VISTA IRRIGATION DISTRICT

2017

ANNUAL REPORT

Cover photos
Clockwise from top: District crews replacing a water main; HP Reservoir; Vista Flume Relocation Project; Pechstein Reservoir; faucet and water glass; Colorado River
Center photo: Drinking tap water

2017 Annual Report

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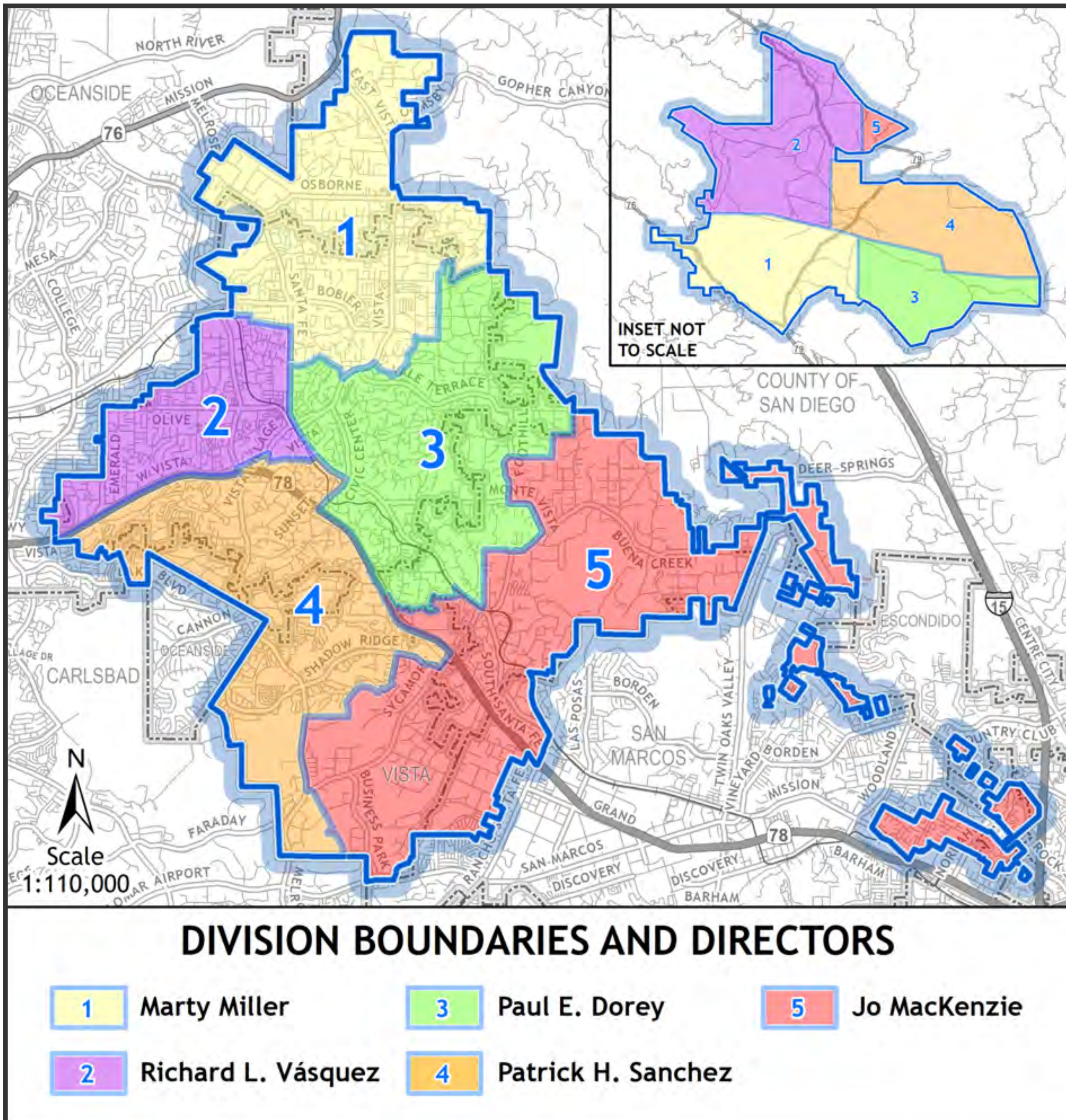
Division Boundary Map



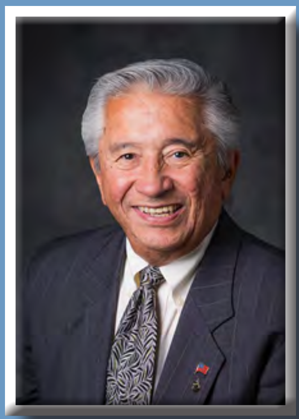
Vista Irrigation District serves more than 133,000 people through approximately 28,600 residential and business connections in Vista and portions of Escondido, Oceanside, San Marcos and unincorporated areas of San Diego County.

Vista Irrigation District

Board of Directors

Marty Miller
Division 1

Richard L. Vásquez
Division 2



Paul E. Dorey
Division 3

Patrick H. Sanchez
Division 4

Jo MacKenzie
Division 5

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

Marty Miller, 2017 Board President
Director, Division 1

A Message from the Board President

Vista Irrigation District experienced many noteworthy achievements in 2017, particularly the finalization of a settlement agreement resolving a decades-long dispute over rights to the waters of the San Luis Rey River. Major capital improvement projects, such as rehabilitating HP Reservoir and relocating a portion of the Vista Flume were also completed, enhancing the District's service reliability. The District also worked proactively with local school districts to complete lead testing at schools located within its service area.

"The District strives to minimize service disruptions to its customers, and District staff is committed to providing safe, reliable and economical water..."

~ M. Miller

On May 17, 2017, a historic settlement agreement ended a decades-old water rights dispute between the federal government, five Indian Bands, City of Escondido and Vista Irrigation District. The settlement agreement preserves and protects the District's local water rights by maintaining the integrity of the local water system, including Lake Henshaw, and ensuring that the District continues to receive local water. The District is gratified to know that it has secured a local water source for generations of customers to come.

Water service reliability was improved thanks to the rehabilitation of the HP Reservoir and the replacement of aging pipelines. HP Reservoir, which is instrumental in providing operational, emergency and fire flow storage as well as pressure regulation in the District's water system, underwent repairs to improve its structural integrity. Additionally, a 4,000 foot section of the nearly 100 year old above-ground, concrete Vista Flume was relocated and upgraded to a new underground pipeline. District crews also replaced over 11,200 feet of older pipeline in the District's water distribution system.

The District strives to contain its costs through prudent financial planning and to minimize service disruptions to its customers by maintaining and replacing critical infrastructure. Additionally, District staff is committed to providing safe, reliable and economical water, just as the District has done for the better part of a century. We are always looking for ways to improve our service so we encourage you to contact the District with ideas and recommendations as to how we can better serve you. And, as always, the District thanks its customers for taking the time to send feedback as well as kudos for a job well done.

Eldon Boone
General Manager

A Message from the General Manager

Vista Irrigation District has continuously provided water service to its customers since 1923. We are proud of our long history and our achievements. As we look into the future, we realize that we need to build on those successes and continue to strive to provide excellent service to our customers.

Providing an adequate, reliable, high quality and affordable water supply can be a challenge; three years of drought conditions, coupled with restrictions in water supply deliveries from northern California due to environmental concerns, have tested our ability to manage our water supply portfolio. Prudent and innovative planning, along with a financial master plan that has continued to fund capital improvements projects, have positioned Vista Irrigation District as a leader in water resource management in the region. The governing Board of Directors and our team of qualified staff work diligently to control costs and have the foresight and understanding to make the necessary investments today to ensure a safe and reliable water supply tomorrow.

"Our highest priority is our commitment to our customers. Our loyal and dedicated employees provide excellent service each and every day."

~ Eldon Boone

Our highest priority is our commitment to our customers. Our loyal and dedicated employees provide excellent service each and every day. When you turn on the tap, the water is there, yet it can easily be taken for granted. Unknown to many is the process for obtaining the water supply, ensuring the water reaching your tap meets or exceeds the numerous water quality standards and moving it through a complex pipeline system to thousands of homes and businesses. It is a duty that we take very seriously.

Ultimately, it is your support that determines our success, because without it we could not do what is necessary for the future. We look forward to working with our customers to continue to improve the vital services that we provide each and every day.

San Diego County Water Authority Report

Emergency and Carryover Storage Project Wins Prestigious Award

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

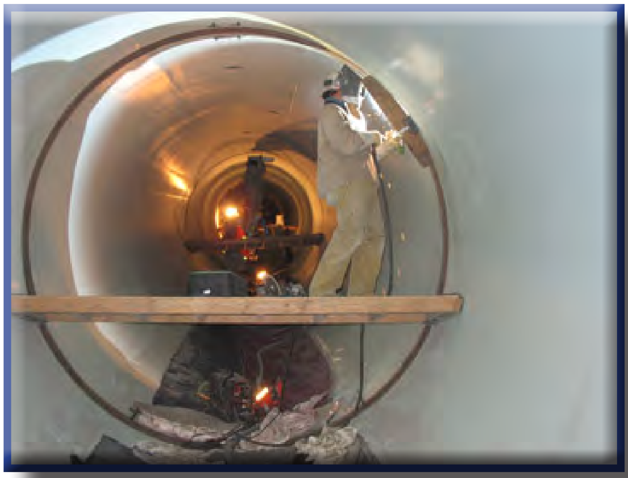
One of the most important components to the Water Authority's water supply strategy is the Emergency and Carryover Storage Project (ESP), a $1.5 billion system of dams, reservoirs, pump stations, pipelines and tunnels, to help protect the region from extended dry periods or emergencies that could disrupt imported water deliveries. The Water Authority started work on the various projects that make up the ESP in 1992 and completed the last project in 2014. The Water Authority reports the ESP ensures up to six months of water supplies are available for regional distribution after an emergency, such as an earthquake damaging the large-scale pipelines delivering imported water into the region.

The ESP earned the Water Authority the prestigious 2017 Outstanding Civil Engineering Achievement Award from the American Society of Civil Engineers, which annually recognizes exemplary civil engineering projects that best represent significant contributions to progress and society. The major components of the ESP are:

- The Olivenhain Dam and Reservoir, Pipeline and Pump Station were the first ESP components to be completed and added 24,000 acre-feet of emergency water storage. (An acre-foot is approximately 325,900 gallons, enough to supply two single-family households of four for a year.) The 318-foot-tall Olivenhain Dam, completed in 2003, was the first roller compacted concrete dam built in California and is designed to withstand a 7.25 earthquake.

Pictured: Olivenhain Dam and Reservoir
Photo credit: San Diego County Water Authority

- Between 2007 and 2012, the Lake Hodges Pipeline and Pump Station were completed and now provide regional access to 20,000 acre-feet of emergency water in Lake Hodges. The pipeline connected Olivenhain Reservoir to Lake Hodges and the pump station can generate up to 40 megawatts of energy on demand, helping to manage temporary peak electrical demands or unplanned outages. The facilities also create revenue and help offset operating costs.



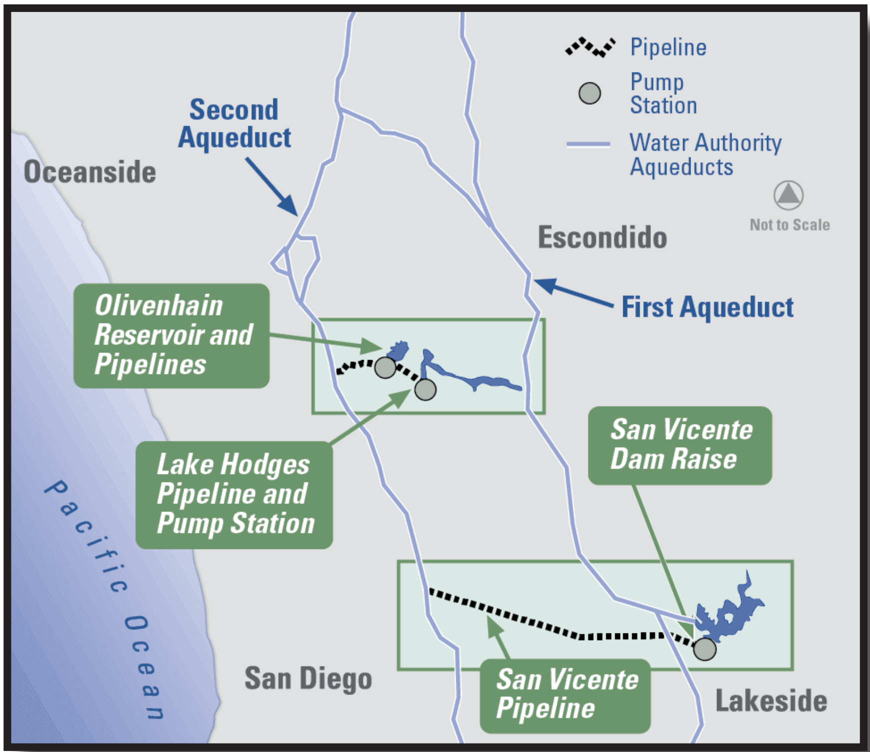
Pictured: Work being performed on the Lake Hodges Pipeline
Photo credit: San Diego County Water Authority

- The San Vicente Pump Station and Pipeline were completed in 2010 and 2011, respectively. The 11-mile, 12-foot-diameter tunnel and 8.5-foot-diameter pipeline coupled with the pump station allows water to be moved between the San Vicente Reservoir and the Water Authority's Second Aqueduct. These facilities improve the Water Authority's ability to move large quantities of water into storage in San Vicente Reservoir during periods when water is abundant.

