

1923

1933

1943

1953

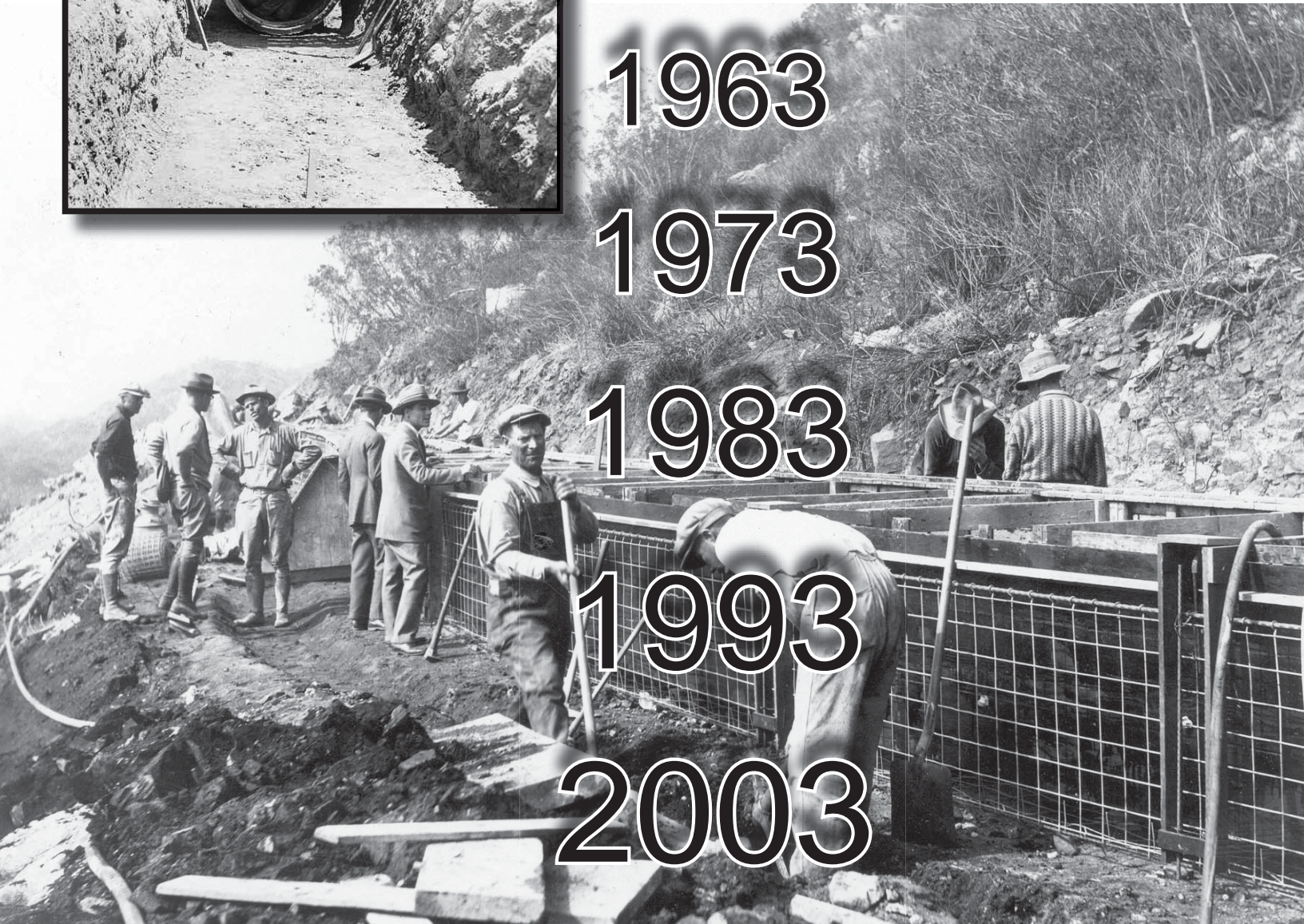
1963

1973

1983

1993

2003



Vista Irrigation District **2013** Annual Report



Front cover photos:

Top Left - Installation of original Caldwell Siphon circa 1925

Top Right - *The original seal of the District, adopted when the District was created in 1923.*

Bottom - Construction of the Vista Flume circa 1925

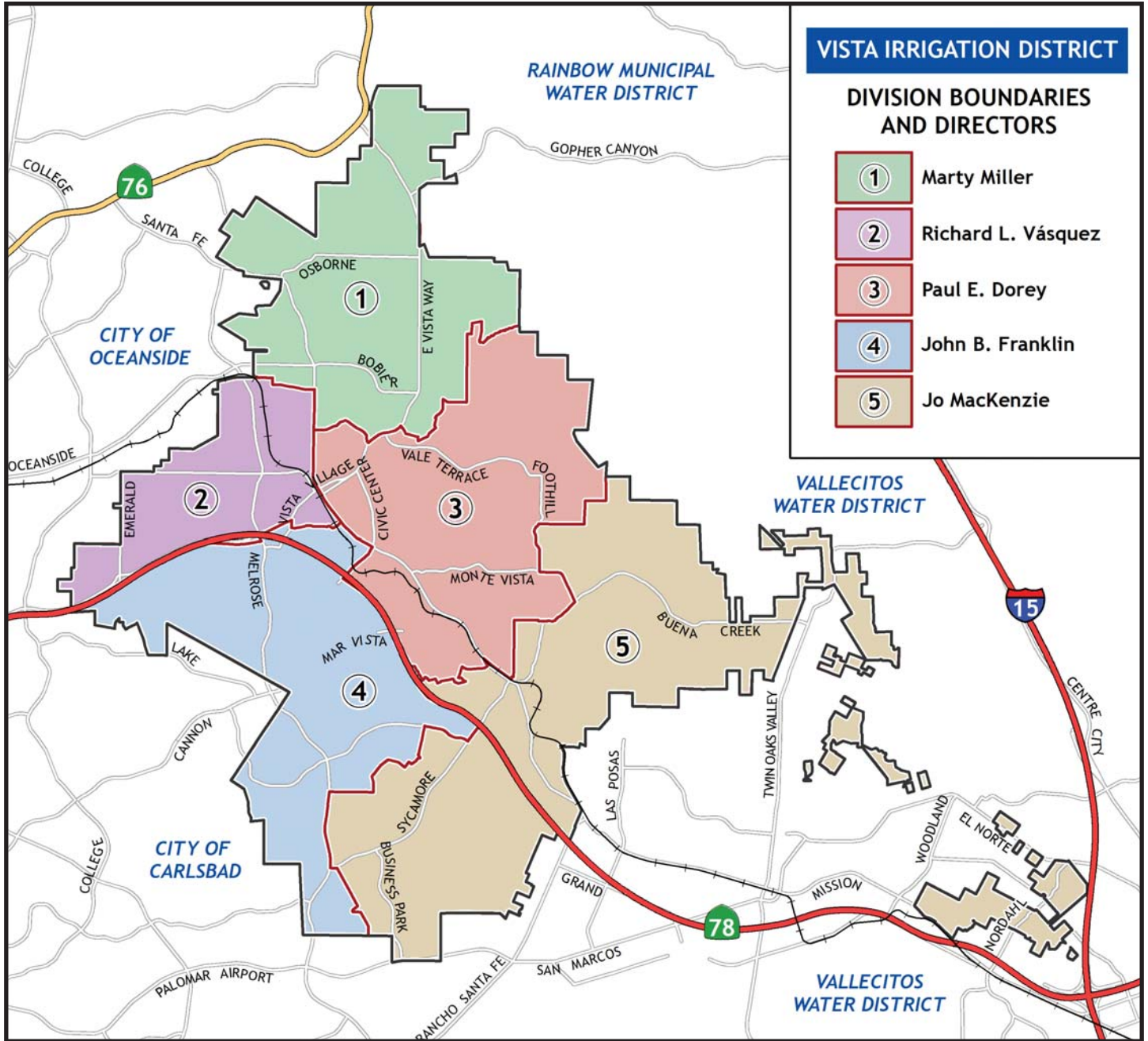
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Division Boundary Map



The Vista Irrigation District serves more than 124,000 people through approximately 28,400 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

3

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



Pictured L-R: Back Row - Paul E. Dorey, Division 3; Jo MacKenzie, Division 5; Marty Miller, Division 1
Front Row - John B. Franklin, Division 4; Richard L. Vásquez, Division 2

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



Roy A. Coox
General Manager

The Vista Irrigation District celebrated its 90th anniversary in 2013. As I look forward to our upcoming centennial milestone, I would like to reflect on the District's long and proud history, and to recognize and appreciate our most recent achievements. 2013 was another tremendously busy and successful year for the District, and we couldn't have done it without the entire District team working together—our dedicated employees and Board members working on behalf of our customers and ratepayers. In this message, I get the opportunity to reminisce about the past year and to recognize and celebrate our milestones and accomplishments, and to identify and appreciate the personal and professional relationships that made them possible.

