083	554,997	798,548	797,534	974,774	502,240	567,040
Total operating revenues	\$ 45,384,649	\$ 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
Operating Expenses:										
Cost of water sold	\$ 30,583,409	\$ 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
Energy and pumping costs	3,019,017	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
Water systems operations	5,047,286	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
Wastewater collection and treatment	1,104,544	1,086,185	1,058,507	1,019,208	907,388	841,443	866,812	748,447	784,551	641,189
Engineering	1,313,336	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
General and administrative	3,048,293	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
Depreciation	3,465,543	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
Total operating expenses	\$ 47,581,428	\$ 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
Operating (Loss)	\$ (2,196,779)	\$ (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)
Nonoperating Revenues and (Expenses):										
Property taxes and assessments	\$ 2,558,443	\$ 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
Investment income	157,024	130,887	82,496	127,900	132,978	220,489	476,566	898,899	1,003,835	564,566
Other nonoperating revenues ⁽²⁾	341,794	323,813	291,832	289,382	315,542	208,413	192,882	256,550	551,289	225,686
Interest expense	(15,030)	(7,749)	(15)	(1,709)	(3,883)	(5,929)	(9,470)	(20,289)	(28,791)	(28,564)
Other nonoperating expenses ⁽³⁾	(163,605)	(2,448)	(37,238)	(8,399)	(22,217)	(51,146)	(31,275)	(66,492)	(1,339)	(190,155)
Total Nonoperating Revenues and (Expenses)	\$ 2,878,626	\$ 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
Income (Loss) Before Contributions	\$ 681,847	\$ 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)
Capital contributions	2,510,558	1,183,194	702,111	29,610	443,481	405,183	12,296,892	1,433,726	2,185,905	1,585,632
Change in Net Assets	\$ 3,192,405	\$ 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
Net Position at Beginning 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
Restatement ⁽⁴⁾	\$(16,961,300)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,436,921	\$ -	\$ -	\$ -
Restated Net Position at Beginning of Year	\$ 80,204,811	\$ 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
NET POSITION AT END OF YEAR	\$ 83,397,216	\$ 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

(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. Restatement of \$16,961,300 in 2015 per GASB 68 for Pension Liability.

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 ⁽²⁾		Total		Average Direct Rate ⁽³⁾
	Value	Acre Feet	Value	Acre Feet	Value	Acre Feet	Value	Acre Feet	
2015	\$12,153,672	5,293.7	\$3,720,867	1,999.8	\$23,918,005	17,217.9	\$39,792,544	24,511.4	\$1,623
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

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

Source: Valley Center Municipal Water District

Water Sales in Acre Feet

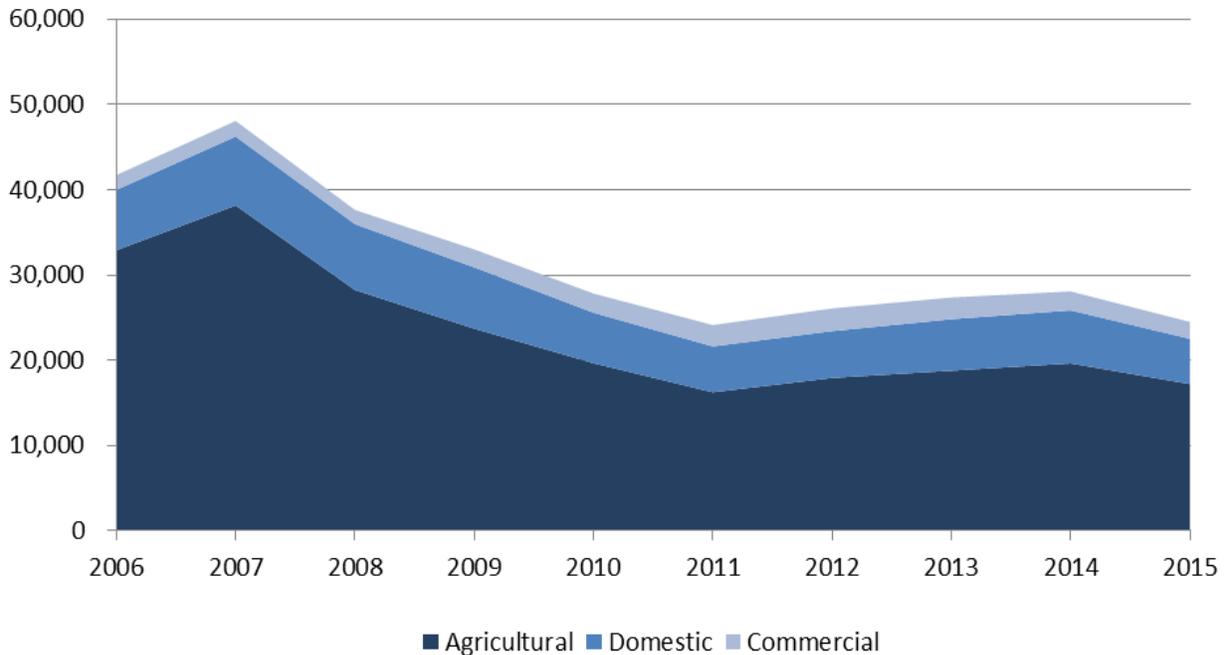


Table IV
Active Water Meters and Wastewater Services (Last Ten Fiscal Years)

Fiscal Year Ended	Domestic	Commercial	Certified Agricultural	Total Active	All Inactive Meters	Total	Wastewater EDUs
2015	8,368	405	1,096	9,869	892	10,761	2,769
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)