- San Vicente Dam Raise, completed in 2014, was the tallest dam raise (117 feet) in the nation and created the greatest single increase of water storage capacity in San Diego history. The total storage capacity of the reservoir went from 90,000 acre-feet to 157,000 acre-feet, a nearly seventy-five percent (75%) increase.

Pictured: San Vicente Dam and Reservoir
Photo credit: San Diego County Water Authority

The ESP created over 200,000 acre feet of additional emergency water storage at the Olivenhain, San Vicente, and Hodges reservoirs. Pipelines connect these reservoirs to the Water Authority's regional distribution system, so water can continue to flow throughout the region, even if imported water supplies are disrupted.



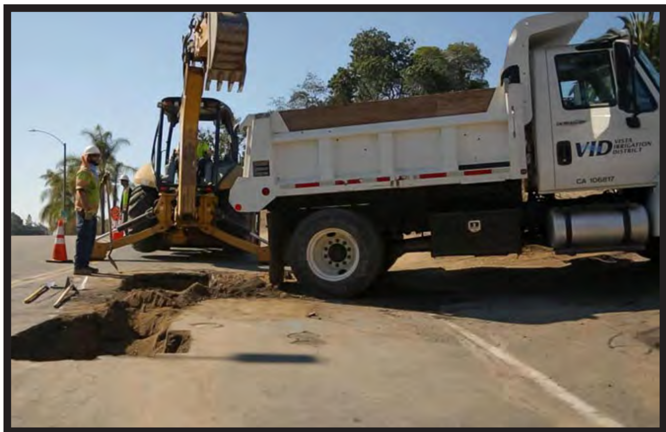
Pictured: A map of the pipelines, pump stations and reservoirs that make up the Emergency & Carryover Storage Project in San Diego county.

Map courtesy of San Diego County Water Authority

According to the Water Authority, the development of alternative water supplies, like desalinated seawater, and major infrastructure investments, such as the ESP, over the last three decades is part of the overall long-term, regional strategy to withstand droughts or other water supply challenges caused by natural disasters and/or other emergencies. These developments have greatly improved the region's water supply reliability; however, the need to continue using our water resources efficiently at all times remains an important tool to ensuring San Diego County has sufficient water supply for current and future generations.

Pipeline Replacements and Upgrades Ensure Reliable Service

The mission of Vista Irrigation District is to responsibly manage resources to meet the present and future water needs of the District's service area by providing a reliable supply of high quality water. For over ninety years, the District has accomplished this goal by maximizing the life of District infrastructure and implementing programs aimed at preventing main breaks, and more importantly, service outages. The District's Main Replacement Program is one such program.

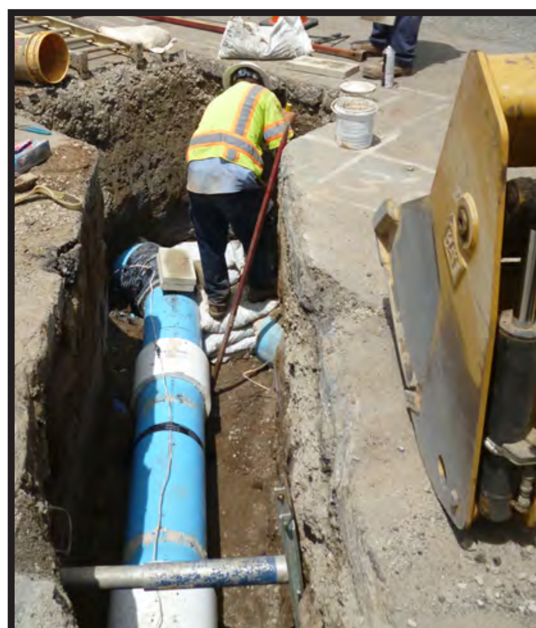


The District's Main Replacement Program was initiated by the Board of Directors in 1995 with the aim of replacing aging pipelines before they reach the end of their useful life and become a maintenance liability. Replacement of aging infrastructure has always been a high priority for the District and formalizing the Mainline Replacement Program has allowed pipe replacements to be prioritized based on a variety of factors, including age of line, pipe material, leak history, and input from District crews who are continually evaluating every line's condition.

Pictured Left: District crews installing new pipeline at Mar Vista Drive and Thibido Road as part of the Mainline Replacement Program.

Since its inception, the Board has allocated $24.2 million to this program which has allowed the replacement of 30 miles of older pipe ranging in size from 4 to 20 inches. This year over 11,200 feet of pipeline was installed or replaced (that's over 2 miles) throughout our service area, including the replacement of 4,200 feet of 6" steel water main at Lobelia Drive and Primrose Avenue. The Board approved another $4.5 million for this program as part of the budget for fiscal year 2018.

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



Pictured Left & Above: District crews installing new pipeline at Lobelia Drive and Primrose Avenue as part of the Mainline Replacement Program.

District Receives National and Statewide Awards For Good Governance, Transparency and Financial Reporting

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

Districts of Distinction Award and Transparency Certificate of Excellence

Vista Irrigation District received two statewide honors in 2017. The District of Distinction recognition is awarded by the Special District Leadership Foundation to special districts that show their commitment to good governance, transparency, prudent fiscal policies and sound operating practices. Vista Irrigation District originally obtained its accreditation in 2009 and received its most recent reaccreditation in September 2017. Statewide, Vista Irrigation District is one of only 33 Districts of Distinction and one of only five special districts to receive Gold Recognition in Special District Governance, which requires all directors to complete the Special District Leadership Academy and 10 hours of continuing education.

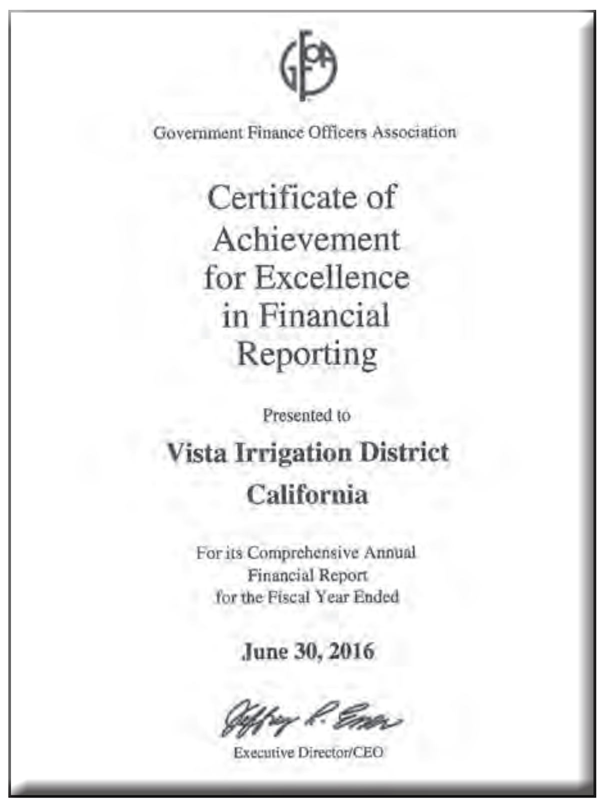
The Special District Leadership Foundation also presented Vista Irrigation District the Transparency Certificate of Excellence in recognition of its efforts to promote transparency in operations and governance to the public. There are 115 special districts in the state that have received this certificate.

Both the District of Distinction and Transparency Certificate of Excellence awards require the District to meet numerous criteria, including training elected officials and staff, adopting financial policies, properly conducting and communicating open and public meetings, performing outreach efforts to constituents, and meeting 19 different website requirements.

Vista Irrigation District has been and will continue to be committed to practicing good governance, transparency and sound financial management on behalf of its customers and is proud to be recognized on national and statewide levels for its achievements.

Certificate of Achievement for Excellence in Financial Reporting

Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Vista Irrigation District for its comprehensive annual financial report (CAFR) for the tenth consecutive year. The Certificate of Achievement is the highest form of recognition in the area of governmental accounting and financial reporting, and its attainment represents a significant accomplishment by a government agency and its management team. This certificate is the only national award for public sector financial reporting and demonstrates Vista Irrigation District's commitment to excellence in financial reporting and transparency.


Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Vista Irrigation District
California

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

June 30, 2016

Executive Director/CEO

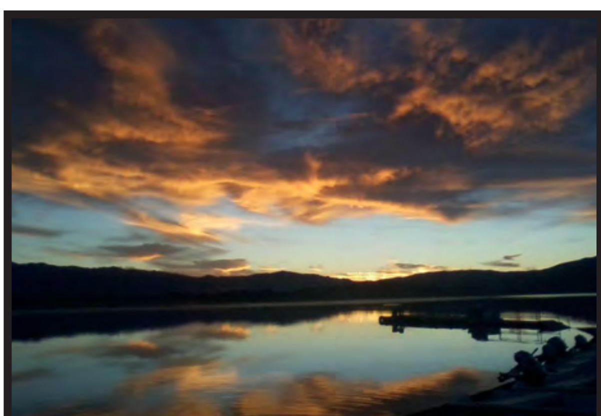
WATER SUPPLY FACTS

WATER SOURCES

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

Imported Water Source: Colorado River
Photo credit: The American Surveyor

Typically, 30 percent of the District's water has come from Lake Henshaw and 70 percent has come from purchased water sources, including the Colorado River, desalinated sea water and the Sacramento River/San Joaquin River Delta in Northern California. In fiscal year 2017, just five percent of the District's water came from Lake Henshaw. A lack of surface water run-off into Lake Henshaw in spring 2016 coupled with the Vista Flume, the channel used to deliver water from Lake Henshaw to the District's distribution system, being offline for necessary repairs and upgrades for a portion of 2017 caused the District to rely more on purchased water than typical.



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

WATER QUALITY

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

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

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

VISTA IRRIGATION DISTRICT

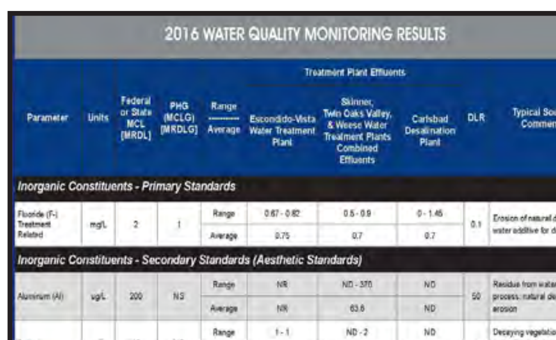
2017 CONSUMER CONFIDENCE REPORT

VID tests the drinking water quality for many constituents as required by State and Federal regulations. This report shows the results of our monitoring for the period of January 1, 2016 through December 31, 2016.

LAST YEAR, YOUR WATER MET ALL FEDERAL AND STATE SAFE DRINKING WATER STANDARDS

WHAT'S THIS REPORT ABOUT?

WHERE DOES MY WATER COME FROM?



2016 WATER QUALITY MONITORING RESULTS

Parameter	Units	Federal or State MCL [MRDL]	PHG (MCLG) [MRDLG]	Range / Average	Treatment Plant Effluents: Escondido-Vista Water Treatment Plant	Skinner, Twin Oaks Valley, & Weese Water Treatment Plants Combined Effluents	Carlsbad Desalination Plant	DLR	Typical Sou… Comment…
Inorganic Constituents - Primary Standards									
Fluoride (F-) Treatment Related	mg/L	2	1	Range	0.67 - 0.82	0.5 - 0.9	0 - 1.46	0.1	Erosion of natural de… water additive for de…
				Average	0.75	0.7	0.7		
Inorganic Constituents - Secondary Standards (Aesthetic Standards)									
Aluminum (Al)	ug/L	200	NS	Range	NR	ND - 370	ND	50	Residue from water… process; natural dep… erosion
				Average	NR	63.6	ND		
Color	units	15	NS	Range	1 - 1	ND - 2	ND	-	Decaying vegetation… naturally occurring o…

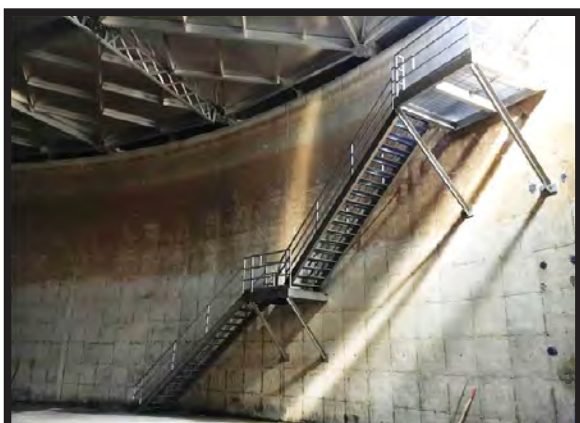
Excerpts from the 2017 Consumer Confidence Report (CCR). The 2018 CCR will be available July 1, 2018.