The District achieved extraordinary milestones that were the tangible result of our team-oriented approach, representing hard work by District employees working with each other, our Board, outside consultants, and in many cases in partnership with other agencies. These achievements resulted not only in immediate but also in future benefits to our employees, customers and ratepayers.

- As required under Proposition 218, we renewed the District's Rate Adjustment Policy for the next five years, which passes through San Diego County Water Authority (CWA) costs and establishes annual inflationary adjustments for District costs. This assures our ratepayers that the District is soundly managed and will spend less than the rate of inflation, without extraordinary rate increases.

- This past year, we hit the milestone of 25 employees who have been promoted into more responsible positions in the last 5 years. We accomplished this despite reducing the total workforce by over 10% by reorganizing and rewarding employees who take on additional tasks and responsibilities.

- We completed our water purchase agreement with the City of Oceanside for obtaining treated water from the Weese Filtration Plant for our service area and customers. This milestone achievement optimizes water production and reduces unit costs at the treatment plant, and provides additional reliability and operational flexibility for the District, especially in times of water shortage. The agreement provides a "win-win" outcome for both agencies, and saves the District up to \$500,000 per year compared to the cost of purchasing water from the District's other sources.

- We completed the District's comprehensive Water Supply Planning Study, which evaluated the condition of the Vista Flume for future capital planning purposes and performed a cost of local water analysis. As a result of these studies, the District will continue to maintain and rehabilitate the Flume structure and to pursue local water reliability.

- We completed our Recycled Water Study, which confirmed the operational and financial feasibility of delivering recycled water from Carlsbad to the Shadowridge Golf Course. Our recent partnership with Oceanside allows us to expand this effort

"The District achieved extraordinary milestones that were the tangible result of our team-oriented approach."

into a regional project to distribute recycled water from Carlsbad to Oceanside's Ocean Hills area and beyond, with several potential VID customers that could be added along that route.

- Based on the announcement that San Onofre Nuclear Generating Station was permanently going off line resulting in impacts throughout the region on electricity rates, the Board approved a new long-term agreement with our electricity provider that should result in a savings of approximately \$150,000 per year for our ratepayers.

2013 marked the Vista Irrigation District's 90th year of serving the community. We are proud to be one of the oldest water districts in Southern California. We were formed in 1923 to provide water to the farms and orchards of the nascent community of Vista and its environs. In those days, the Vista Irrigation District served a population of approximately 300. Today, we serve a community of over 124,000 thirsty customers. Some of the key milestones along the historical time line of the District are:

- 1923
VID formed on September 11
- 1926
Arrival of first water from Lake Henshaw, which was created in 1922, to coincide with the completion of the Vista Flume
- 1929
Pechstein Building is built in downtown Vista and becomes VID headquarters
- 1931
Completion of Pechstein Dam, creating Pechstein Reservoir, the District's major water storage facility
- 1940's
With VID water, Vista becomes the "avocado capital of the world"
- 1946
VID purchases Lake Henshaw and the 43,000 acre Warner Ranch

1950
VID covers the 12-mile length of the Vista Flume

1951
Five-year drought lowers Lake Henshaw from 120,000 acre feet to 200 acre feet, and 31 wells are dug to begin pumping groundwater into Lake Henshaw

1954
VID begins receiving imported water from the San Diego County Water Authority

1961
New VID Building is built on Connecticut Avenue to combine field and office operations in one location

1976
Completion of Escondido-Vista Water Filtration Plant, which enabled the District to provide treated water to all customers

1978
Pechstein Lake is replaced by the covered Pechstein Reservoir

1982
Henshaw Dam is re-engineered for seismic reasons, reducing the lake's capacity from 200,000 acre feet to approximately 50,000 acre feet

2001
VID moves into current headquarters building in the Shadowridge Industrial Park

2013
VID enters into agreement to receive treated water from Oceanside's Weese Filtration Plant

The Vista Irrigation District is proud of its track record over the years and looks forward to many more successful years of service. We will continue to fulfill our mission to provide a reliable supply of high quality water to our customers in an environmentally and economically responsible manner.

~ Roy A. Coox

San Diego County Water Authority Report

Region's Water Supplies Sufficient for 2014

Photo: Colorado River Aqueduct

Healthy reservoir storage levels, strong regional water conservation efforts and growing water transfers from the Colorado River mean that San Diego County will have sufficient water supplies for 2014 despite a statewide drought declaration by Governor Jerry Brown, according to the San Diego County Water Authority (Water Authority).

The past two years have been dry across California. The Colorado River Basin has been dry 11 out of the last 14 years. Locally, precipitation at Lindbergh Field in San Diego was 63 percent of normal for the rainfall year (October 1, 2012 through September 30, 2013).

While a third consecutive year of limited rainfall and snow would draw down several key reservoirs, the Water Authority and its member agencies, including the Vista Irrigation District (District), are not anticipating the need for extraordinary water conservation measures or water shortage allocations in 2014. The Water Authority and District are encouraging residents and businesses to continue their water-use efficiency efforts. The Water Authority will continue to monitor weather conditions, particularly in the Sierra Nevada and Rocky Mountains, where much of the region's water supplies originate.

The Metropolitan Water District of Southern California (Metropolitan) has indicated that it has adequate reserves and that no allocations are expected in the coming year, even though imports from the State Water Project are expected to be very low because of dry conditions and regulatory restrictions. Metropolitan had 3 million acre feet of water storage at the end of 2013. It is anticipated that Metropolitan will use stored water to augment imported supplies to meet demands in 2014. (An acre-foot of water will serve two typical families of four for a year.)

The Water Authority's investments in diversifying its water supply portfolio and emergency storage will also help meet demands during dry periods. The conservation and transfer programs that are part of the Colorado River Quantification Settlement Agreement

of 2003 will provide San Diego County with about 180,000 acre-feet of Colorado River water that is not subject to shortage allocations from Metropolitan. The water transfers increase yearly to 280,000 acre-feet by 2021, enough water to supply more than 500,000 typical single-family homes.

Additionally, the Water Authority signed an agreement to purchase up to 56,000 acre-feet of water annually from the Carlsbad Desalination Project, which is expected to begin production in 2016. Over the last decade, the Water Authority also developed its Emergency Storage Program, which included the expansion of the San Vicente Reservoir to store more water locally to use during dry years and emergencies. The San Vicente Dam raise is nearing completion and the reservoir is expected to be filled over the next few years depending on water availability.

Regional water-use efficiency is another key component in balancing supply and demand. Water use in San Diego County has dropped by about 30 percent between 2007 and 2012. While regional water consumption has edged upward in 2013, the San Diego region is on track to achieve the state-mandated goal of reducing per capita water demand by 20 percent by 2020. (The Vista Irrigation District's per capita water use is also on track to meet its 2015 and 2020 conservation targets.)

The Water Authority has invested in diversifying its water supply portfolio and improving its infrastructure. Those investments coupled with the water-use efficiency measures implemented by residents and businesses across San Diego County mean that the region will have a sufficient water supply for at least 2014. That being said, the Water Authority and its member agencies will continue to work together on storage management strategies, implementing new water-use efficiency programs and developing new local supplies, such as groundwater and recycled water, to help ensure the region's water demands can be met during prolonged dry periods.

"San Diego County will have sufficient water supplies for 2014."

Celebrating 90 Years of Serving the Community

The Vista Irrigation District celebrated its 90th anniversary in September 2013. In doing so, the District remembered its storied past and reflected on how the District, as well as the communities that it serves, has changed over the years. As chronicled below, the Vista Irrigation District was formed to provide a reliable source of water and has had the foresight to make decisions that will allow it to do so well into the future.