(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

Active Water Meters and Wastewater Service

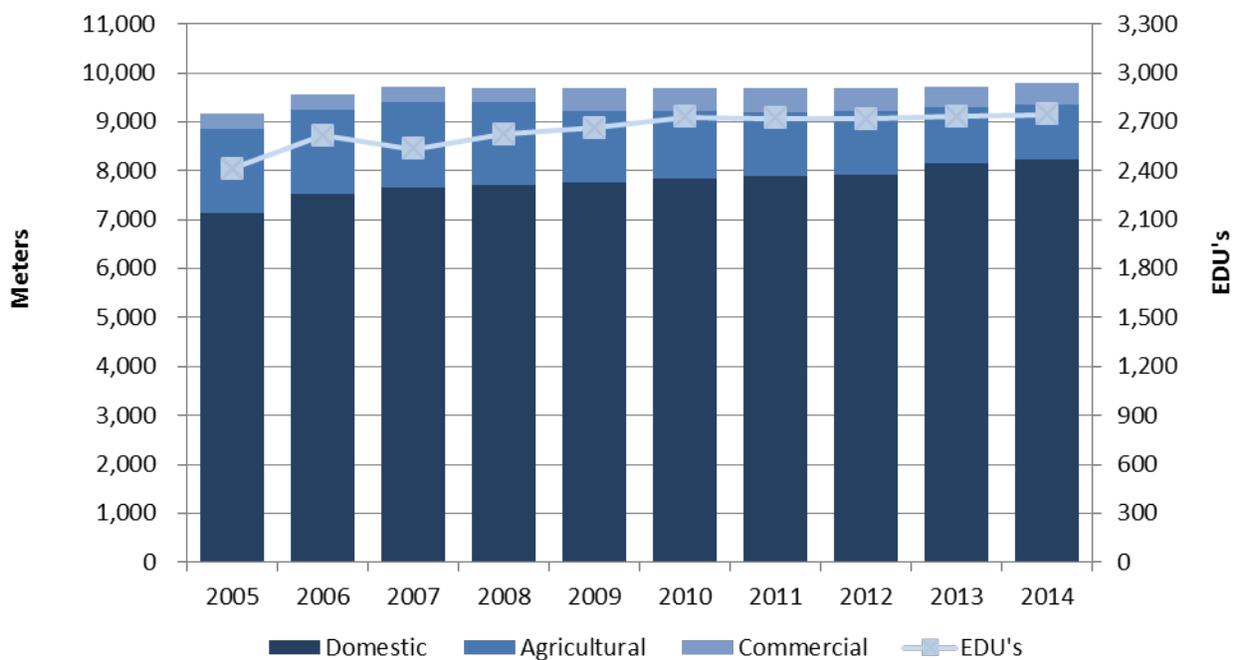


Table V
Assessed Value of Taxable Property (Last Ten Fiscal Years)

Fiscal Year Ended	Secured				Net Assessed Value	Assessed Unsecured Value	Total Assessed Value
	Real Property	Personal Property	Exemptions				
2015	\$3,852,112,900	\$1,215,597	\$29,635,128		\$3,823,693,369	\$20,367,813	\$3,844,061,182
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

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

Assessed Value of Taxable Property

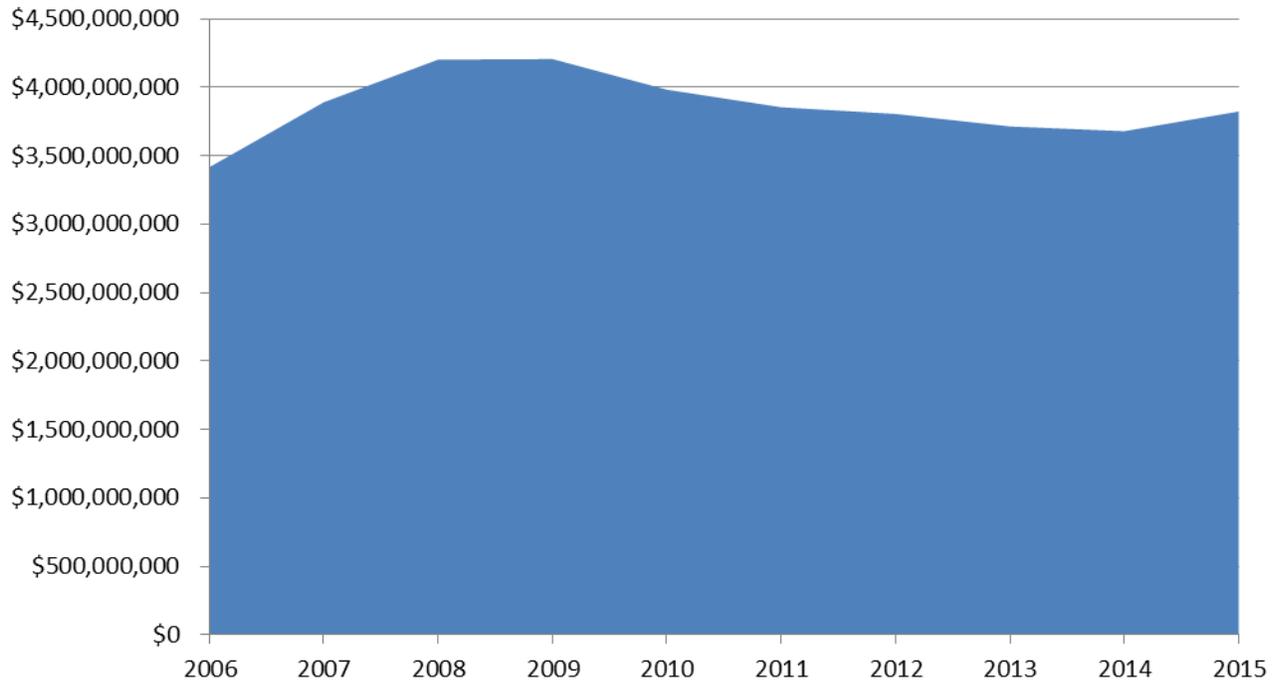


Table VI
Property Taxes and Assessment Levies and Collections (1) (Last Ten Fiscal Years)