WATER SUPPLY FACTS

WATER INFRASTRUCTURE

In fiscal year 2017, HP Reservoir, a five million gallon (MG), pre-stressed concrete tank located in the eastern part of the District's water system, underwent repairs and necessary upgrades to meet current structural and seismic codes. Rehabilitation efforts included new pre-stressing wires, seismic cabling, exterior shotcrete, a new aluminum roof, influent and effluent piping and staircase. Changes made to the overflow piping also increased the reservoir's storage capacity by 225,000 gallons. The HP reservoir is instrumental in providing operational, emergency and fire flow storage as well as pressure regulation in Vista Irrigation District's water system.

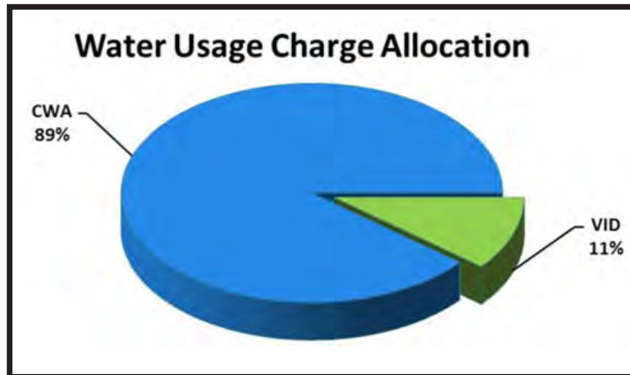
Pictured HP Reservoir Rehabilitation Project
Top: New Roof Installation; Bottom: New Interior Staircase



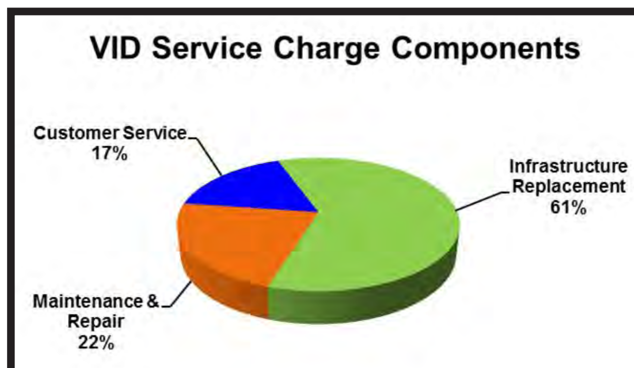
The District also completed the Vista Flume Relocation Project in 2017. A 4,000 foot above-ground, concrete section of the nearly 100 year old Vista Flume was upgraded to a new underground, joint-less pipe. Relocating the Vista Flume was a tremendous upgrade for the District. Additionally, over two miles of pipeline was installed or replaced through the District's Mainline Replacement Program in fiscal year 2017.

WATER RATES AND CHARGES

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



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



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

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

Service Awards

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

30 Years

Kurt Casto

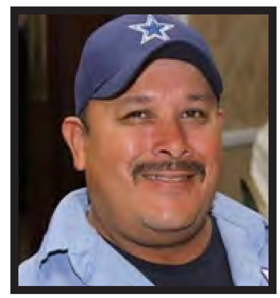
25 Years

Donald Gordon

Jose Ramirez

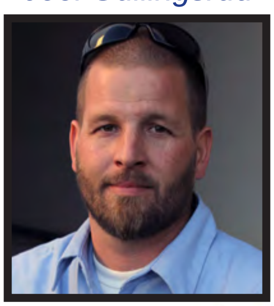
20 Years

Rick Reyna



10 Years

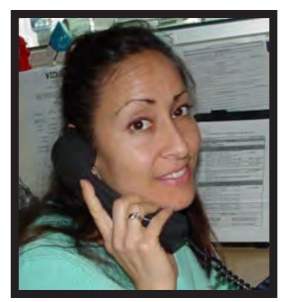
Joel Gullingsrud



Judy Miller

Sherry Thorpe

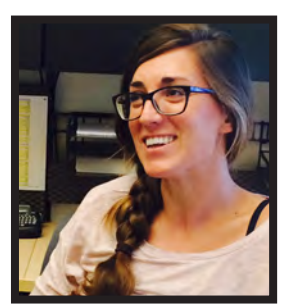
Allie Valladares



5 Years

Steve Wuerth

Jessica Sherwood



District Demographics

Distribution System

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

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

Water Transmission Facilities

Escondido Canal and Intake	Carrying Capacity: 70 CFS	VID rights = 2/3rds
Vista Main Canal (Flume)	Carrying Capacity: 44 CFS	Twelve miles of conduit from the Escondido-Vista Water Treatment Plant to Pechstein Reservoir

Water Meters

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

Residential (Single and Multi-Family)	24,209
Commercial/Industrial	1,582
Irrigation	928
Agricultural	572
Fire Service (Fire Sprinklers)	1,240
Governmental	91
Total	**28,622**

VID Pipelines

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

8" to 36" Concrete Gravity	8 miles
4" to 12" AC	262 miles
14" to 36" AC	17 miles
4" to 12" PVC	87 miles
14" to 18" PVC	2 miles
4" to 12" Steel	66 miles
14" to 42" Steel	26 miles
All other materials larger than 4"	5 miles
Total	**473 miles**

Water Equivalents

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

Performance of Distribution Systems

(Fiscal Year 2016–2017)

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

	Acre Feet	
	Water In	Water Out
Received at Intake of Main Conduit (Henshaw Water)	858	
Received from San Diego Aqueduct (Purchased)	16,332	
Metered to VID users		15,496
Losses		1,694
Total	**17,190**	**17,190**

Lake Henshaw Performance

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

	Acre Feet
Total Storage July 1, 2016	4,402
Less Release	(4,807)
Less Evaporation	(5,347)
Less Spill	0
Plus Pumped Water	3,993
Plus Runoff*	13,362
Total Storage July 1, 2017	**11,603**

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

Lake Henshaw Properties

Warner Ranch:
43,402 acres (68 square miles)

Groundwater Development:
16 active production wells and 91,000 feet of conduit

Semi-Hydraulic Earth Fill Dam:
Height 110 feet, Length 1,950 feet

Reservoir (Lake Henshaw):
51,774 acre feet capacity;
2,219 acres in area, 203 square mile watershed

Ownership of Lake Henshaw Waters

The San Luis Rey Indian Water Rights Settlement Agreement and other related agreements became effective May 17, 2017. These agreements terminated all other historical agreements relating to the waters of the San Luis Rey River, Lake Henshaw and the Warner Wellfield among the Settlement Parties (Vista Irrigation District, City of Escondido and the Indian Bands). Beginning on June 1, 2017 the terms of the settlement agreement took effect and the figures shown in the table below for July 1, 2017 reflect the new contractual arrangements between the Settlement Parties.

Information gathered from Ownership Analysis Report.

	Acre Feet	
	July 1, 2016	July 1, 2017
Rincon Indians	6	1,206
Escondido Replacement	0	N/A
Vista Replacement	0	N/A
Escondido Pumped	0	N/A
Escondido Contract	593	N/A
Vista Contract	3,888	N/A
Vista Pumped	0	N/A
Unallocated Henshaw Surplus	(85)	10,397
Total	**4,402**	**11,603**

Lake Henshaw Releases

(Fiscal Year 2016-2017)

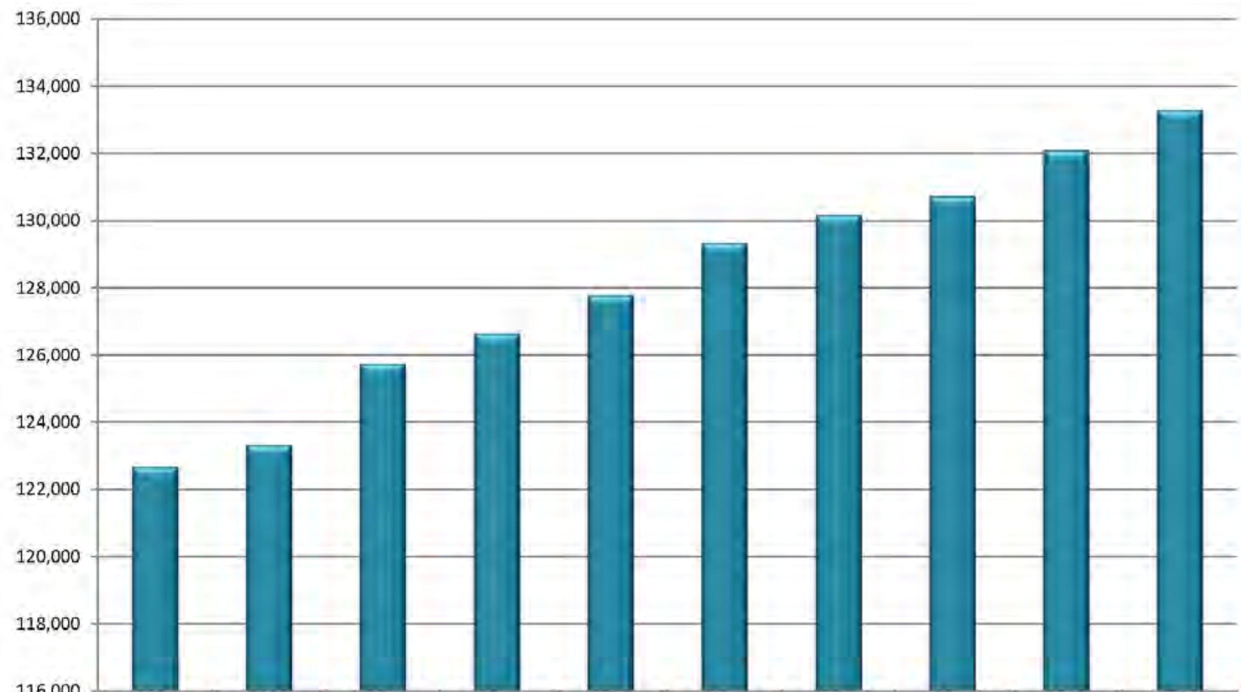
This table accounts for the fate of water released from the lake in terms of contract deliveries and losses. The contracts with the Rincon Band of Mission Indians and the City of Escondido (formerly the Escondido Mutual Water Company), who had senior water rights on the San Luis Rey River, were entered into in 1923 when the Henshaw Dam was built and diverted flow on the river. Deliveries of Escondido "A", In Lieu "A", Escondido "B" and In Lieu "B" waters shown to the right were all prior to the terms of the San Luis Rey Indian Water Rights Settlement Agreement which became effective May 17, 2017; these classes of water cease to exist after the effective date of the Settlement Agreement.

	Acre Feet	
	2015-16	2016-17
Losses in San Luis Rey River	249	222
Delivered to Rincon Indians	0	0
Escondido "A" Water*	0	93
In Lieu "A" Water*	107	0
Escondido "B" Water*	1,183	500
In Lieu "B" Water, Esc. Joint Well Water*	522	0
To Escondido Under New Agreement	N/A	2,395
To VID Under New Agreement	N/A	0
Replacement Water to Lake Wohlford	1,582	858
Loss of Release below Intake	70	739
Total Releases	**3,713**	**4,807**

DISTRICT DEMOGRAPHICS

Population

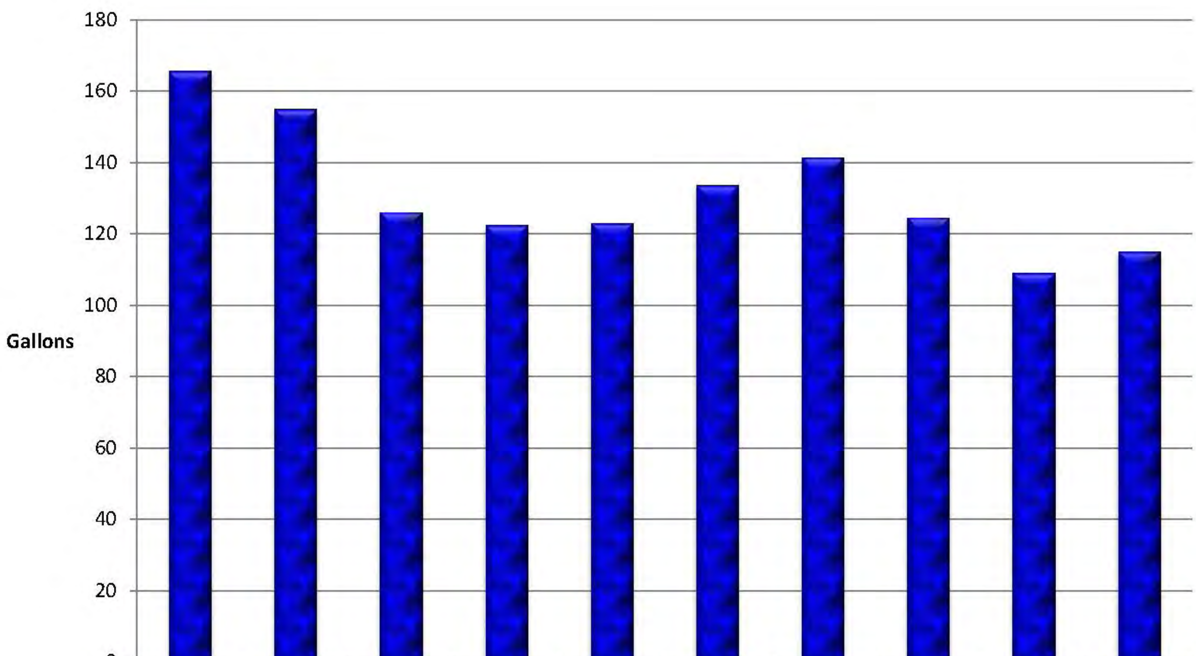
The graph depicts population growth within the District's service area, which is comprised of the city of Vista as well as portions of San Marcos, Escondido, Oceanside and unincorporated areas of the county. Source: San Diego Association of Governments.