This seal is the original seal of the District and, we believe, was adopted when the District was created in 1923. The first annual report of the Vista Irrigation District, published in 1927, tells us that prior to the formation of the District, installation of new water tanks to hold well water had caused planting of citrus and avocados to increase so rapidly that there was danger of running out of water. This crisis coincided with the building of Henshaw Dam in 1923 by the San Diego County Water Company. Completion of the dam made it possible for the Vista community to receive a reliable source of water, instead of relying on wells in the area.

1923 - 2013

Considerable time and effort were spent convincing some reluctant owners of the advantages and advisability of forming a District so that outside water could be obtained. An election was held on August 28, 1923, and 100% of the eligible voters participated. The outcome of the election was 104 votes for and 4 votes against formation of the Vista Irrigation District.

The area celebrated the arrival of the first water from Lake Henshaw on February 27, 1926. Following the arrival of water, crops of all kinds were planted in increasing numbers, and the Vista area became known as the "Avocado Capital of the World," with six avocado packing houses in the area.

In June, 1946, after several years of negotiations, the Vista Irrigation District purchased the San Diego County Water Company. Included in the purchase was the 43,000 acre Warner Ranch, a former Spanish Land Grant, which includes Henshaw Dam and Lake Henshaw. Purchase of these facilities was purely economic, in that it was a result of a search for cheaper water for the District.

Drought conditions and population growth eventually caused the District to look for other sources of water. On February 16, 1954, VID became a member of the San Diego County Water Authority to take advantage of water imported from the Colorado River and Northern California.

The year 1955 saw a breakthrough in this agricultural community, when the first city-type, mass-built subdivisions were started. The year 1955 also was the beginning of the decline of Vista as an avocado producing and packing center. This was due primarily to the collapse of the price structure (and the drought), which would continue well into the 1960's. Many groves were split into parcels, and the building of homes on these parcels and in subdivisions continued throughout this period.

Today, the Vista Irrigation District serves over 28,400 accounts, the majority of which are residential, and a population of more than 124,000. In fiscal year 2013, a total of 18,904 acre feet, or about 6.2 billion gallons, of water was distributed and sold within the District. Of that amount, 69% was distributed for residential use, 10% for industrial and commercial, 11% for landscape irrigation, 6% for agriculture and 4% for governmental use.

The mission of the Vista Irrigation District is to manage available resources in order to provide a reliable supply of high quality water to meet the present and future water needs of the District's service area. To this end, the District continues to invest in its infrastructure, search for additional water sources and educate our customers about the importance of using water wisely. As the District moves forward, it is important that it not lose sight of why it was formed and continue to make decisions that will ensure that future generations have a safe, reliable water supply.

Water is an essential part of our everyday lives, the foundation on which we build our communities and the fuel for our local economy. While many understand the value of water, most don't reflect on the effort and expense it takes to provide an affordable, reliable source of water. The San Diego region relies on an extensive water supply system that must deliver water 24 hours a day, 365 days a year. A system so reliable, we rarely worry whether water will flow when we turn on the tap. A remarkable feat, considering the myriad of challenges facing water suppliers in California today.

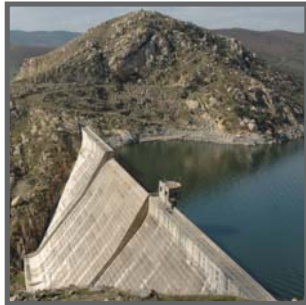


Imported Water Supplies

A lack of local water resources requires the San Diego region to rely heavily on imported water from the Colorado River and the Sacramento-San Joaquin Delta (Delta). Approximately, 80% of the water used in San Diego County is imported. These imported water supplies are under ever increasing pressure from drought, court mandates and population growth.



The San Diego County Water Authority (Water Authority), the region's wholesale water supplier, has invested in diversifying its water supply portfolio and emergency storage to help meet San Diego County's demands during dry periods as well as when supplies from the Delta are limited. The Water Authority has entered into a conservation and transfer agreement with the Imperial Irrigation District to bring a more reliable source of Colorado River water to the region and has executed an agreement to purchase water from the Carlsbad Desalination Plant. Additionally, the Water Authority has increased its emergency storage, most recently raising the height of the San Vicente dam. While these water sources and projects are expensive, they provide the region with a more secure water supply and reduce the impacts caused by drought or other emergency conditions.



*Photos on left from top to bottom: Sacramento-San Joaquin Delta; Colorado River Aqueduct; San Vicente Dam
Photos on right from top to bottom: State Water Project Pump Station; Escondido-Vista Water Treatment Plant; Water Fountain supplying clean, safe tap water.*

Energy

Water is heavy; it takes a tremendous amount of energy to transport water in California. In fact, the California Public Utilities Commission estimates that 20% of the electricity used in California is related to water use. San Diego County is located literally at the end of the imported water supply pipeline. As a result, the transportation cost of importing water into the region is some of the highest in southern California. As energy costs rise, so does the cost of imported water, which affects the price paid by wholesale water suppliers and retail agencies, like the Vista Irrigation District.



Water Infrastructure

During the twentieth century, tremendous investments have been made in the water infrastructure that delivers water to and in the San Diego region. Much of that water supply system that the state and region relies on is now decades old, and aging parts of that system must be upgraded, repaired and/or replaced, costing hundreds of millions of dollars statewide and regionally; however, these expenditures are necessary to ensure reliable water deliveries for current and future residents and businesses across California and right here in San Diego County.



Reliance on imported water, energy costs and maintaining water infrastructure are just a few examples of the challenges that the Vista Irrigation District faces in providing its customers with a reliable water supply. Yet, the water flowing out of your tap remains a tremendous value. A gallon of water, treated to the standards that meet or exceed that of bottled water, costs less than half a cent per gallon delivered to your home or business.



Of course, the true value of a reliable water supply cannot be simply measured just in dollars and cents. Water has been, and will continue to be, a cornerstone of building healthy communities and economies. Ninety years ago, the people of Vista realized this fact and voted to create the Vista Irrigation District to provide the community with the water it needed. The Vista Irrigation District will continue to work to fulfill its mission, ensuring its customers receive the best value for clean, safe water from the tap.

Vista Irrigation District's *Awards and Recognition*

Top Workplace Award

The Vista Irrigation District received the U-T San Diego Top Workplace award, recognizing it as one of the best small companies to work for in San Diego County. Top Workplace awards recognize the county's top employers based on nominations and feedback from the employees.



Innovative Program/Project of the Year Award

The California Special Districts Association presented its Innovative Program/Project of the Year award to the Vista Irrigation District for its Workforce Planning and Career Development Program. The Innovative Program/Project of the Year award is given annually to a special district whose creative program produces tangible and positive results.

Warner-Carrillo Ranch House Restoration Project Awards



The Warner-Carrillo Ranch House Restoration Project, which restored a unique Mexican period adobe ranch house, which served as Butterfield stagecoach station and trading post and is a registered national and state historic landmark, to its mid-1800's appearance, continued to receive recognition in 2013. The California Preservation Foundation presented the Vista Irrigation District with the Preservation Design Award in the restoration category, recognizing the project's efforts to accurately depict the structure as it appeared in a particular era. The project was also recognized by the American Institute of Architects San Diego chapter, receiving the organization's Divine Detail and Historic Preservation awards. The Divine Detail Award recognizes specific, ingenious, unique and/or graceful design details of a project, and the Historic Preservation Award recognizes and highlights the special conditions that surround a historic preservation project.



These awards represent the latest honors for the celebrated Warner-Carrillo Ranch House, the restoration of which has already received recognition from the Governor's Office of Historic Preservation, the Save Our Heritage Organisation, and the American Public Works Association.