Fiscal Year Ended	Levy			Total Collections ⁽²⁾	Net Delinquent ⁽³⁾	Percent Delinquent ⁽⁴⁾
	Property Taxes	Special Assessments ⁽⁵⁾	Total Levy			
2015	\$2,050,185	\$1,254,306	\$3,304,491	\$3,278,508	\$25,982	0%
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%

- (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

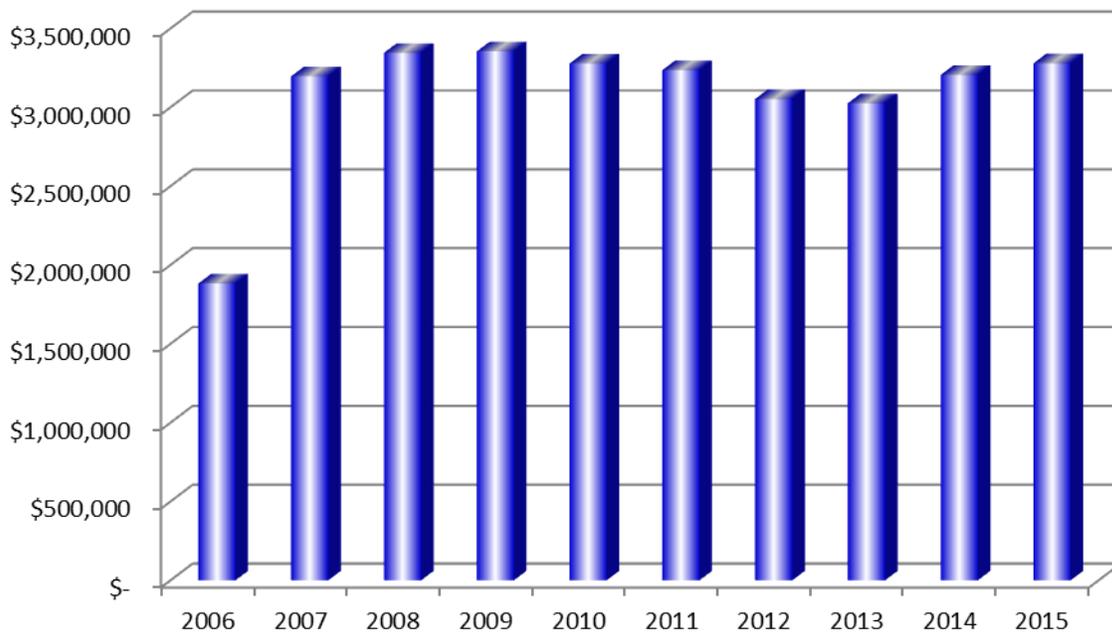


Table VII
Direct and Overlapping Bonded Debt (1) (June 30, 2015)

2014-15 Assessed Valuation: \$3,844,061,182

	Total Debt 6/30/2015	% Applicable	District's Share of Debt 6/30/15
DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:			
Metropolitan Water District	\$110,420,000	0.166	\$183,297
Palomar Pomerado Hospital District	471,441,406	5.541	26,122,568
Palomar Community College District	515,523,901	3.860	19,899,223
Escondido Union High School District	94,782,397	6.201	5,877,456
Fallbrook Union High School District	5,460,071	1.478	80,700
Bonsall Union School District	15,016,183	3.871	581,276
Escondido Union School District	100,434,622	6.421	6,448,907
Valley Center-Pauma Unified School District	899,716	96.573	868,883
Valley Center-Pauma Unified School District Community Facilities District No. 2003-1	8,590,000	100.000	8,590,000
City of Escondido	61,520,000	0.036	22,147
Valley Center Municipal Water District	0	100.000	0
Valley Center Municipal Water District Assessment District No. 96-1	395,000	100.000	395,000
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT			\$69,069,457
OVERLAPPING GENERAL FUND DEBT:			
San Diego County General Fund Obligations	\$351,670,000	0.917	\$3,224,814
San Diego County Pension Obligations	682,615,180	0.917	6,259,581
San Diego County Superintendent of Schools Certificates of Participation	14,732,500	0.917	135,097
Palomar Community College District Certificates of Participation	4,350,000	3.860	167,910
Escondido Union High School District Certificates of Participation	58,705,000	6.201	3,640,297
Bonsall Union School District Certificates of Participation	1,615,000	3.871	62,517
Escondido Union School District Certificates of Participation	28,489,125	6.421	1,829,287
City of Escondido Certificates of Participation	4,415,000	0.036	1,589
TOTAL OVERLAPPING GENERAL FUND DEBT			\$15,321,092
TOTAL DIRECT DEBT			\$0
TOTAL OVERLAPPING DEBT			\$84,390,549
COMBINED TOTAL DEBT			\$84,390,549 (2)

Ratios to Assessed Valuation:

Direct Debt	0.00%
Total Direct and Overlapping Tax and Assessment Debt	1.80%
Combined Total Debt	2.20%

2014-15 TYPICAL TOTAL TAX RATE (TRA 94-075): 1.10517

- (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.