Fiscal Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Population	122,677	123,312	125,752	126,655	127,796	129,341	130,182	130,745	132,101	133,286

Average Daily Water Use Per Person

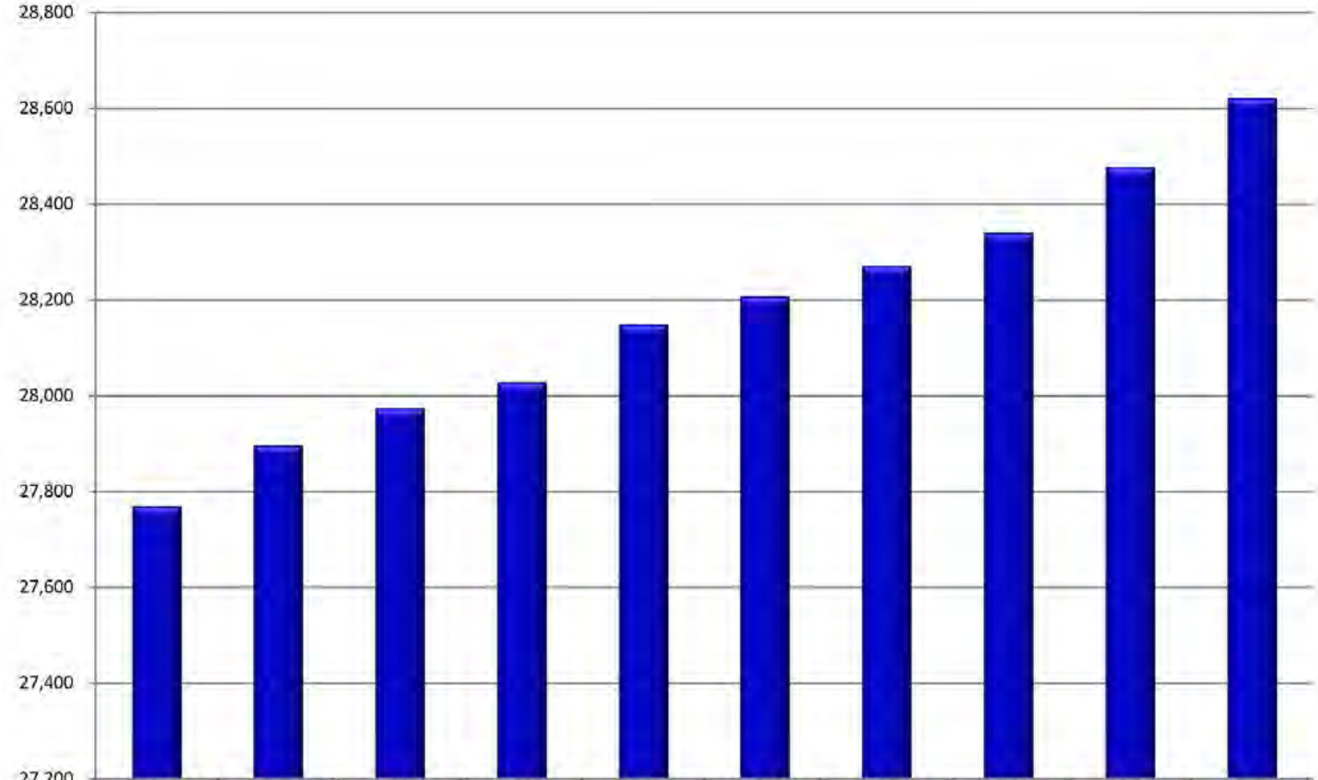
SBX 7-7 requires retail water agencies to achieve a 10% reduction in per capita water use by 2015 and 20% reduction in per capita water use by December 31, 2020 (referred to as "20 X 2020"). The District's 2020 target is 142 GPCD. The District's estimated daily per capita water use in 2017 was 115 gallons per capita per day (GPCD), which is 27 GPCD less than its 2020 target.



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
GPCD	166	155	126	123	123	134	142	125	109	115

Meters in Use

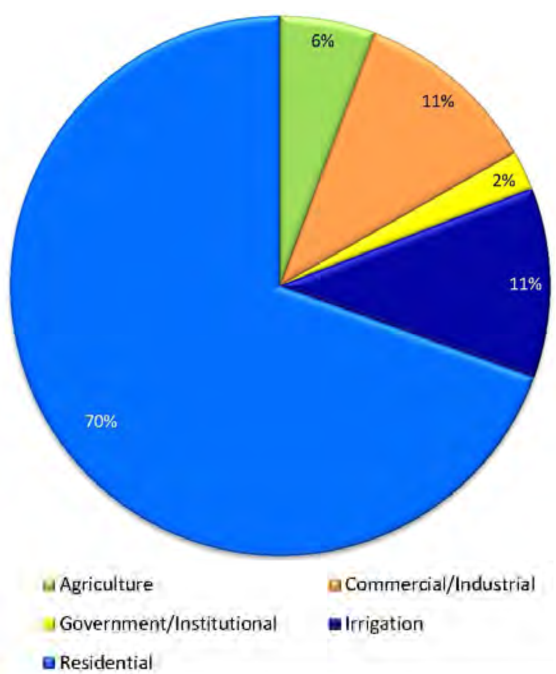
This graph shows the increase in the number of meters in use over a ten year period.



Fiscal Year	07-08	08-09	09-10	10-11	11-12	12-13	13-14	14-15	15-16	16-17
Number of Meters	27,770	27,896	27,974	28,028	28,149	28,208	28,272	28,341	28,478	28,622

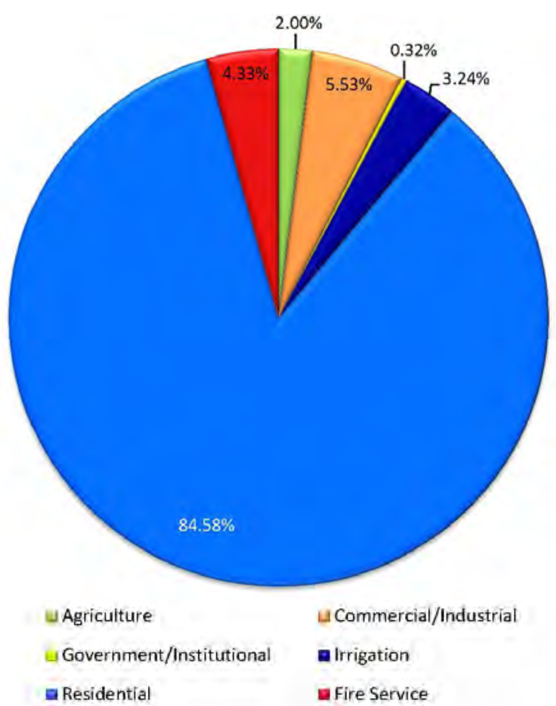
Water Delivered by Use Type

This graph shows how much water is delivered for different uses. As illustrated, a majority of the water delivered to District Customers (70%) is for residential use. The balance is delivered for irrigation, commercial/industrial (business), agriculture and governmental/institutional (parks, libraries, schools) uses.



Meters in Service by Use Type

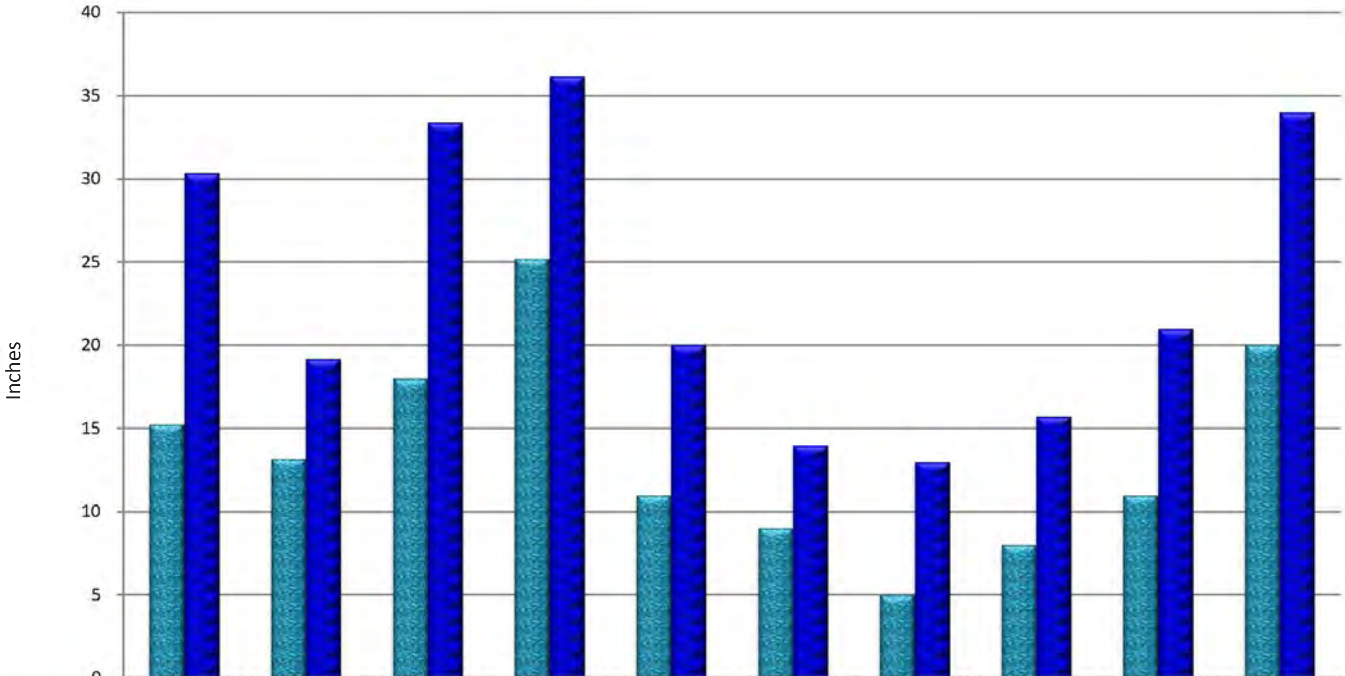
This graph shows meters in service by use. Almost 85% of the District's 28,622 meters are used to supply water to single-family residences.