Certificate of Achievement for Excellence in Financial Reporting

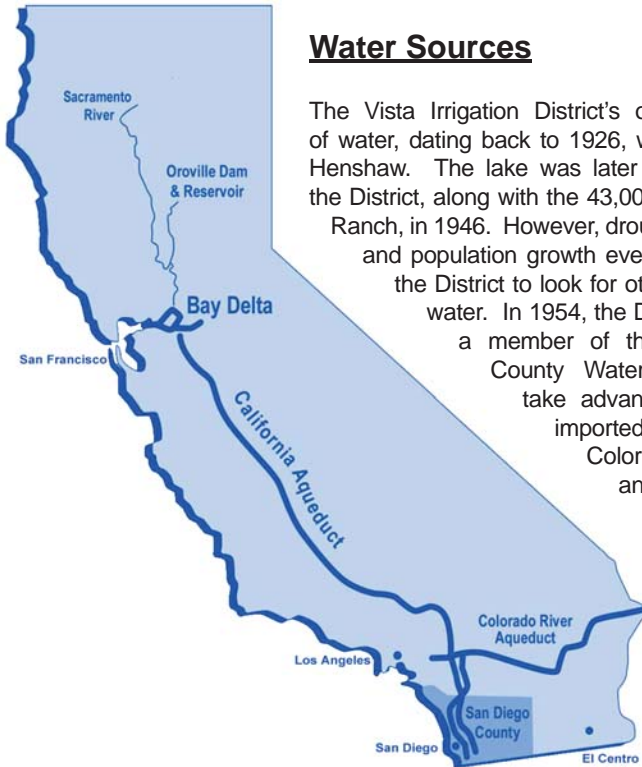
The Government Finance Officers Association of the United States and Canada awarded a Certificate of Achievement of Excellence in Financial Reporting to the Vista Irrigation District for its comprehensive annual financial report for the sixth consecutive year. The Certificate of Achievement is the highest 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.



Districts of Distinction Award and Transparency Certificate of Excellence

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. The Vista Irrigation District originally obtained its accreditation in 2009 and received its reaccreditation in 2011 and 2013. The Special District Leadership Foundation also presented the District with the Transparency Certificate of Excellence in recognition of its efforts to promote transparency in operations and governance to the public.

WATER SUPPLY FACTS



Water Sources

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



Typically, thirty percent of the District's water has come from Lake Henshaw and seventy percent has come from imported water from the Colorado River and Northern California. In fiscal year 2013, just 11 percent of the District's water came from Lake Henshaw. During years when rainfall is significantly below average and the availability of local water is limited, well over ninety percent of the District's water supply can come from imported sources.



Water Infrastructure

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

Since its inception, the Board has allocated \$17.2 million to this program which has allowed the replacement of just over 26 miles of older pipe ranging in size from 4 to 20 inches. This year the District spent about \$1.8 million replacing approximately 16,160 feet of pipe as part of this program.

Photos: (top) Colorado River; (middle) Lake Henshaw; (left) Picture captures the replacement of a 50 year old - 8" asbestos cement (AC) waterline along Foothill Drive in Vista. The new line being installed is a 10" PVC waterline that will provide a more reliable water supply to VID customers for many years to come.

Water Quality

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

In June of each year, the District sends its customers a 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.

VID VISTA IRRIGATION DISTRICT
2013 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, 2012 through December 31, 2012.

WHAT'S THIS REPORT ABOUT?
 We are pleased to send you our Consumer Confidence Report (CCR), also known as the Water Quality Report. We take all steps necessary to safeguard your water supply, conducting more than 12,000 tests for over 75 drinking water constituents. This report provides a snapshot of the quality of water we provided last year. Included are details about where your water comes from, what it contains and how it compares to state standards. We are committed to providing you with information because informed customers are our best customers.

WHAT ARE THESE TABLES?
 The data tables shown on this page and the following 2 pages list all of the drinking water constituents that were detected during the most recent sampling for the constituent. The presence of these constituents in the water does not necessarily indicate that the water poses a health risk. The California Department of Public Health (CDPH) requires us to monitor for certain constituents less than once per year because the concentrations are not expected to vary significantly from year to year. Some of the data, though representative of the water quality, are more than one year old. The terms used in these data tables can be found listed at the bottom of the table on the following page.

Some of the following tables show water from two sources - local water from Lake Henshaw, which is treated at the Escondido-Vista Water Treatment Plant (EVWTP) and imported water, which is treated at the San Diego County Water Authority's Twin Oaks Valley Water Treatment Plant, Metropolitan Water District of Southern California's Skinner Treatment Plant, Robert A. Weese Filtration Plant, and at the EVWTP.

2012 WATER QUALITY MONITORING RESULTS

Parameter	Units	Federal or State MCL (MCLG)	PAG (MCLG)	Range	Treatment Plant Effluents				Typical Source/Comments	
					Escondido-Vista Water Treatment Plant	Twin Oaks Valley Water Treatment Plant	Skinner Treatment Plant	Weese Filtration Plant		
Inorganic Constituents - Primary Standards										
Fluoride (F-) Treatment Residual	mg/L	2	1	Range	0.58-0.64	\$2-5.9	0.7-0.9	0.1-0.2	0.1	Excess of natural deposits, water additive for dental health
				Average	0.76	0.7	0.8	0.2		
Inorganic Constituents - Secondary Standards (Aesthetic Standards)										
Aluminum (Al)	mg/L	200	ND	Range	ND	ND-44	ND	63-200	ND	Residue from water treatment processes, natural deposits, erosion, clearing vegetation or other
				Average	ND	30	ND	149	ND	
				Range	1-2	ND	1	ND		

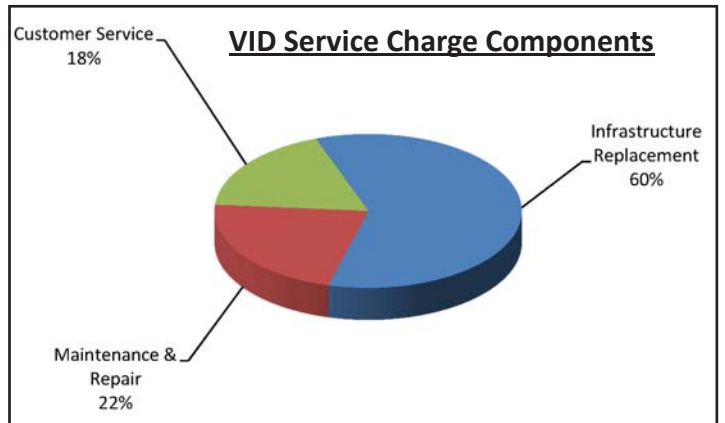
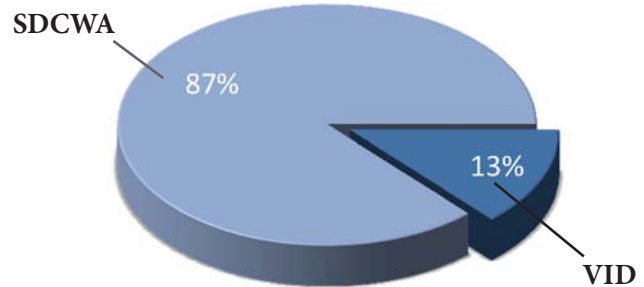
Water Rates and Charges

Approximately 13% of the revenue generated by water usage charges is utilized by the Vista Irrigation District to cover operating and maintenance expenses. The remaining 87% is used to pay the San Diego County Water Authority (Water Authority) for water purchases.

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

The Vista Irrigation District's service charge, which represents a small portion of a typical customer's bill, 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 in a particular month, 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.

Water Usage Charge Allocation



More Information about the Vista Irrigation District

Information about the Vista Irrigation District's water supply as well as an electronic copy of the latest Consumer Confidence Report can be found on the District's web site, www.vid-h2o.org. Additionally, you can find out more information about District services, rates, water conservation, and recent announcements. Customers can also download publications, such as the District's direct payment program application and engineering standard specifications/drawings.