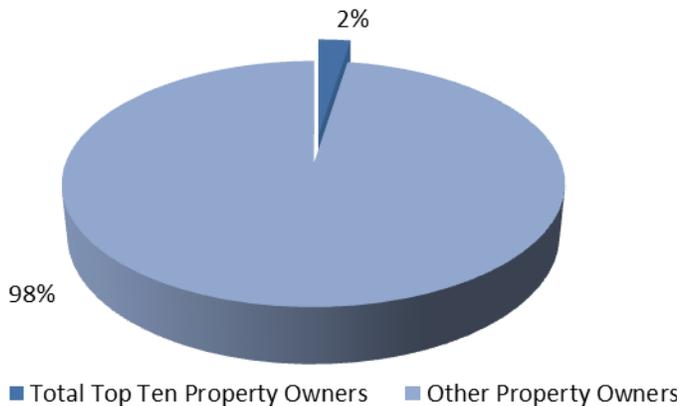
Source: California Municipal Statistics, Inc.

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

Fiscal Year Ended June 30, 2015			Fiscal Year Ended June 30, 2006		
Property Owner	Cummulative Net Assessed Value	Percent of Total Net Assessed Value	Property Owner	Cummulative Net Assessed Value	Percent of Total Net Assessed Value
Welk Resort Platinum Owners Assoc.	\$43,343,360	1.13%	Trimark Pacific-Valley Center LLC	\$24,031,108	0.63%
Bell Holdings LLC	7,920,616	0.21%	Woods Valley Development Co LLC	19,405,780	0.50%
A T C Realty Sixteen Inc.	6,866,270	0.16%	Woodside Aberdeen Inc	19,164,343	0.50%
Shirey Falls LLP	6,284,819	0.18%	Greystone Hidden Meadows LLC	18,127,750	0.47%
Perricone California Properties	6,213,205	0.16%	Rimrock 12008 LLC	16,355,000	0.43%
San Pasqual Band of Mission Indians	5,823,029	0.15%	Teleklew Productions Inc	12,660,353	0.33%
Welk Resort Group Inc.	4,997,472	0.13%	Woods Valley Ranch V.C. LP	8,587,708	0.22%
Development Solutions WV LLC	4,979,233	0.13%	NNP Woods Valley Golf LLC	8,211,178	0.21%
Welk Resort Proeprties Inc.	4,861,892	0.13%	Trimark Pacific Sherwood LLC	7,672,259	0.20%
Genus LP	4,262,497	0.11%	Josephine Development LLC	7,344,000	0.19%
Total Top Ten Property Owners	\$95,552,393	2.49%	Total Top Ten Property Owners	\$141,559,479	3.68%
Other Property Owners	\$3,748,508,789	97.51%	Other Property Owners	\$3,293,578,164	96.32%
Total Assessed Valuation	\$3,844,061,182	100.00%	Total Assessed Valuation	\$3,435,137,643	100.00%

Data Source: 2014 Master Property Records from San Diego County Used for 2014-15 Property Taxes.

Principal Property Owners
2015



Principal Property Owners
2006

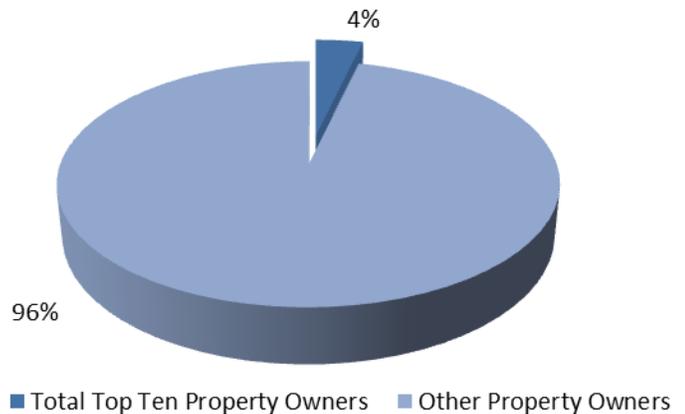


Table IX
Water Rates (Last Ten Fiscal Years)

Fiscal Year Ended ⁽¹⁾	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		
2015	\$1,558	\$183	\$1,741	-	-	-	\$1,151	\$183	\$1,334	\$33.00	\$45.08
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