Rainfall

(July 1 - June 30)

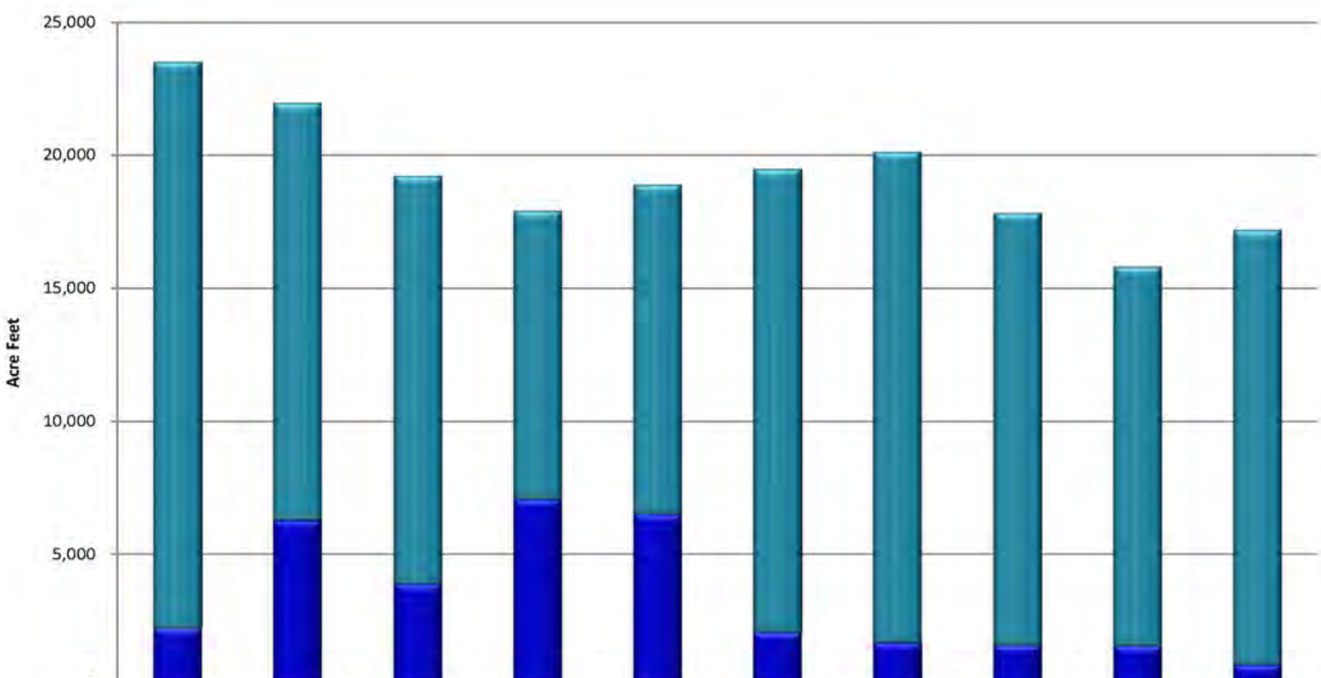
This graph shows rainfall totals for Vista and the Lake Henshaw area over the past ten years.



Fiscal Year	07-08	08-09	09-10	10-11	11-12	12-13	13-14	14-15	15-16	16-17
Vista	15.25	13.17	18.00	25.22	11.00	9.00	5.00	8.00	11.00	20.00
Henshaw	30.36	19.17	33.38	36.19	20.00	14.00	13.00	15.74	21.00	34.00

Water Received

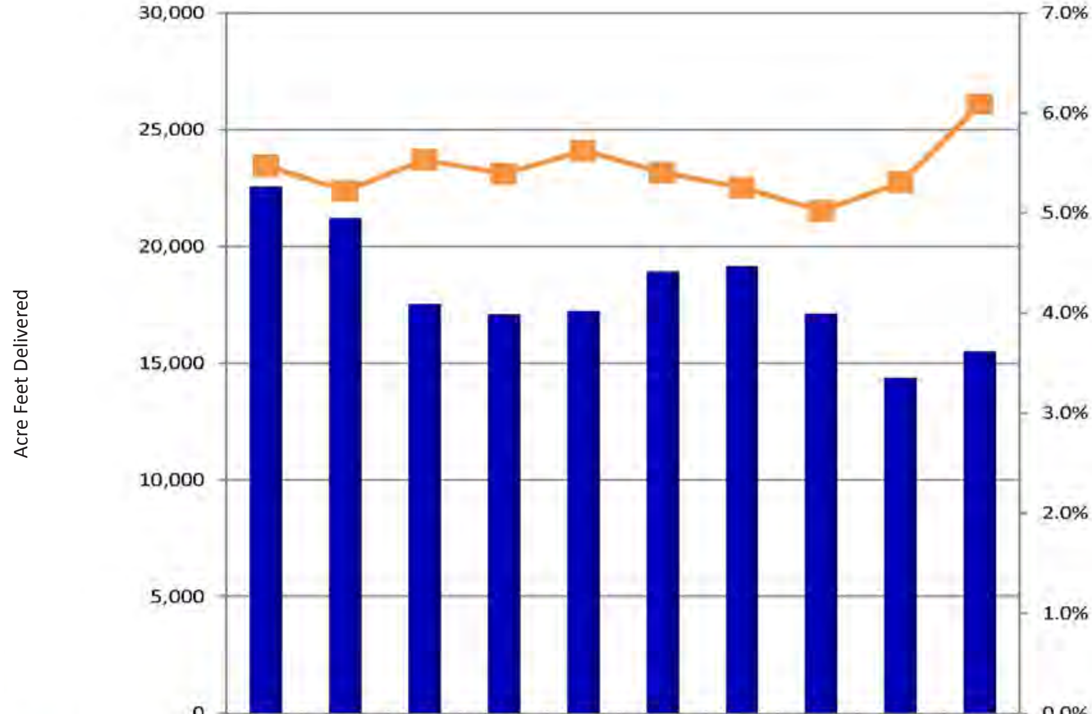
The District receives water from Lake Henshaw (local) and from Northern California, the Colorado River and desalinated sea water (purchased). This graph shows how much of each source was received in a given year.



Fiscal Year	07-08	08-09	09-10	10-11	11-12	12-13	13-14	14-15	15-16	16-17
Purchased	21,280	15,668	15,336	10,819	12,354	17,398	18,439	16,215	14,230	16,332
Local	2,245	6,296	3,899	7,097	6,547	2,092	1,695	1,618	1,582	858

Distribution Efficiency

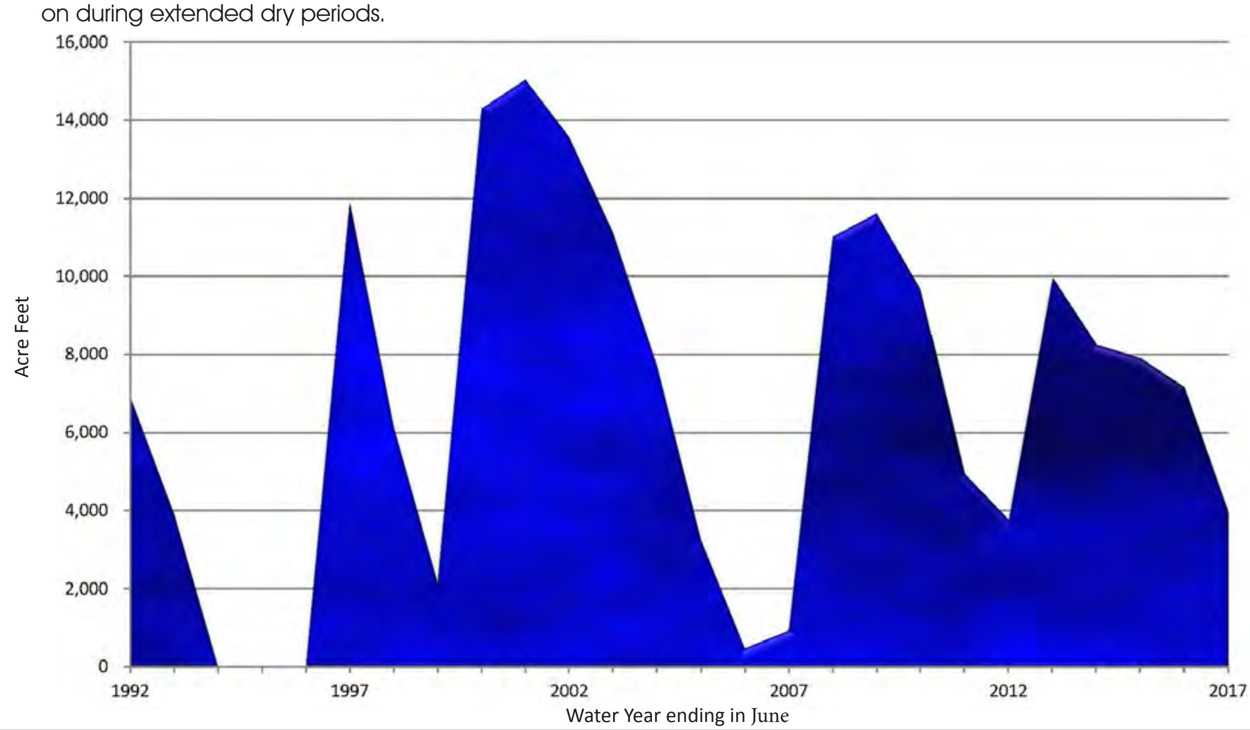
The Distribution Efficiency graph shows water delivered to customers (from purchased and local sources) which is represented by the blue bars. The orange line shows historical water losses. Losses encompass water that was delivered to the District but not sold to customers. Water losses can be attributable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



Fiscal Year	07-08	08-09	09-10	10-11	11-12	12-13	13-14	14-15	15-16	16-17
AF Delivered	22,553	21,211	17,518	17,101	17,241	18,904	19,128	17,117	14,375	15,496
Water Loss Eff.	5.47%	5.22%	5.53%	5.39%	5.62%	5.41%	5.25%	5.02%	5.30%	6.08%

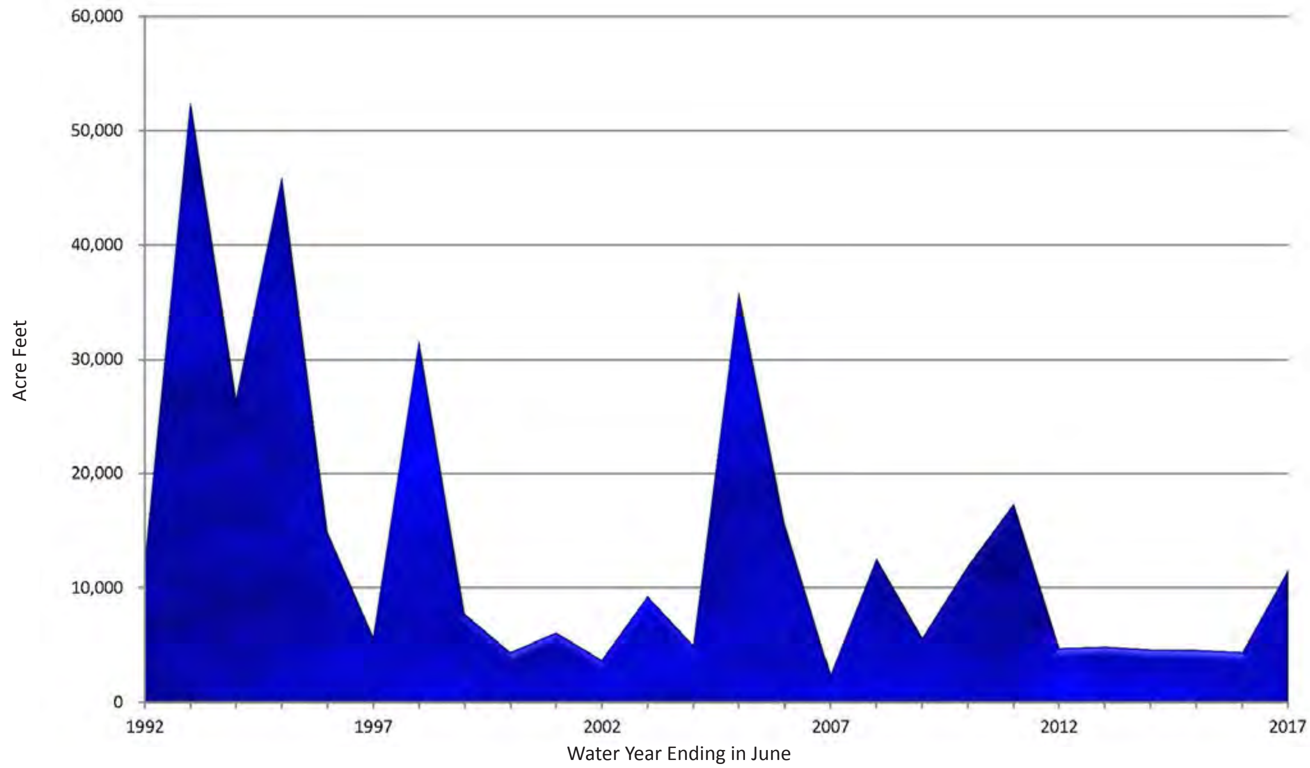
Water Pumped from Warner Basin (Yearly Totals)

Lake Henshaw's water comes from run-off as well as pumped groundwater from the Warner Basin, which surrounds the lake. This graph shows pumped water totals from 1992 to 2017. Typically, pumped water is more heavily relied on during extended dry periods.