2012-2013 Employee Service Awards

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

5 Years of Service

L-R: Sherry Thorpe, Allie Valladares, Jeanette Bradshaw, Joel Gullingsrud, Richard Howard, Greg Bryant, Angela Morrow, Pat Smith



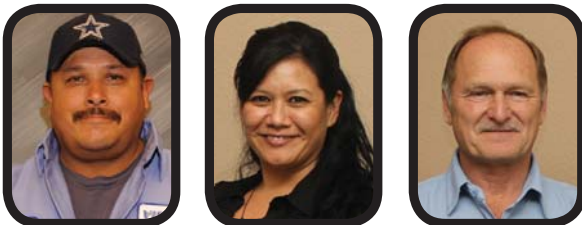
10 Years of Service

L-R: Brian Duran, Kris Sliffe, Luis Ramos, Marian Schmidt, Abe Gomez, Richard Martinez, Mark Meza



15 Years of Service

L-R: Rick Reyna, Yolanda Salazar, George Pritchard



20 Years of Service

L-R: Jose Ramirez, Jim Allen, Donald Gordon



25 Years of Service

L-R: Jim Green, Kurt Casto



30 Years of Service

L-R: Pat Simons, Mike Bagshaw



DISTRICT



DEMOGRAPHICS

Distribution System

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

RESERVOIR	SIZE AND CAPACITY	EXISTING CAPACITY (Million Gallons)	FLOOR ELEVATIONS (Feet)	TOP WATER ELEVATIONS (Feet)
Lupine Hills	Prestressed Concrete – 137' Dia. – 34' High	3.30	536.0	568.0
Pechstein	Prestressed Concrete – 355' Dia. - 28' High	20.00	810.0	837.0
Deodar	Prestressed Concrete - 86' Dia. - 31' High	1.30	869.0	899.0
San Luis Rey	Concrete - 156' x 136' x 26' High	3.00	540.0	565.0
Virginia Pl. (A)	Concrete - 100' Dia. - 13'8" High	0.76	695.0	708.0
Summit Trail (C)	Concrete - 100' Dia. - 13'8" High	0.76	625.0	638.0
Edgehill (E)	Concrete - 96' Dia. - 12' High	1.49	741.0	753.0
Cabrillo Cir. (E-1)	Concrete - 90' Dia. - 13'8" High	0.62	546.8	560.0
Rockhill (MD)	Concrete - 55' Dia. - 14' High	0.23	886.4	899.0
Edgehill (HP)	Prestressed Concrete – 160' Dia. – 33' High	4.85	942.7	972.0
Buena Creek (HB)	Prestressed Concrete – 160' Dia. – 33' High	4.85	950.9	980.0
Elevado (H)	Prestressed Concrete – 160' Dia. – 36' High	5.30	774.0	810.0
Total		46.46		

Water Transmission Facilities

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

Water Meters

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

Residential (Single and Multi-Family)	24,048
Commercial/Industrial	1,621
Irrigation	889
Agricultural	567
Fire Service (Fire Sprinklers)	1,218
Governmental	92
Total	28,435

Water Equivalentts

- 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

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	268 miles
14" to 36" AC	17 miles
4" to 12" PVC	79 miles
14" to 18" PVC	1 mile
4" to 12" Steel	69 miles
14" to 42" Steel	26 miles
All other materials larger than 4"	5 miles
Total	473 miles

Performance of Distribution Systems (Fiscal Year 2012–2013)

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

	Water In	Water Out
Received at Intake of Main Conduit (Henshaw Water)	2,092	
Received from San Diego Aqueduct (Imported)	17,398	
Miscellaneous Purchases	0	
Metered to VID users		18,904
Losses		586
Total	19,490	19,490

Lake Henshaw Properties

Warner Ranch:

43,402 acres(68 square miles)

Groundwater Development:

21 wells and 91,000 feet of conduit

Semi-Hydraulic Earth Fill Dam:

Height 110 feet, Length 1,950 feet

Reservoir (Lake Henshaw):

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

Ownership of Lake Henshaw Waters

This table presents a snapshot of ownership of the water stored in the lake at the beginning and end of the fiscal year. The categories of water listed are defined in terms of contractual obligations. (Information gathered from Ownership Analysis Report.)

	July 1, 2012	July 1, 2013
Rincon Indians	359	0
Escondido Replacement	0	0
Vista Replacement	0	0
Escondido Pumped	0	0
Escondido Contract	2,710	1,144
Vista Contract	2,006	4,289
Vista Pumped	442	458
Unallocated Henshaw Surplus	(762)	(929)
Total	4,755	4,962

Lake Henshaw Releases (Fiscal Year 2012-2013)

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

Losses in San Luis Rey River	256
Delivered to Rincon Indians	368
Escondido "A" Water*	1,053
In Lieu "A" Water*	0
Escondido "B" Water*	1,064
In Lieu "B" Water*, Esc. Joint Well Water	259
Replacement Water to Lake Wohlford	2,092
Loss of Release below Intake	252
Total Releases	5,344

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

Lake Henshaw Performance

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

	Acre Feet
Total Storage July 1, 2012	4,755
Less Release	(5,344)
Less Evaporation	(4,509)
Less Spill	0
Plus Pumped Water	9,985
Plus Runoff*	75
Total Storage July 1, 2013	4,962

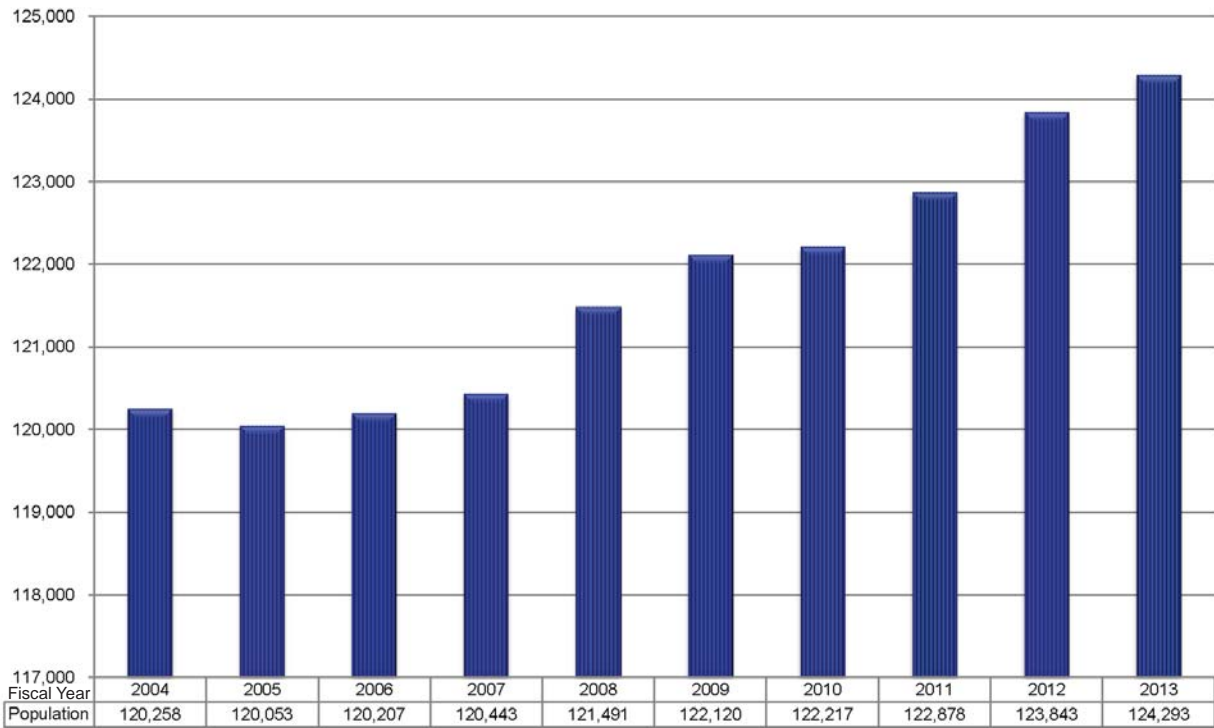
* Computed Runoff plus Rainfall, Conserved Evaporation, and Bank Storage