- (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

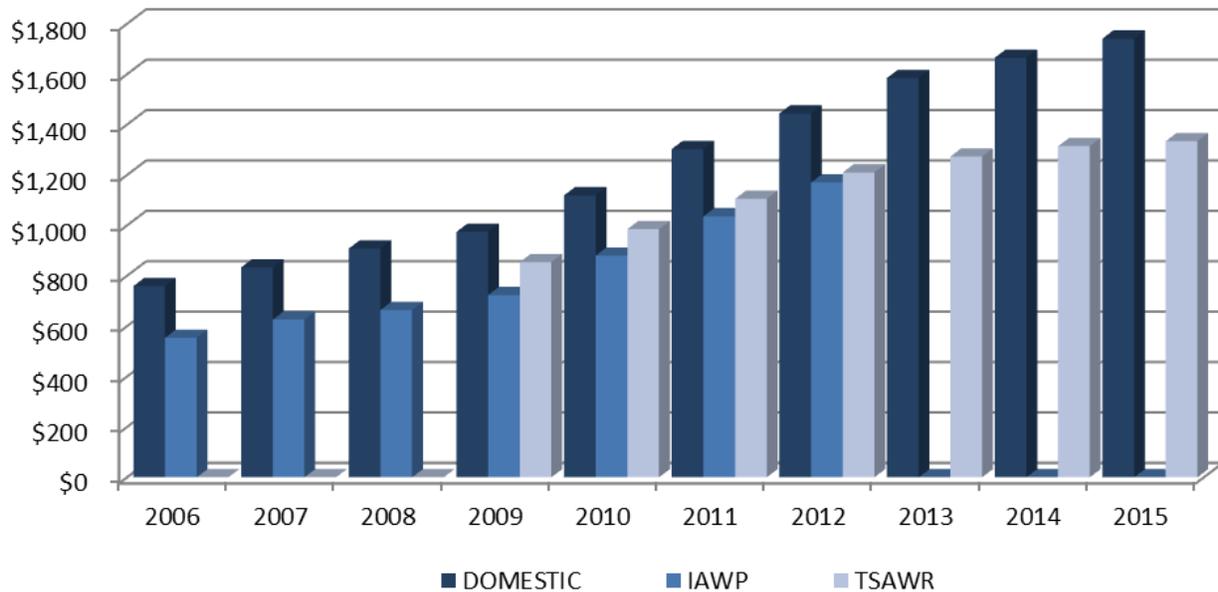


Table X
Wastewater Rates (2) (Last Ten Fiscal Years)

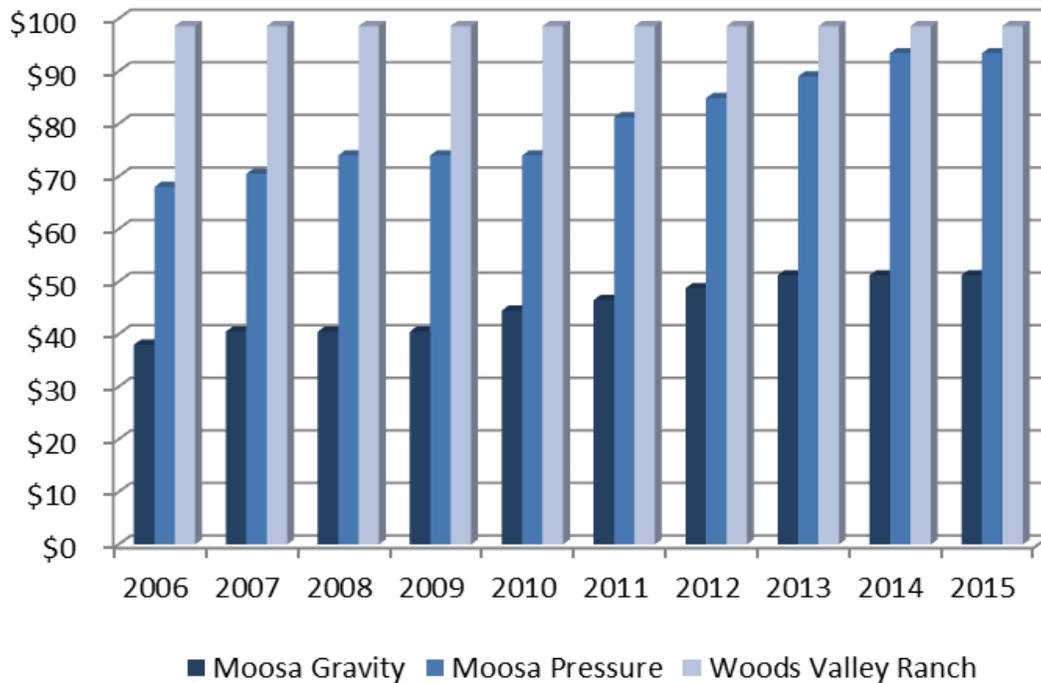
Fiscal Year Ended ⁽¹⁾	Moosa Gravity	Moosa Pressure	Woods Valley Ranch
2015	\$51.20	\$93.45	\$98.60
2014	\$51.20	\$93.45	\$98.60
2013	\$51.20	\$93.45	\$98.60
2012	\$48.75	\$89.00	\$98.60
2011	\$46.50	\$84.90	\$98.60
2010	\$44.50	\$81.25	\$98.60
2009	\$40.50	\$74.00	\$98.60
2008	\$40.50	\$74.00	\$98.60
2007	\$40.50	\$74.00	\$98.60
2006	\$38.00	\$70.50	\$98.60

(1) Rate as of January 1.

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

Source: Valley Center Municipal Water District

Wastewater Rates



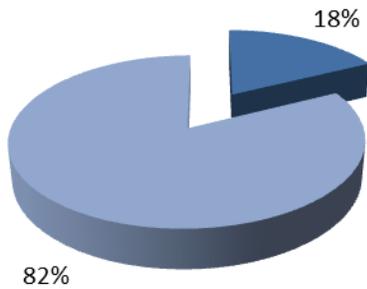
**Table XI
Principal Water Customers**

Fiscal year ended June 30, 2015		
Customer	Usage in Acre Feet	Percent of Water Sold
Coykendall, H. C. J.	680.7	2.78%
BSTCO	584.6	2.38%
Grandon Ranch Corp	575.9	2.35%
Harlan Beck & Associates	520.0	2.12%
Stehly, N. J. C.	479.6	1.96%
Rancho Erico	338.5	1.38%
Rancho Sereno	311.7	1.27%
Sundance Natural Foods	305.8	1.25%
Hamilton Ranch LLC	268.2	1.09%
Wang, Gregory	254.7	1.04%
<hr/>		
Total Top Ten Customers	4,319.8	17.62%
Other Customers	20,191.6	82.38%
<hr/>		
Total Water Sales	24,511.4	100.00%