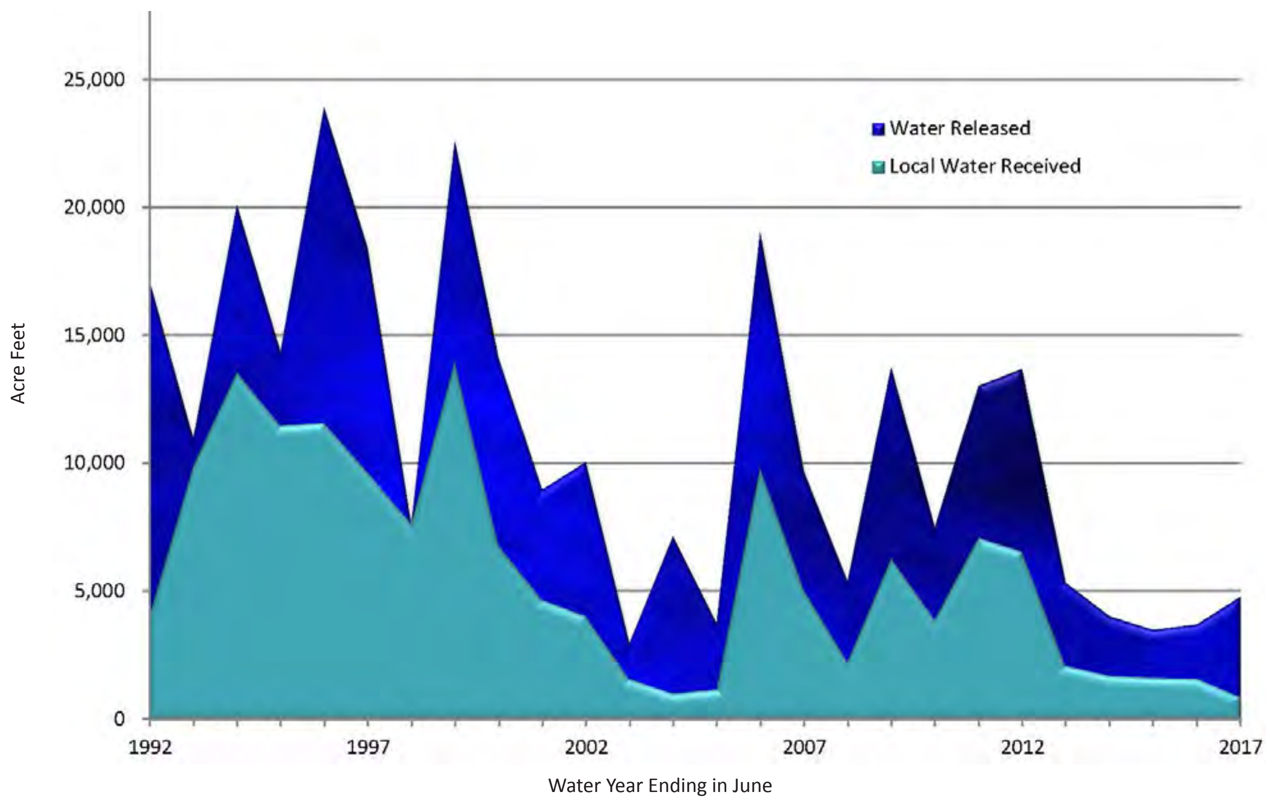
Water Stored in Lake Henshaw

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



Water Released from Lake Henshaw versus Local Water Received

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



DISTRICT FINANCIALS

Management's Discussion and Analysis

Our discussion and analysis of Vista Irrigation District's financial performance provides an overview of the District's financial activities for the year ended June 30, 2017. Please read it in conjunction with the District's financial statements which begin on page 26. This annual financial report consists of two parts -- Management's Discussion and Analysis (this section) and the Financial Statements.

Financial Statements

The District's financial statements include four components:

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

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

- Net investment in capital assets
- Unrestricted

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

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

The statements of cash flows provide information regarding the District's cash receipts and cash disbursements during the year. These statements report cash activity in four categories:

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

These statements differ from the statements of revenues, expenses and changes in net position by only accounting for transactions that result in cash receipts or cash disbursements.

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

Financial Highlights

- Overall, operating revenues increased 9.7%, while operating expenses increased 15.7%.

- The District realized a $1.3 million operating gain during the current fiscal year primarily due to increased water sales and higher water rates. Costs of purchased water were higher in the current year, due to more imported water activity, as a result of decreased availability of local water.

- Contributed capital increased $1.1 million due to the completion of five capital contribution jobs in the current year, as compared to three in the prior year.

- The District made a $4.4 million payment of Claims Payable to the Indian Water Authority, in accordance with the Settlement Agreement which was finalized in May 2017. See Note 10 – Commitments and Contingencies for further information.

Financial Analysis of the District

Net Position - The District's overall net position increased $2.9 million between fiscal years 2016 and 2017, from $106.2 to $109.1 million. The District's overall net position increased $3.9 million between fiscal years 2015 and 2016, from $102.3 to $106.2 million. During fiscal year 2016, cash and cash equivalents decreased $8.3 million primarily due to a $7.8 million prepayment of the PERS unfunded liability, and a $1.4 million prepayment of the OPEB unfunded liability. The net investment in capital assets increased $5.4 million in 2017 which reflects the excess of net capital additions over the current year depreciation and dispositions.

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

	2017	2016	2015
Current assets	$ 33.8	$ 37.5	45.4
Capital assets	89.9	84.6	82.5
Long-term prepaid expenses	4.3	4.0	2.4
Total Assets	128.0	126.1	130.3
Deferred outflows of resources	5.2	9.8	1.5
Current liabilities	8.9	6.3	6.8
Noncurrent liabilities	13.9	21.0	17.8
Total Liabilities	22.8	27.3	24.6
Deferred inflows of resources	1.3	2.4	4.9
Net Position:			
Net investment in capital assets	89.9	84.6	82.6
Unrestricted	19.2	21.6	19.7
Total Net Position	$ 109.1	$ 106.2	102.3

Change in Net Position – In fiscal year 2017, the District's operating revenues increased by 9.7% to $47.4 million, and 94.8% of the District's operating revenues came from water sales. The increase in operating revenues resulted primarily due to increased water sales and higher water rates. In fiscal year 2016, the District's operating revenues decreased by 7.3% to $43.2 million, and 95.4% of the District's operating revenues came from water sales. The decrease in operating revenues resulted primarily due to decreased water sales, as a result of water conservation efforts.

During fiscal year 2017, the District's operating expenses increased 15.7% to $46.1 million primarily due to an increase in purchased water expenses, as a result of increased purchases and higher water rates. In addition, there was an increase in pension expense, as a result of GASB 68 valuations, and the annual payment of the PERS unfunded liability. During fiscal year 2016, the District's operating expenses decreased 3.6% to $39.9 million primarily due to a decrease in purchased water, due to lesser demand as discussed above, as well as a decrease in depreciation expense, as a result of a change in useful lives implemented during that year, and a decrease in wages and benefits expenses.

The District's contributed capital increased from $0.2 million to $1.2 million in fiscal year 2017, due to more capital contribution jobs completed in the current year.

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

	2017	2016	2015
Operating Revenues			
Water sales, net	$ 44.9	$ 41.2	$ 44.6
System fees	1.0	0.6	0.9
Property rentals	0.8	0.7	0.7
Other services	0.7	0.7	0.4
Total Operating Revenues	47.4	43.2	46.6
Operating Expenses	46.1	39.9	41.4
Operating Income	1.3	3.3	5.2
Nonoperating Revenues (Expenses)			
Property taxes	0.4	0.4	0.4
Investment income	0.2	0.1	0.1
Legal settlement	(0.1)	(0.1)	(0.1)
Loss on disposal of capital assets	(0.1)	-	-
Total Nonoperating Revenues	0.4	0.4	0.4
Contributed Capital	1.2	0.2	0.5
Changes in Net Position	2.9	3.9	6.1
Total Net Position - beginning	106.2	102.3	96.2
Total Net Position - ending	$ 109.1	$ 106.2	$ 102.3

Capital Assets

At June 30, 2017, the District had invested $175.6 million in capital assets with $85.7 million in accumulated depreciation. Net capital assets increased $5.4 million as a result of capital acquisitions exceeding the annual depreciation and dispositions. During the year the District added $8.3 million of capital assets. The largest capital additions were $2.9 million in costs for several mainline replacement projects, $2.0 million for flume relocation, $2.0 million for reservoir rehabilitation, and $0.6 million for water treatment plant construction costs. This year's capital reductions included filtration plant assets, vehicles, replacement/disposals of pipelines, reservoir-related assets, SCADA and other equipment with a total historical cost of $1.3 million. Depreciation for the year was $2.7 million.

At June 30, 2016, the District had invested $168.6 million in capital assets with $84.0 million in accumulated depreciation. Net capital assets increased $2.0 million as a result of capital acquisitions exceeding the annual depreciation and dispositions. During the year the District added $4.6 million of capital assets. The largest capital additions were $2.5 million in costs for several mainline replacement projects, $1.3 million for water treatment plant construction costs, and $0.2 million for SCADA upgrades and expansion. The capital reductions for that year included replacement/disposals of pipelines, reservoir-related assets, vehicles, SCADA and other equipment with a total historical cost of $0.7 million. Depreciation for the year was $2.6 million.

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

	2017	2016	2015
Land, franchises and water rights	$ 6.0	$ 6.0	$ 6.0
Buildings, canals, pipelines, reservoirs and dams	76.1	73.9	73.6
Equipment	1.8	1.6	1.2
Henshaw pumping project	0.4	0.4	0.4
Construction in progress	5.6	2.7	1.3
Total Capital Assets, Net	$ 89.9	$ 84.6	$ 82.5

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

Capital Debt

At June 30, 2017 and 2016, the District had no capital debt and has no immediate need to issue debt.

Contacting the District's Financial Management

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

Statements of Net Position
June 30, 2017 and June 30, 2016

	2017	2016
Assets		
Current Assets:		
Cash and cash equivalents (notes 1 and 2)	$ 7,959,960	$ 9,860,788
Investments (notes 1 and 2)	17,893,733	19,464,400
Accounts receivable, net (notes 1 and 3)	7,038,468	7,322,618
Taxes receivable	36,345	38,701
Accrued interest receivable	9,099	12,755
Inventories of materials and supplies	518,533	443,284
Prepaid expenses and other current assets	349,949	315,552
Total Current Assets	33,806,087	37,458,098
Noncurrent Assets:		
Capital assets: (notes 1 and 4)		
Depreciable assets, net of accumulated depreciation:		
Buildings, canals, pipelines, reservoirs and dams	76,094,593	73,835,413
Equipment	1,824,660	1,585,894
Henshaw pumping project	390,914	432,342
Nondepreciable assets:		
Land, franchises and water rights	6,001,127	6,001,127
Construction in progress	5,613,539	2,695,476
Total capital assets	89,924,833	84,550,252
Long-term prepaid expenses (note 9)	4,236,388	4,026,847
Total Noncurrent Assets	94,161,221	88,577,099
Total Assets	127,967,308	126,035,197
Deferred Outflows of Resources		
Pension related (notes 1 and 8)	5,196,486	9,778,045
Total Deferred Outflows of Resources	5,196,486	9,778,045

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

(Continued)

Statements of Net Position
June 30, 2017 and June 30, 2016

	2017	2016
Liabilities		
Current Liabilities:		
Accounts payable (note 5)	$ 7,141,890	$ 4,746,416
Deposits	634,234	613,318
Compensated absences, current portion	403,445	382,428
Accrued expenses and other liabilities	680,436	499,273
Total Current Liabilities	8,860,005	6,241,435
Noncurrent Liabilities:		
Claims payable (note 6)	-	4,329,271
Compensated absences, long-term portion	1,029,729	962,240
Net pension liability (notes 1 and 8)	12,926,266	15,723,785
Total Noncurrent Liabilities	13,955,995	21,015,296
Total Liabilities	22,816,000	27,256,731
Deferred Inflows of Resources		
Pension related (notes 1 and 8)	1,254,912	2,376,061
Total Deferred Inflows of Resources	1,254,912	2,376,061
Net Position		
Investment in capital assets	89,924,833	84,550,252
Unrestricted (notes 7 and 11)	19,168,049	21,630,198
Total Net Position	$ 109,092,882	$ 106,180,450

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

Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2017 and 2016

	2017	2016
Operating Revenues		
Water sales, net (notes 1 and 3)	$ 44,934,557	$ 41,193,157
System fees	1,029,580	622,039
Property rentals	770,023	718,075
Other services	645,880	657,891
Total Operating Revenues	47,380,040	43,191,162
Operating Expenses		
Purchased water	23,826,729	18,721,053
Wages and benefits	13,492,353	11,870,598
Contractual services	3,495,060	4,125,191
Depreciation	2,719,379	2,581,311
Supplies	1,450,699	1,396,166
Professional fees	949,374	700,489
Insurance	535,788	531,811
Power	525,897	656,238
Office and general	481,697	489,547
Communications	56,779	49,845
Burden allocation	(1,422,130)	(1,255,779)
Total Operating Expenses	46,111,625	39,866,470
Operating Income	1,268,415	3,324,692
Nonoperating Revenues (Expenses)		
Property taxes	423,469	384,960
Investment income	168,777	129,591
Legal settlement	(66,961)	(83,905)
Loss on disposal of capital assets	(139,088)	(16,209)
Total Nonoperating Revenues	386,197	414,437
Income Before Contributed Capital	1,654,612	3,739,129
Contributed Capital	1,257,820	165,021
Changes in Net Position	2,912,432	3,904,150
Total Net Position - beginning	106,180,450	102,276,300
Total Net Position - ending	$ 109,092,882	$ 106,180,450