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Population

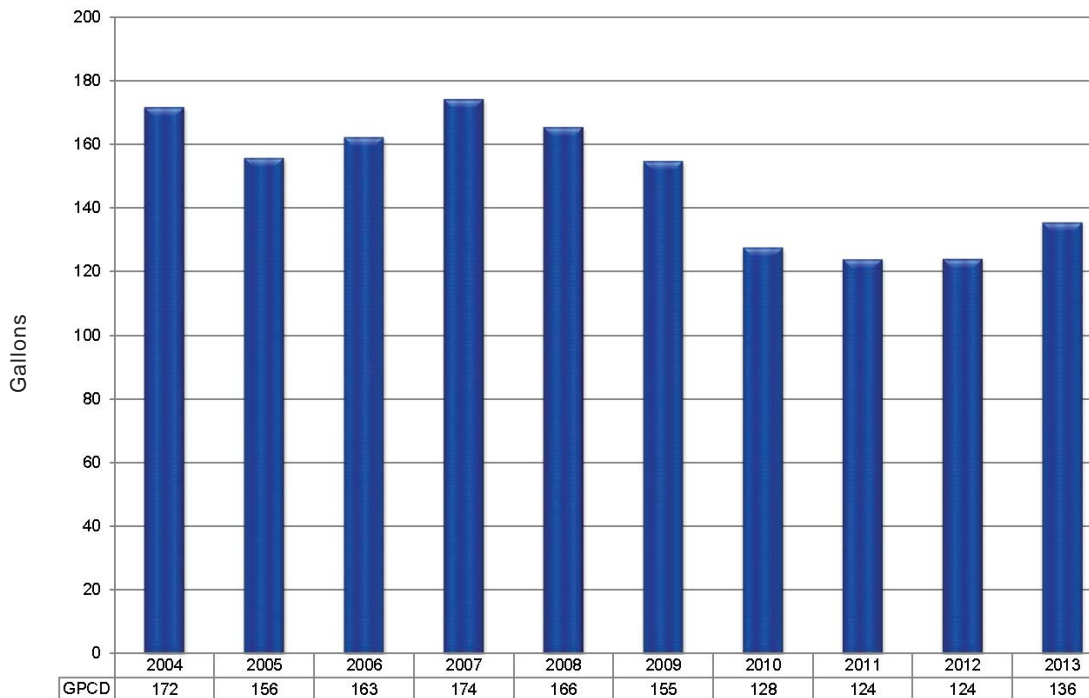
This graph depicts population growth within the District's service area, which is comprised of the City of Vista as well as portions of San Marcos, Escondido, Oceanside and unincorporated areas of the county.

Source: San Diego Association of Governments.



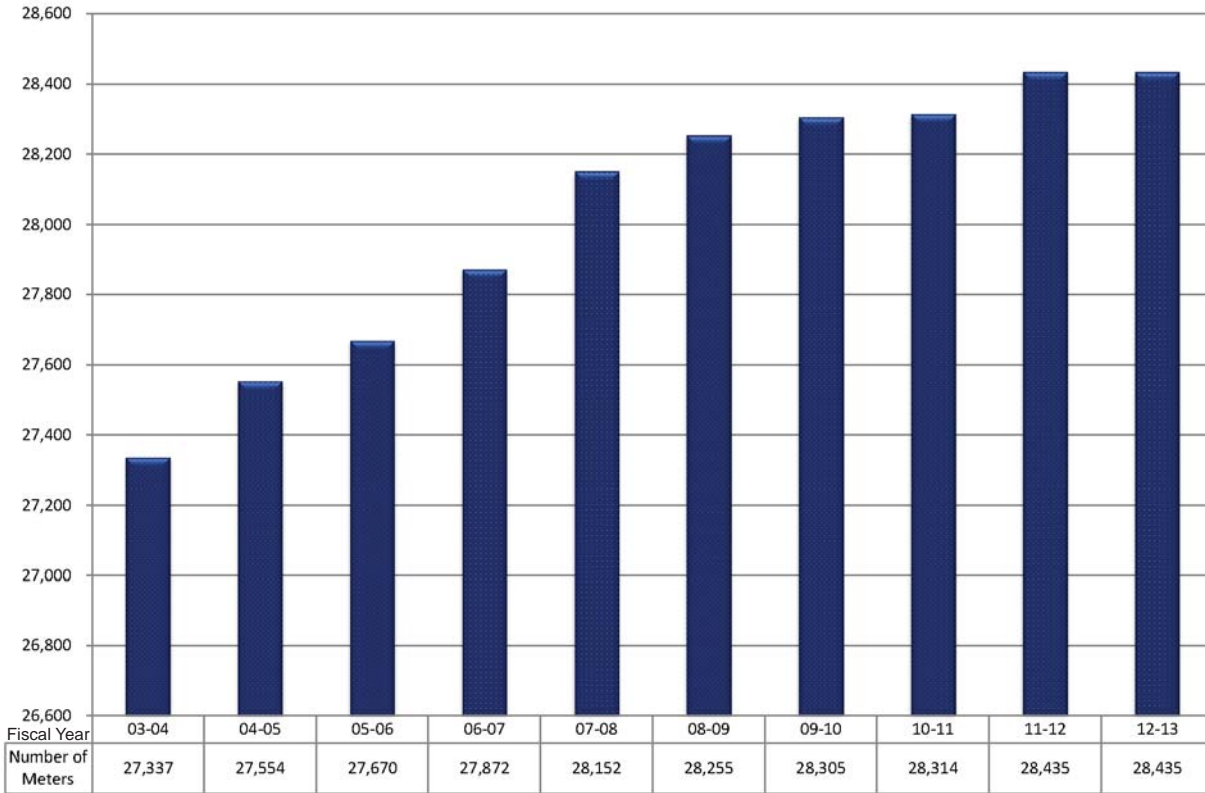
Average Daily Water Use Per Person

Even though the population served within Vista Irrigation District's service area has continued to grow, water consumed by that population has declined. Drought and the implementation of mandatory water use measures and tiered water rates in 2009 keyed a significant reduction in water use by customers. The District's estimated daily per capita water use in 2013 was 136 gallons per capita per day (GPCD), which is 6 GPCD less than its "20 X 2020" target. SBX 7-7 requires retail water agencies to achieve a 20% reduction in per capita water use by December 31, 2020 (referred to as "20 X 2020").