Fiscal year ended June 30, 2006		
Customer	Usage in Acre Feet	Percent of Water Sold
Sierra Pacific Farms	1,058.1	2.54%
Stehly, N. J. C.	1,005.8	2.41%
BSTCO	978.8	2.35%
Harlan Beck & Associates	703.3	1.69%
Grandon Ranch Corp.	622.2	1.49%
DeJong, John	523.0	1.25%
Coykendall, H. C. J.	501.3	1.20%
Rancho Sereno	435.4	1.04%
Bauer Frams, LLC	372.2	0.89%
Sega, G	352.6	0.84%
<hr/>		
Total Top Ten Customers	6,552.7	15.70%
Other Customers	35,175.3	84.30%
<hr/>		
Total Water Sales	41,728.0	100.00%

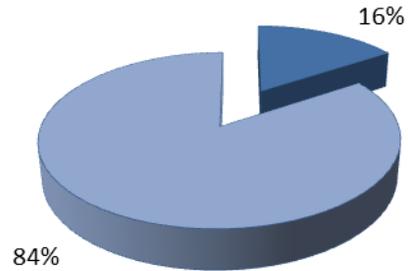
Source: Valley Center Municipal Water District

**Principal Water Customers
2015**



■ Total Top Ten Customers ■ Other Customers

**Principal Water Customers
2006**



■ Total Top Ten Customers ■ Other Customers

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

Fiscal Year Ended	General Obligation Bonds ⁽¹⁾	Revenue Bonds	Notes Payable SRF Loan ⁽³⁾	Financing Loan Agreement ⁽⁴⁾	Total	Percentage of Personal Income ⁽²⁾	Per Capita ⁽²⁾
2015	-	-	\$676,310	\$137,318	\$813,628	0.09%	32
2014	-	-	\$676,310	\$88,123	\$764,433	0.08%	30
2013	-	-	-	-	\$0	0.00%	0
2012	-	\$55,000	-	-	\$55,000	0.01%	2
2011	-	\$165,000	-	-	\$165,000	0.02%	6
2010	-	\$265,000	-	-	\$265,000	0.03%	10
2009	-	\$360,000	-	-	\$360,000	0.04%	14
2008	-	\$450,000	-	-	\$450,000	0.06%	18
2007	-	\$535,000	-	-	\$535,000	0.07%	21
2006	-	\$615,000	-	-	\$615,000	0.08%	24

(1) The District has had no General Obligation Bonded Debt since 1999.

(2) See Table XIV for personal income and population data.

(3) State Revolving Fund Loan.

(4) Unsecured and non-interest bearing loan agreement with San Diego Gas & Electric.

Source: Valley Center Municipal Water District

Outstanding Debt

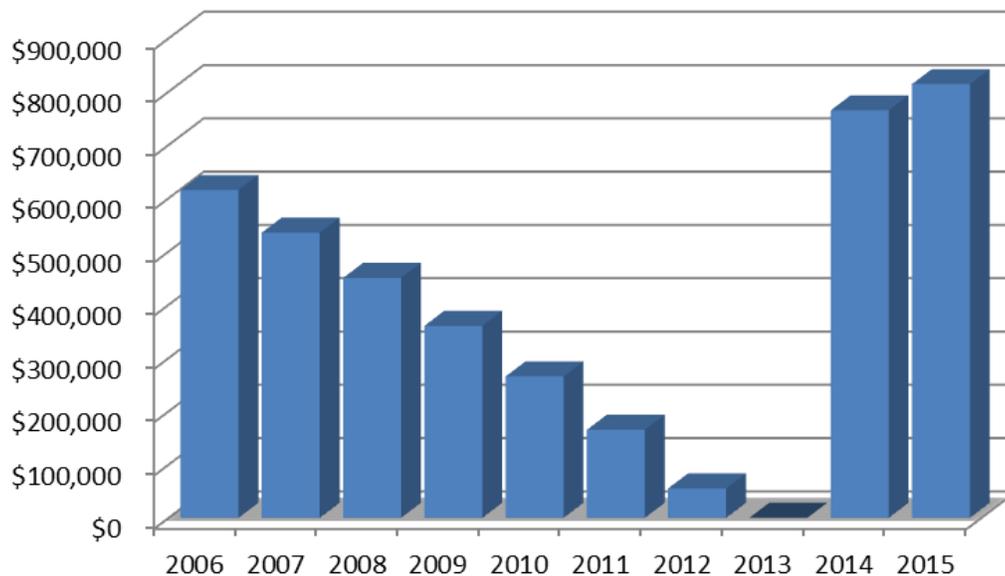


Table XIII
Pledged-Revenue Coverage (Last Ten Fiscal Years)

Fiscal Year Ended	Operating Revenues ⁽¹⁾	Nonoperating Revenues ⁽¹⁾	Gross Revenues	Less:		Net Available Revenues	Debt Service			Coverage Ratio
				Operating Expenses ⁽¹⁾⁽²⁾			Principal	Interest	Total	
2015	\$45,384,649	\$3,057,261	\$48,441,910	\$44,115,885		\$4,326,025	\$9,527	\$0	\$9,527	454.08
2014	50,089,453	2,941,677	53,031,130	47,207,908		5,823,222	6,351	0	6,351	916.90
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

(1) See Table II

(2) Operating expenses excluding depreciation.