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

Statements of Cash Flows
For the Years Ended June 30, 2017 and 2016

	2017	2016
Cash Flows From Operating Activities		
Receipts from customers	$ 47,664,190	$ 42,826,571
Payments to suppliers	(32,676,969)	(39,320,532)
Payments to employees	(7,706,430)	(7,830,931)
Collection of deposits	1,961,571	877,561
Return of deposits	(1,940,655)	(990,875)
Net Cash Provided (Used) by Operating Activities	7,301,707	(4,438,206)
Cash Flows From Noncapital Financing Activities		
Receipts from property taxes	425,825	379,487
Legal settlement payment	(4,396,232)	-
Net Cash Provided (Used) by Noncapital Financing Activities	(3,970,407)	379,487
Cash Flows From Capital and Related Financing Activities		
Proceeds from disposal of capital assets	32,312	40,651
Capital contributions	917,224	-
Acquisition and construction of capital assets	(7,924,764)	(4,471,550)
Net Cash Used by Capital and Related Financing Activities	(6,975,228)	(4,430,899)
Cash Flows From Investing Activities		
Proceeds from maturities of investments	19,500,000	19,500,000
Interest on cash and investments	87,642	39,740
Purchase of investments	(17,844,542)	(19,393,909)
Net Cash Provided by Investing Activities	1,743,100	145,831
Net Decrease in Cash and Cash Equivalents	(1,900,828)	(8,343,787)
Cash and Cash Equivalents - beginning	9,860,788	18,204,575
Cash and Cash Equivalents - ending	$ 7,959,960	$ 9,860,788

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

(Continued)

Statements of Cash Flows
For the Years Ended June 30, 2017 and 2016

		2017		2016
Reconciliation of Operating Income to Net				
Cash Provided (Used) by Operating Activities				
Operating Income	$	1,268,415	$	3,324,692
Adjustments to reconcile operating income to net				
cash provided by operating activities:				
Depreciation		2,719,379		2,581,311
Changes in Assets, Deferred Outflows of Resources,				
Liabilities, and Deferred Inflows of Resources:				
Accounts receivable, net		284,150		(364,591)
Inventories of materials and supplies		(75,249)		103,993
Prepaid expenses and other assets		(243,938)		(1,659,258)
Deferred outflows of resources		4,581,559		(8,289,079)
Accounts payable		2,395,474		230,610
Deposits		20,916		(113,314)
Accrued expenses and other liabilities		269,669		106,968
Net pension liability		(2,797,519)		2,197,032
Deferred inflows of resources		(1,121,149)		(2,556,570)
Net Cash Provided (Used) by Operating Activities	$	7,301,707	$	(4,438,206)
Noncash Investing, Capital and Financing Activities				
Contributed capital assets	$	340,596	$	165,021
Increase in fair value of investments	$	84,791	$	84,606

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

Note 1 - Reporting Entity and Summary of Significant Accounting Policies

Description of the Reporting Entity

Vista Irrigation District (District) is a public entity established in 1923, pursuant to the Irrigation District Act of the California Water Code, for the purpose of providing water services to the properties in the District. The District's service area lies within the northwestern quadrant of San Diego County, encompassing approximately 21,160 acres. Historically, the District has received 30% of its water supply from Lake Henshaw which, along with the surrounding 43,000 acre Warner Ranch, is owned and operated by the District. The remaining 70% of the District's supply comes from Northern California through the State Water Project and from the Colorado River. These sources are conveyed to the District via aqueducts owned and operated by water wholesalers, the Metropolitan Water District of Southern California and the San Diego County Water Authority. The District is governed by a Board of Directors consisting of five directors elected by geographical divisions, based on District population, for four-year alternating terms.

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

Basic Financial Statements

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

Basis of Presentation

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

Measurement Focus and Basis of Accounting

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

Use of Estimates

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

Cash and Cash Equivalents

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

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

Investments

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

Accounts Receivable

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

Inventories of Materials and Supplies

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

Prepaid Expenses

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

Capital Assets and Depreciation

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

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

Burden Allocation

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

Vacation, Sick Leave, and Compensatory Time Off

The District records a liability equal to 100% of vacation earned and compensatory time off, and an applicable percentage of sick leave available to employees at year end (25%-100%), which is included in compensated absences, current and long-term portions. At June 30, 2017 and 2016, total compensated absences were $1,433,174 and $1,344,668, respectively.

Pension Plans

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

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

Pension Plans (Continued)

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

Valuation Date (VD)	June 30, 2015
Measurement Date (MD)	June 30, 2016
Measurement Period (MP)	July 1, 2015 to June 30, 2016

Deferred Outflows/Inflows of Resources

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

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

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

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

Operating Revenues and Expenses

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

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

Operating Revenues and Expenses (Continued)

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

Net Position

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

- Investment in capital assets - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

- Restricted net position - This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

- Unrestricted net position - This amount is all net position that does not meet the definition of "investment in capital assets" or "restricted net position".

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

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

Property Taxes

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

Risk Management

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

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

Property Loss - Insured up to $150,000,000 per occurrence (total insurable value $30,283,901) with $5,000 deductible for buildings, personal property, fixed equipment, mobile equipment, and licensed vehicles; the Authority is self-insured up to $100,000 per occurrence and excess insurance coverage has been purchased.

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

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

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

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

Risk Management (Continued)

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

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

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

New Accounting Pronouncements

GASB Current Year Standards

GASB 74 - "Financial Reporting for Postemployment Benefit Plans Other than Pension Plans", effective for periods beginning after June 15, 2016 and did not impact the District.

GASB 77 - "Tax Abatement Disclosure", effective for periods beginning after December 15, 2015 and did not impact the District.

GASB 78 – "Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans", effective for periods beginning after December 15, 2015, and did not impact the District.

GASB 79 - "Certain External Investment Pools and Pool Participants", contains certain provisions on portfolio quality, custodial credit risk, and shadow pricing, effective for periods beginning after December 15, 2015 and did not impact the District.

GASB 80 - "Blending Requirements for Certain Component Units", effective for periods beginning after June 15, 2016 and did not impact the District.

GASB Pending Accounting Standards

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

- GASB 75 - "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions", effective for periods beginning after June 15, 2017.
- GASB 81 – "Irrevocable Split-Interest Agreements", effective for periods beginning after December 15, 2016.
- GASB 82 - "Pension Issues", effective for periods beginning after June 15, 2016, except for certain provisions on selection of assumptions, which are effective in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.
- GASB 84 - "Fiduciary Activities", effective for periods beginning after December 15, 2018.
- GASB 85 - "Omnibus 2017", effective for periods beginning after June 15, 2017.
- GASB 86 - "Certain Debt Extinguishment Issues", effective for periods beginning after June 15, 2017.
- GASB 87 - "Leases", effective for periods beginning after December 15, 2019.

Note 2 - Cash and Investments

The following is a detail of cash and cash equivalents as of June 30, 2017 and 2016:

	2017	2016
Cash on hand	$ 6,882	$ 7,439
Deposits	627,204	515,117
State Treasurer's investment pool	1,730,232	9,077,818
California Asset Management Program	5,595,642	260,414
Total cash and cash equivalents	$ 7,959,960	$ 9,860,788

As of June 30, 2017 and 2016, the District had the following investments:

Investment	Maturity	2017 Fair Value	2016 Fair Value
State Treasurer's investment pool	1 day	$ 1,730,232	$ 9,077,818
California Asset Management Program	1 day	5,595,642	260,414
Total cash equivalents		$ 7,325,874	$ 9,338,232
U.S. Treasury bills	7 months weighted average	$ 17,893,733	$ 19,464,400
Total Investments		$ 17,893,733	$ 19,464,400

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

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

The District is a voluntary participant in the California Asset Management Program (CAMP), an investment pool managed by Public Financial Management, Inc. CAMP was established under provisions of the California Joint Exercise of Powers Act. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by CAMP for the entire CAMP portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by CAMP, which are recorded on an amortized cost basis.

Note 2 - Cash and Investments (Continued)

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

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

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

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. All deposits are entirely insured or collateralized. State law requires banks to secure the District's deposits by pledging government securities valued at 110% of the amount of the deposit as collateral. The District may waive the collateral requirement for deposits that are fully insured by the Federal Deposit Insurance Corporation (FDIC). Beginning on January 1, 2013, combined deposits are insured by the FDIC up to $250,000. As of June 30, 2017, the District's bank balances were $572,988, of which $250,000 were insured and the remaining $322,988 were collateralized with securities held by the pledging institution's trust department. As of June 30, 2016, the District's bank balances were $638,466, of which $250,000 were insured and the remaining $388,466 were collateralized.

Fair Value Measurements

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

The District has the following recurring fair value measurements as of June 30, 2017:

	Quoted Prices Level 1	Observable Inputs Level 2	Unobservable Inputs Level 3	Total
Fixed Income Securities:				
Treasury Bills	$ -	$ 17,893,733	$ -	$ 17,893,733
Total Leveled Investments	$ -	$ 17,893,733	$ -	17,893,733
Money Market and LAIF*				1,730,232
California Asset Management Program*				5,595,642
Total Investment Portfolio				$ 25,219,607

*Not subject to fair value measurement.

Note 2 - Cash and Investments (Continued)

Fair Value Measurements (Continued)

The District had the following recurring fair value measurements as of June 30, 2016:

	Quoted Prices Level 1	Observable Inputs Level 2	Unobservable Inputs Level 3	Total
Fixed Income Securities:				
Treasury Bills	$ -	$ 19,464,400	$ -	$ 19,464,400
Total Leveled Investments	$ -	$ 19,464,400	$ -	19,464,400
Money Market and LAIF*				9,077,818
California Asset Management Program*				260,414
Total Investment Portfolio				$ 28,802,632

*Not subject to fair value measurement.

Note 3 - Accounts Receivable, Net

As of June 30, 2017 and 2016, the net balances were comprised of accounts receivable balances of $7,175,102 and $7,842,310, respectively, less the allowances for doubtful accounts of $136,634 and $519,692, respectively.

On the Statements of Revenues, Expenses and Changes in Net Position for the years ended June 30, 2017 and 2016, the balances of water sales, net of uncollectible accounts expense, were comprised of water sales revenues of $44,937,219 and $41,239,946, respectively, less uncollectible amounts of $2,662 and $46,789, respectively.

Note 4 - Capital Assets

Capital assets consist of the following at June 30, 2017:

	Beginning Balance	Additions	Retirements	Ending Balance
Capital assets not being depreciated:				
Land, franchises, and w ater rights	$ 6,001,127	$ -	$ -	$ 6,001,127
Construction in progress	2,695,476	7,525,945	(4,607,882)	5,613,539
Total capital assets not being depreciated	8,696,603	7,525,945	(4,607,882)	11,614,666
Capital assets being depreciated:				
Buildings, canals, pipelines, reservoirs and dams	151,156,873	4,885,415	(1,095,852)	154,946,436
Equipment	5,627,859	461,881	(156,612)	5,933,128
Henshaw pumping project	3,089,530	-	(2,500)	3,087,030
Total capital assets being depreciated	159,874,262	5,347,296	(1,254,964)	163,966,594
Less accumulated depreciation for:				
Buildings, canals, pipelines, reservoirs and dams	(77,321,460)	(2,457,911)	927,528	(78,851,843)
Equipment	(4,041,965)	(220,038)	153,535	(4,108,468)
Henshaw pumping project	(2,657,188)	(41,428)	2,500	(2,696,116)
Total accumulated depreciation	(84,020,613)	(2,719,377)	1,083,563	(85,656,427)
Total capital assets being depreciated, net	75,853,649	2,627,919	(171,401)	78,310,167
Total capital assets, net	$ 84,550,252	$ 10,153,864	$ (4,779,283)	$ 89,924,833

Note 4 - Capital Assets (Continued)

Capital assets consisted of the following at June 30, 2016:

	Beginning Balance	Additions	Retirements	Ending Balance
Capital assets not being depreciated:				
Land, franchises, and water rights	$ 6,001,127	$ -	$ -	$ 6,001,127
Construction in progress	1,354,968	4,201,134	(2,860,626)	2,695,476
Total capital assets not being depreciated	7,356,095	4,201,134	(2,860,626)	8,696,603
Capital assets being depreciated:				
Buildings, canals, pipelines, reservoirs and dams	149,035,819	2,615,860	(494,806)	151,156,873
Equipment	5,278,941	594,468	(245,550)	5,627,859
Henshaw pumping project	3,003,795	85,735	-	3,089,530
Total capital assets being depreciated	157,318,555	3,296,063	(740,356)	159,874,262
Less accumulated depreciation for:				
Buildings, canals, pipelines, reservoirs and dams	(75,385,495)	(2,386,368)	450,403	(77,321,460)
Equipment	(4,113,223)	(161,835)	233,093	(4,041,965)
Henshaw pumping project	(2,624,080)	(33,108)	-	(2,657,188)
Total accumulated depreciation	(82,122,798)	(2,581,311)	683,496	(84,020,613)
Total capital assets being depreciated, net	75,195,757	714,752	(56,860)	75,853,649
Total capital assets, net	$ 82,551,852	$ 4,915,886	$ (2,917,486)	$ 84,550,252

Note 5 - Accounts Payable

At June 30, 2017, the accounts payable of $7,141,890 included $4,985,650 for water purchases from the San Diego County Water Authority and $2,156,240 for obligations to other vendors. The accounts payable of $4,746,416 at June 30, 2016 included $3,524,222 for water purchases from the San Diego County Water Authority and $1,222,194 for obligations to other vendors.