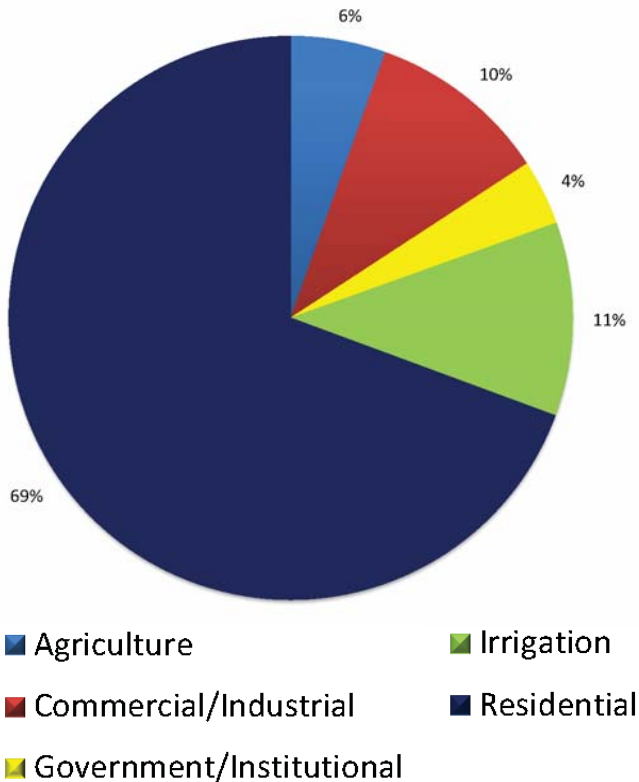
Meters in Use

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



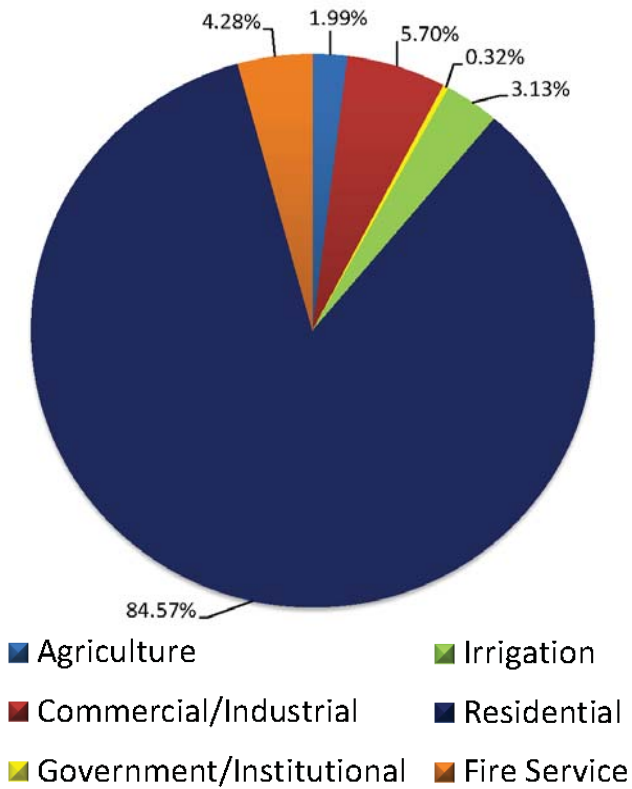
Water Delivered by Use Type

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



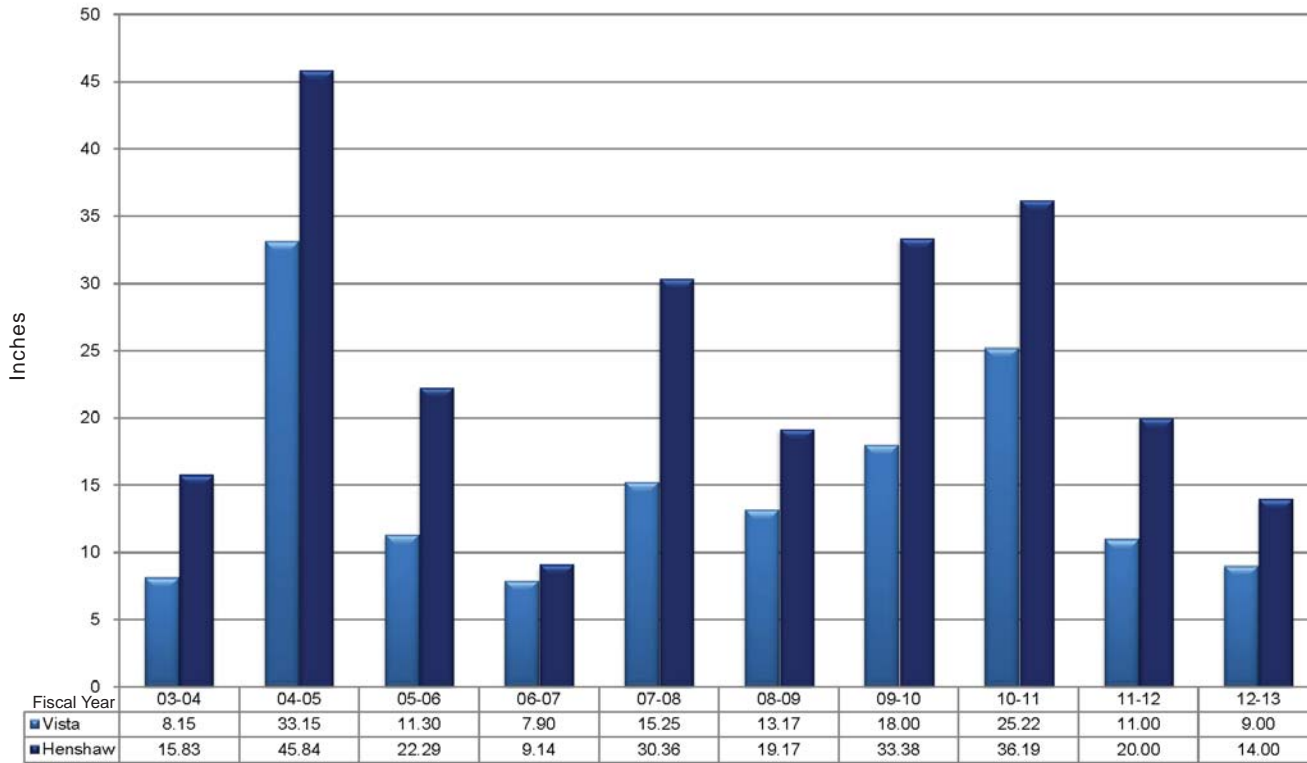
Meters in Service by Use Type

The Meters in Service by Use Type graph shows meters in service by use. Almost eighty-five percent of the District's 28,435 meters are used to supply water to single-family residences.



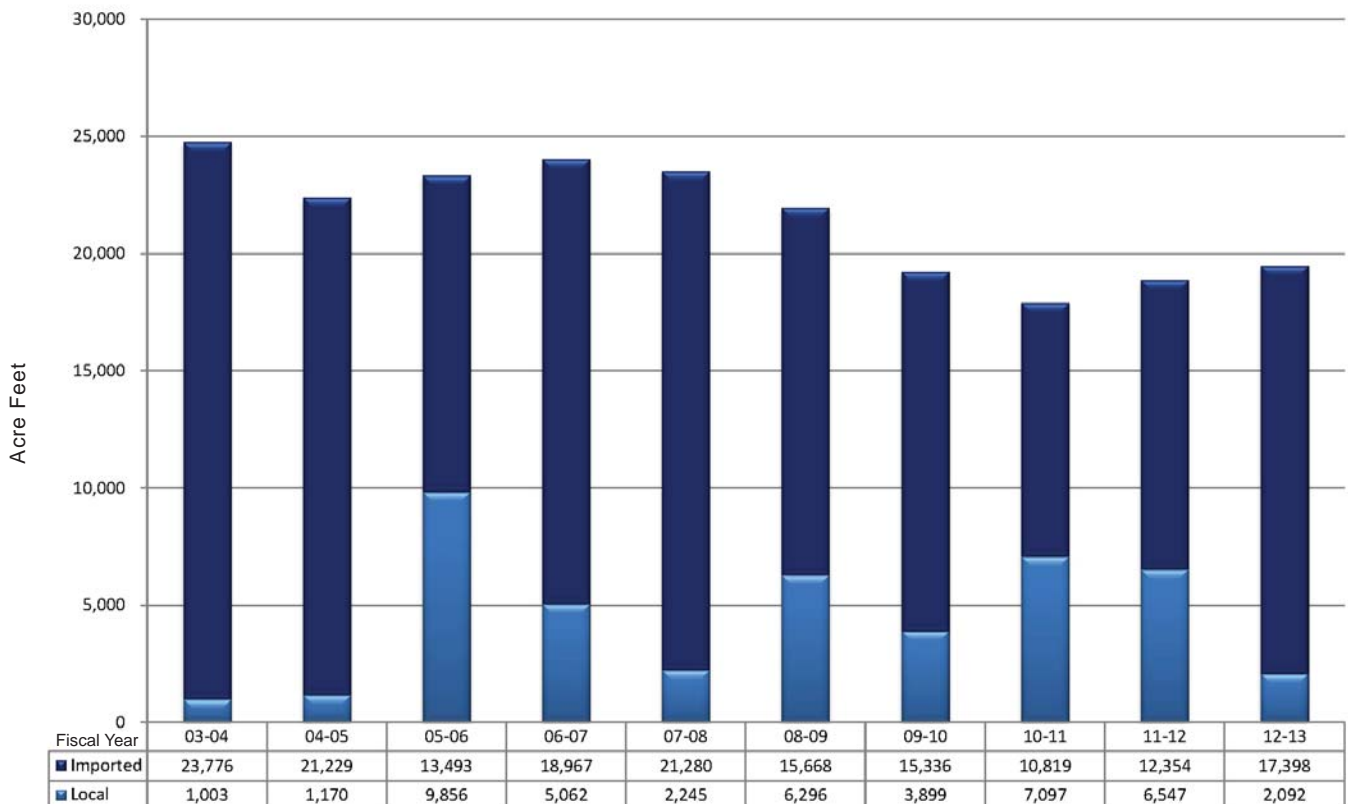
Rainfall (July 1 - June 30)