Source: Valley Center Municipal Water District

Coverage Ratio

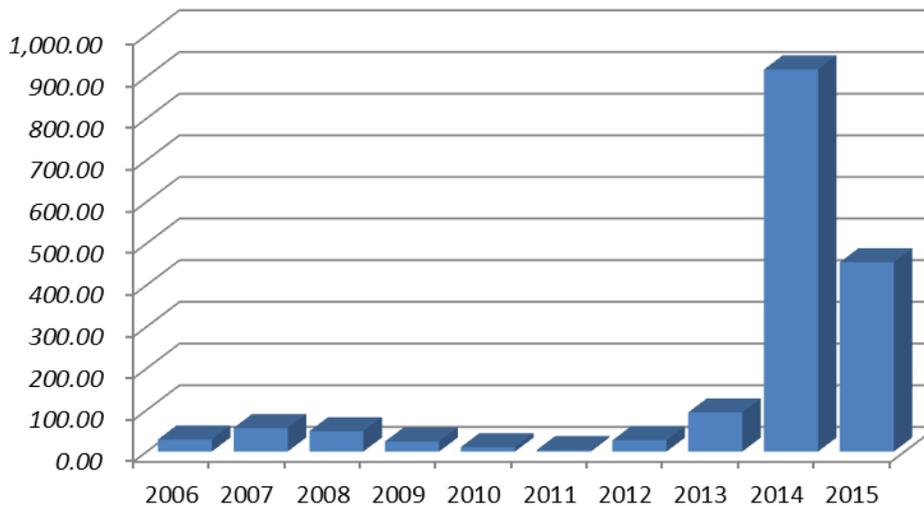


Table XIV
Demographic and Economic Statistics (Last Ten Fiscal Years)

Fiscal Year Ended	Population (1)	Total Personal Income (2)	Per Capita Personal Income (3)	Unemployment Rate (4)
2015	25,394	\$ 937,039,000	\$ 36,900	3.5%
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	747,825,000	29,500	2.7%
2007	25,337	739,840,000	29,200	2.1%
2006	25,129	726,228,000	28,900	1.9%

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.

Per Capita Personal Income and Population

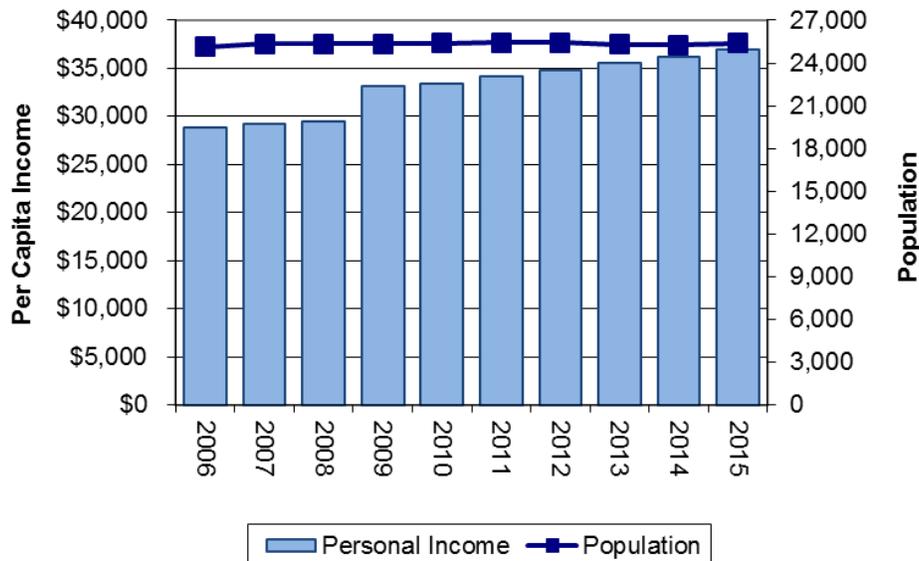


Table XV
Principal Employers – County of San Diego (Current Fiscal Year and Nine Years Prior)

Fiscal year ended June 30, 2015			Fiscal year ended June 30, 2006		
Employer	# Employees	% of Total Employment	Employer	# Employees	% of Total Employment
State of California	40,100	2.57%	United States Navy	42,000	2.81%
University of California at San Diego	29,287	1.88%	Federal Government	38,700	2.59%
Federal Government	24,200	1.55%	State of California	37,100	2.48%
U.S. Department of Defense	21,500	1.38%	University of California, San Diego	24,790	1.66%
County of San Diego	20,100	1.29%	San Diego Unified School District	21,073	1.41%
Sharp Healthcare	16,846	1.08%	City of San Diego	20,700	1.38%
Scripps Healthcare	14,644	0.94%	County of San Diego	18,900	1.26%
Qualcomm	13,500	0.87%	Sharp Healthcare	13,269	0.89%
City of San Diego	10,584	0.68%	United States Postal Service	11,611	0.78%
Kaiser San Diego Medical Center	7,535	0.48%	Scripps Health	10,313	0.69%
Total Top Ten	<u>198,296</u>	12.71%	Total Top Ten	<u>238,456</u>	15.94%
2015 Total Number employed in San Diego County	<u>1,559,629</u>		2006 Total Number employed in San Diego County	<u>1,496,100</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,									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Pumping	3.58	3.16	3.42	4.21	4.55	5.44	5.24	5.54	5.59	5.21
Water Systems Operations	28.69	31.40	31.89	32.42	34.04	33.80	36.14	39.14	39.34	37.14
Wastewater Collection and Treatment	5.57	5.75	5.66	5.44	5.45	5.64	6.11	5.91	4.90	5.07
Engineering	8.80	9.40	9.60	10.82	12.46	13.46	11.27	13.52	12.90	9.96
General and Administrative	11.00	10.00	12.00	12.25	12.50	13.00	13.00	15.00	14.00	13.00
Capital Outlay ⁽¹⁾	3.71	3.46	3.60	3.06	4.36	2.50	3.31	6.21	5.42	5.90
Developer Projects ⁽²⁾	0.65	0.83	0.83	1.05	1.14	1.16	4.93	4.68	3.85	3.72
Total Employees ⁽³⁾	62.00	64.00	67.00	69.25	74.50	75.00	80.00	90.00	86.00	80.00
Average Years of Service	14.10	14.18	13.20	12.46	11.37	10.37	10.24	9.07	9.37	10.91

- (1) Capitalized into construction in progress.
- (2) Charged to work in progress for others.
- (3) Authorized number of budgeted employees by year. For Fiscal Year 2008 and 2009, actual number of employees was 78.