Note 6 - Noncurrent Liabilities

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

Changes in the claims payable amounts in fiscal years ended June 30, 2017 and 2016 were as follows:

Fiscal Year	Beginning Balance	Consumer Price Index Adjustment	Payments	Ending Balance
2016	$ 4,245,365	$ 83,906	$ -	$ 4,329,271
2017	$ 4,329,271	$ 66,961	$ (4,396,232)	$ -

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

The Settlement Agreement was finalized on May 17, 2017, and the balance has been paid.

Note 7 - Unrestricted Net Position

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

	2017	2016
Emergency and contingency	$ 9,000,000	$ 8,000,000
Working capital	9,000,000	8,000,000
Future construction	1,020,168	5,521,079
Ranch improvements	147,881	109,119
Total unrestricted net position	$ 19,168,049	$ 21,630,198

Note 8 - Defined Benefit Pension Plan

A. General Information about the Pension Plan

Plan Description

The Plan is a cost-sharing, multiple-employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). A full description of the pension plan regarding number of employees covered, benefit provisions, assumptions (for funding, but not account purposes), and membership information is listed in the June 30, 2016 Annual Actuarial Valuation Report. Details of the benefits provided can be obtained in Appendix B of the actuarial valuation report. The actuarial valuation report and CalPERS' audited financial statements are publicly available reports that can be obtained at CalPERS' website under Forms and Publications, at www.calpers.ca.gov.

Benefits Provided

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

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

The Plan's provisions and benefits in effect at June 30, 2017 are summarized as follows:

	Miscellaneous Plan		
	Tier 1	Tier 2	PEPRA
Hire date	prior to 1/1/2012	from 1/1/12 to 12/31/12	on or after 1/1/13
Benefit formula	3% @ 60	2% @ 60	2% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 - 60	50 - 63	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 3.0%	1.092% - 2.418%	1.0% to 2.5%
Required employee contribution rates	4.5%	7.0%	6.25%
Required employer contribution rates			
Normal cost rate	16.264%	6.709%	6.24%
Payment of unfunded liability	$635,547	$0.00	$16.00

Note 8 - Defined Benefit Pension Plan (Continued)

A. General Information about the Pension Plan (Continued)

Contributions

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. For public agency cost-sharing plans covered by Miscellaneous risk pools, the Plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement periods ended June 30, 2016 and 2015 (the measurement dates), the average active employee contribution rates for the respective miscellaneous Tier 1, Tier 2, and PEPRA plans were 4.5%, 7.0%, and 6.25% of annual pay. The employer's contribution rates were 16.264%, 6.709%, and 6.237% of annual payroll for the measurement period ended June 30, 2016, and 21.322%, 8.005% and 6.25% for the measurement period ended June 30, 2015. Employer contribution rates may change if plan contracts are amended. Employer Contributions for the measurement period ended June 30, 2016 and 2015 for the combined miscellaneous Tier 1, Tier 2, and PEPRA plans were $1,924,128 and 1,488,966, respectively.

B. Net Pension Liability

The District's net pension liabilities were measured as of June 30, 2016 and 2015, using an annual actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016, and June 30, 2014 rolled forward to June 30, 2015 using standard update procedures.

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

For the measurement periods ended June 30, 2016 and June 30, 2015 (the measurement dates), the total pension liabilities were determined by rolling forward the June 30, 2015 and 2014 total pension liability. The June 30, 2015 and June 30, 2016 total pension liabilities for the Plan were based on the following actuarial methods and assumptions:

Valuation Dates	June 30, 2015 and 2014
Measurement Dates	June 30, 2016 and 2015
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	Market Value of Assets
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases (1)	3.3% - 14.2%
Investment Rate of Return (2)	7.50%
Mortality Rate Table (3)	Derived using CALPERS' membership data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until purchasing power protection allowance floor on purchasing power applies, 2.75% thereafter

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

Note 8 - Defined Benefit Pension Plan (Continued)

B. Net Pension Liability (Continued)

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

All other actuarial assumptions used in the June 30, 2015 and 2014 valuations were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

Change of Assumptions

There were no changes of assumptions during the measurement period of June 30, 2016. GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50% used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.65 percent is applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 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 following table reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10[1]	Real Return Years 11+[2]
Global Equity	51.0%	5.25%	5.71%
Global Fixed Incom	20.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	1.0%	(0.55%)	(1.05%)
Total	100%		

[1] An expected inflation of 2.5% used for this period

[2] An expected inflation of 3.0% used for this period

Note 8 - Defined Benefit Pension Plan (Continued)

C. Proportionate Share of Net Pension Liability

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

Miscellaneous Plan:

	Increase (Decrease)		
	Plan Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Plan Net Pension Liability (c) = (a) - (b)
Balance at: 6/30/2015 (VD)	$ 81,295,803	$ 65,572,018	$ 15,723,785
Balance at: 6/30/2016 (MD)	$ 84,850,803	$ 71,924,537	$ 12,926,266
Net Changes during 2015-16	$ 3,555,000	$ 6,352,519	$ (2,797,519)

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

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

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

	Miscellaneous
Proportionate Share - June 30, 2015	0.57314%
Proportionate Share - June 30, 2016	0.37210%
Change - Increase (Decrease)	(0.20104%)

	Miscellaneous
Proportionate Share - June 30, 2014	0.54731%
Proportionate Share - June 30, 2015	0.57314%
Change - Increase (Decrease)	0.02583%

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

The following presents the District's proportionate share of the net pension liability of the Plan as of the measurement date, calculated using the discount rate of 7.65 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.65 percent) or 1 percentage-point higher (8.65 percent) than the current rate:

	Discount Rate - 1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate + 1% (8.65%)
Miscellaneous Plan's Net Pension Liability - 2017	$ 24,349,827	$ 12,926,266	$ 3,485,260

	Discount Rate - 1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate + 1% (8.65%)
Miscellaneous Plan's Net Pension Liability - 2016	$ 26,795,190	$ 15,723,785	$ 6,583,054

Note 8 - Defined Benefit Pension Plan (Continued)

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

For the measurement periods ending June 30, 2016 and June 30, 2015 (the measurement dates), the District incurred a pension expense of $2,479,626 and $978,564, respectively for the Plan.

As of June 30, 2016, the District has deferred outflows and deferred inflows of resources related to pensions as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 1,816,735	$ -
Differences between expected and actual experience	66,774	(15,300)
Changes in assumptions	-	(631,746)
Net difference between projected and actual earnings on pension plan investments	3,288,030	-
Changes in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	24,947	(607,866)
Total	$ 5,196,486	$ (1,254,912)

These amounts above are net of outflows and inflows recognized in the 2015-16 measurement period expense. $1,816,735 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, 2018. At June 30, 2017 amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in future pension expense as follows:

Year Ended June 30:	Deferred Outflows/(Inflows) of Resources, Net
2018	$ (219,631)
2019	8,971
2020	1,483,859
2021	851,640
2022	-
Thereafter	-
	$ 2,124,839

Note 8 - Defined Benefit Pension Plan (Continued)

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

As of June 30, 2015, the District had deferred outflows and deferred inflows of resources related to pensions as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 9,682,740	$ -
Differences between expected and actual experience	95,305	-
Changes in assumptions	-	(901,680)
Net difference between projected and actual earnings on pension plan investments	-	(452,024)
Changes in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	-	(1,022,357)
Total	$ 9,778,045	$ (2,376,061)

These amounts above were net of outflows and inflows recognized in the 2014-15 measurement period expense. $9,682,740 reported as deferred outflows of resources related to contributions subsequent to the measurement date were recognized as a reduction of the net pension liability in the year ended June 30, 2017. Amounts reported as deferred outflows and deferred inflows of resources related to pensions were recognized in future pension expense as follows:

Year Ended June 30:	Deferred Outflows/(Inflows) of Resources, Net
2017	$ (1,045,754)
2018	(1,018,111)
2019	(794,679)
2020	577,788
2021	-
Thereafter	-
	$ (2,280,756)

E. Payable to the Pension Plan

At June 30, 2017 and 2016, the District had no outstanding amount of contributions to the pension plan required for the years ended June 30, 2017 and 2016.

Note 9 - Other Postemployment Benefits

Plan Description

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

Note 9 - Other Postemployment Benefits (Continued)

Plan Description (Continued)

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

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

The District fully funds its OPEB liability through the CERBT. For the years ended June 30, 2017 and 2016, the District was fully funded in a prepaid status (in relation to the Annual Required Contribution), and was not required to make any contributions to the CERBT.

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

Funding Policy and Annual OPEB Cost

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

	Retiree Healthcare Plan 2017	Retiree Healthcare Plan 2016
Annual required contribution	$ 317,673	$ 300,155
Interest on net OPEB asset	(293,154)	(173,526)
Adjustment to annual required contribution	291,289	172,422
Annual OPEB cost (expense)	315,808	299,051
Contributions made	(525,349)	(1,951,272)
Increase (decrease) in net OPEB obligation/(asset)	(209,541)	(1,652,221)
Net OPEB obligation (asset) - beginning of year	(4,026,847)	(2,374,626)
Net OPEB obligation (asset) - end of year	$ (4,236,388)	$ (4,026,847)

In June 2016, the District opted to make a lump sum payment of $1,399,898 in order to pay off the unfunded portion of the District's OPEB liability.

Note 9 - Other Postemployment Benefits (Continued)

Funding Policy and Annual OPEB Cost (Continued)

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

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

	Year End	Annual OPEB Cost	Actual Contribution	Percent of OPEB Cost Contributed	Net OPEB Obligation (Asset)
Retiree Healthcare Plan	June 30, 2015	$282,630	$391,306	138.5%	($2,374,626)
Retiree Healthcare Plan	June 30, 2016	$299,051	$1,951,272	652.5%	($4,026,847)
Retiree Healthcare Plan	June 30, 2017	$315,808	$525,349	166.4%	($4,236,388)

Funded Status and Funding Progress

The funded status of the plan was as follows:

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Unfunded Liability		Funded Ratio	Annual Covered Payroll	Unfunded Liability as a % of Annual Covered Payroll
	(A)	(B)	(A-B)		(A/B)	(C)	[(A-B)/C]
July 1, 2011	$1,109,493	$3,779,819	($2,670,326)		29.4%	$7,523,865	(35.5%)
July 1, 2013	$1,238,734	$3,574,767	($2,336,033)		34.7%	$7,494,718	(31.2%)
July 1, 2015	$3,599,740	$4,999,638	($1,399,898)	*	72.0%	$7,601,853	(18.4%)

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

*A $1,399,898 prepayment was made in June 2016, subsequent to the July 1, 2015 actuarial valuation date, in order to pay off the unfunded portion of the District's actuarial accrued liability.

Actuarial Methods and Assumptions

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

Actuarial valuation date	June 30, 2015
Actuarial cost method	Projected Unit Credit
Amortization method	Level percentage of pay
Remaining amortization period	22 years
Asset valuation method	Market Value
Actuarial assumptions:	
Investment rate of return	7.28%
Projected salary increases	3.00%

Note 9 - Other Postemployment Benefits (Continued)

Actuarial Methods and Assumptions (Continued)

The actuarial cost method used for determining the benefit obligations is the Projected Unit Credit with service prorated. The actuarial assumptions included a 7.28% investment rate of return, which is the assumed rate of the expected long-term investment returns on plan assets calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 6.5% HMO and 7.0% PPO for 2017, each declining by 0.5% per year through 2020, and a trend rate of 5.0% per year for both HMO and PPO for all years after 2020. Both rates included a 2.8% inflation assumption. The UAAL is being amortized over an initial 30 years using the level-percentage of pay method on a closed-basis. The remaining amortization period at June 30, 2015 is assumed to be 22 years. It is assumed the District's payroll will increase 3.00% per year.

Note 10 - Commitments and Contingencies

Commitments

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

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

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

Note 11 – Subsequent Events

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through December 12, 2017, the date the financial statements were available to be issued.

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

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

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

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

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

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

Schedule of Plan Contributions
Last 10 Years*

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

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

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

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