Source: Valley Center Municipal Water District

Employees

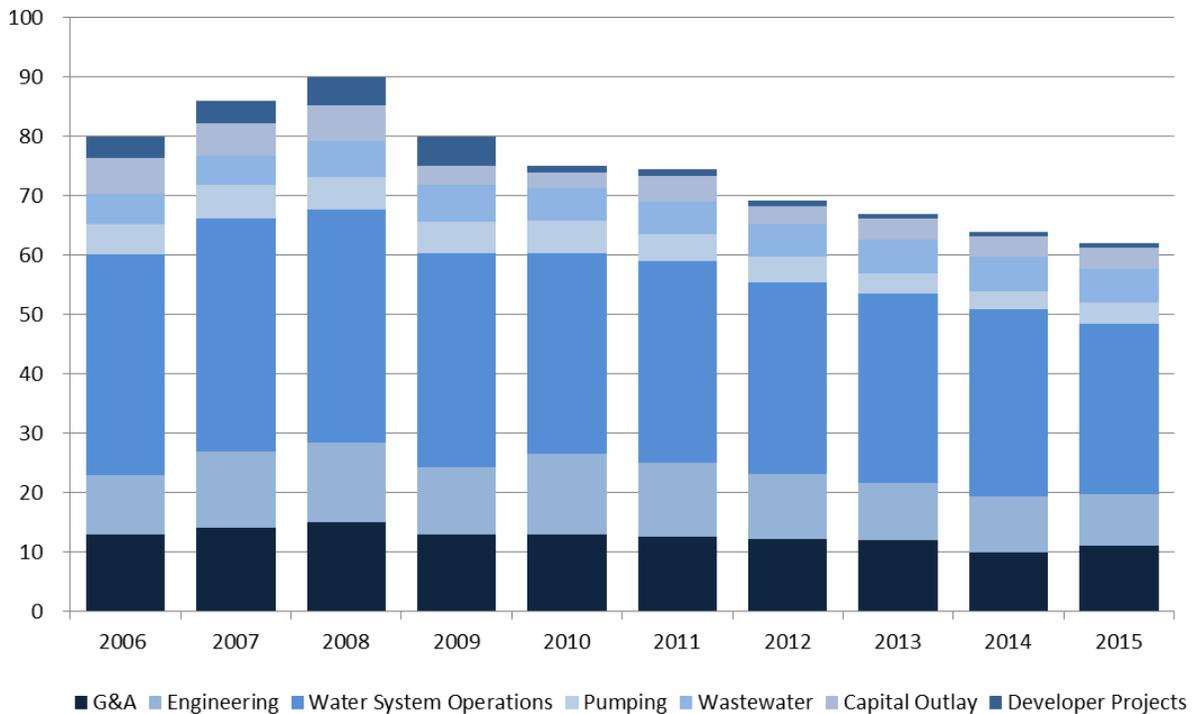


Table XVII
Operating and Capital Indicators (Last Ten Fiscal Years)

	<u>2015</u>	<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>
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	298	297	297	297	297	297	295	294	291
Number of enclosed reservoirs	43	42	42	42	42	42	42	42	42	42
Capacity of enclosed reservoirs (AF)	421	421	421	421	421	421	421	421	421	421
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	29	27	26	26	26	26	26	26	26	26
Number of pumps	106	110	106	100	100	100	96	96	96	96
Total pump capacity (horsepower)	20,160	20,185	20,185	20,050	19,785	19,785	19,785	19,940	19,940	19,940
Number of service connections	10,761	10,675	10,616	10,597	10,576	10,556	10,493	10,408	10,392	10,251
Number of meters in service	9,869	9,785	9,715	9,694	9,692	9,688	9,690	9,696	9,745	9,621
Production peak (m.g.d.)	50.00	55.84	55.45	49.87	55.30	65.27	53.96	78.90	84.98	81.70
Average production (m.g.d.)	22.83	26.43	26.13	24.77	22.80	26.35	30.33	35.12	45.04	40.26
Total rainfall (inches)	10.10	7.29	8.51	12.21	23.94	19.01	14.10	19.33	7.56	13.47
Average daily temperature (F.)	63.8	63.5	62.3	61.3	61.1	61.6	62.7	63.3	63.1	63.8
Electricity purchased (1,000 kWh)	15,582	15,581	16,276	15,595	16,984	18,480	25,362	29,839	36,000	31,828
Natural gas purchased (1,000 therms)	234	365	407	163	99	390	190	209	362	347
Mainline repairs	11	15	18	18	16	11	31	39	37	21
Wastewater:										
Miles of sewer lines	57	57	57	57	57	56	56	56	55	54
Number of treatment plants	2	2	2	2	2	2	2	2	2	2
Maximum capacity of treatment plants (m.g.d.)	0.57	0.57	0.57	0.57	0.57	0.57	0.57	0.55	0.55	0.55
Average dry weather flow (m.g.d.)	0.36	0.37	0.37	0.37	0.39	0.37	0.35	0.37	0.34	0.34
Number of sewer connections	2,769	2,746	2,745	2,731	2,717	2,722	2,729	2,663	2,689	2,600 (1)

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
2014-15

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

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