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



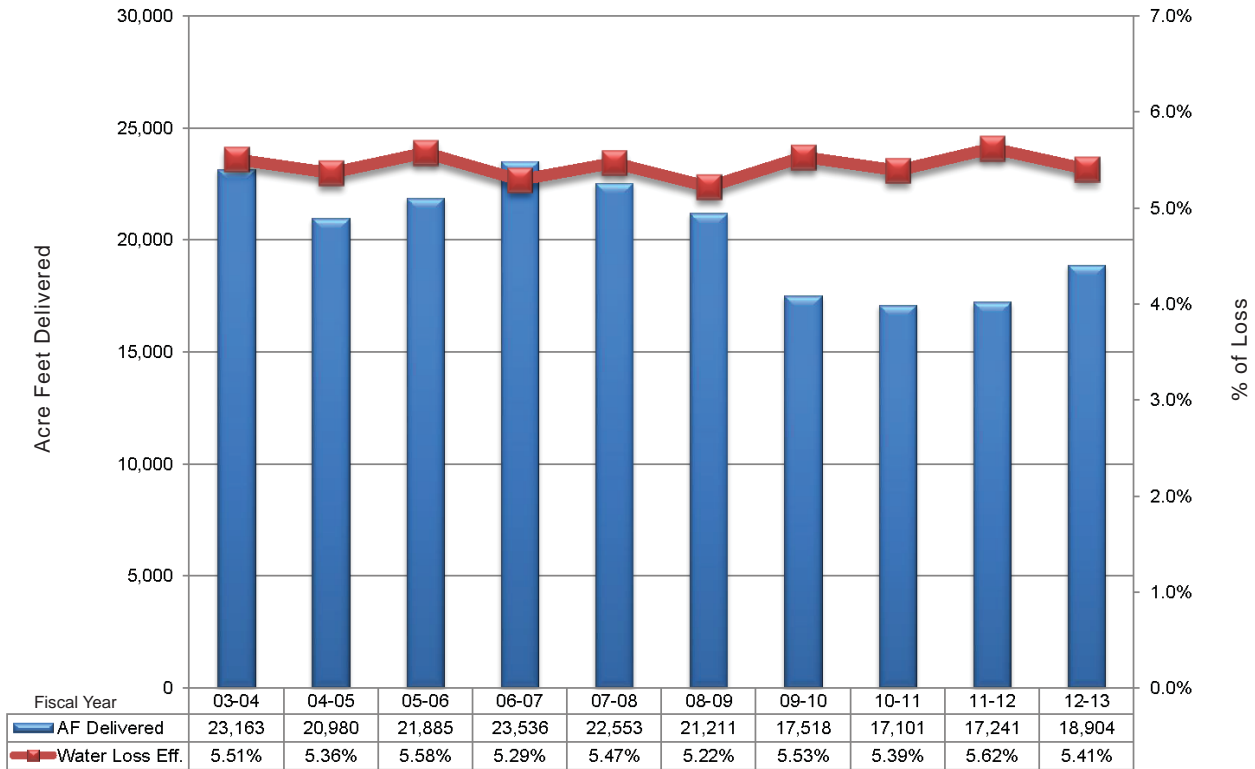
Water Received

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



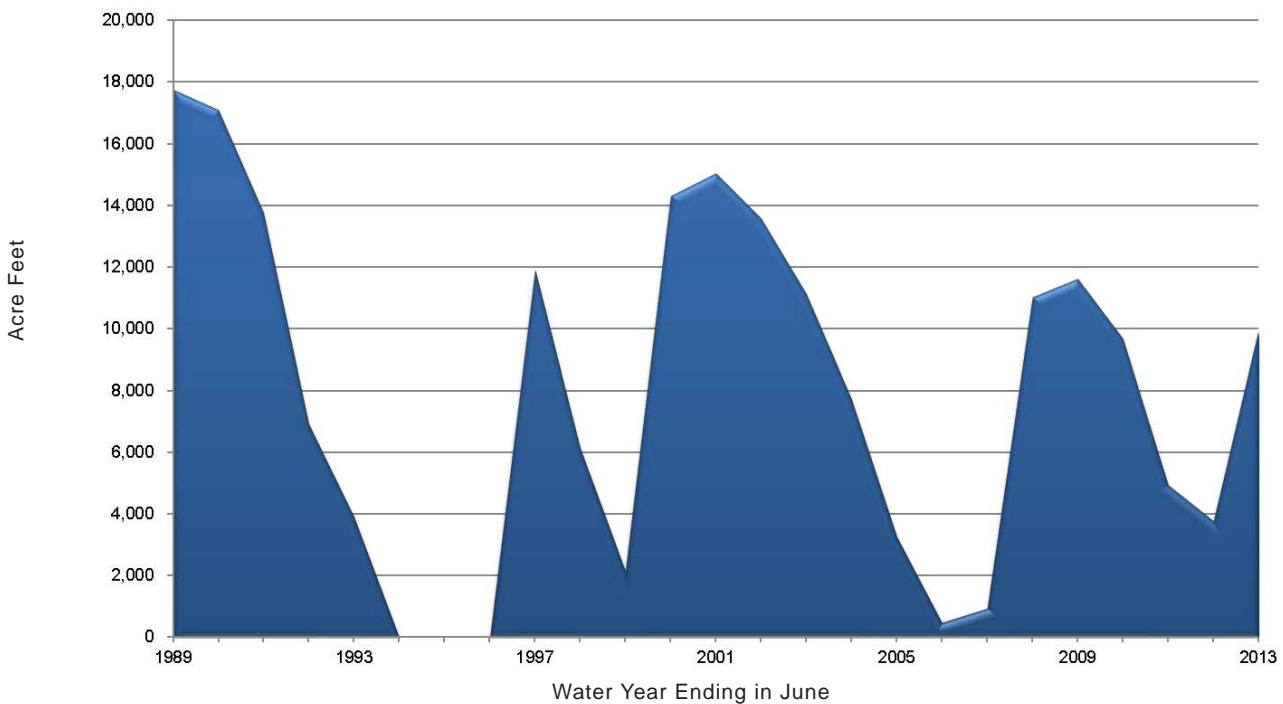
Distribution Efficiency

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



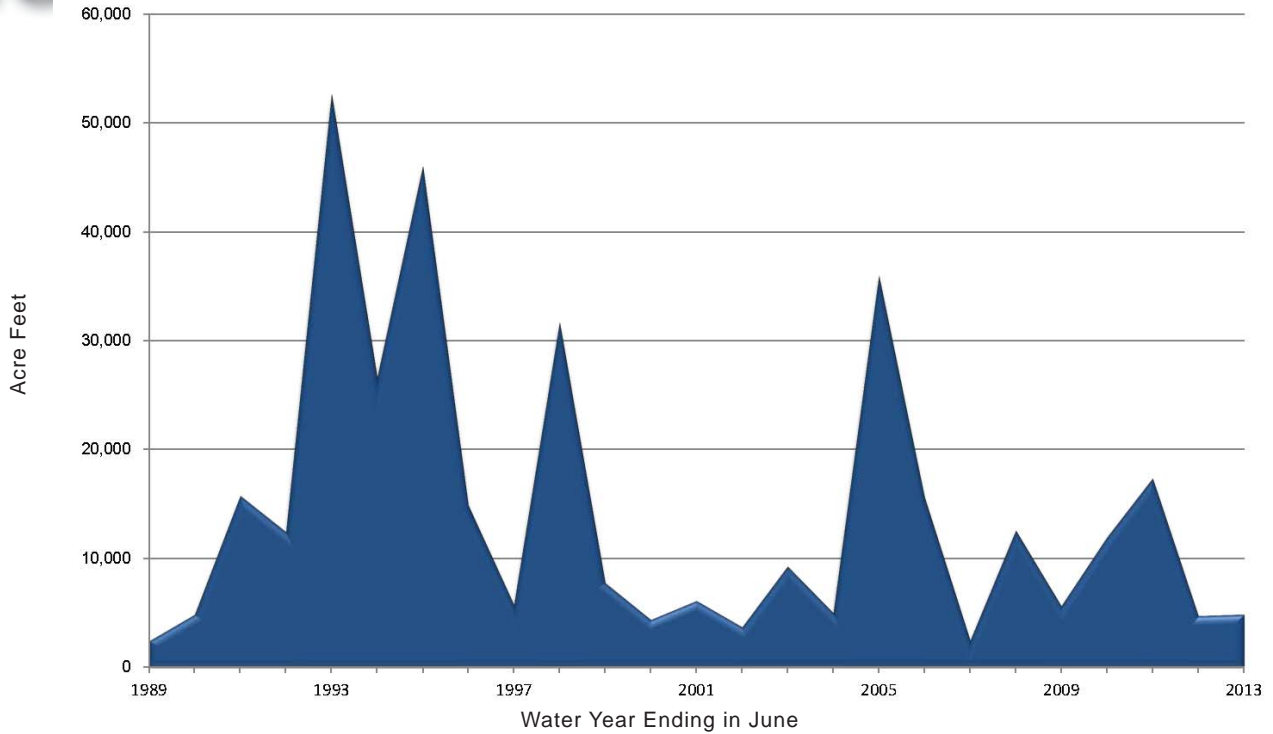
Water Pumped from Warner Basin (Yearly Totals)

Lake Henshaw's water comes from run-off as well as pumped groundwater from the Warner Basin, which surrounds the lake. This graph shows pumped water totals from 1989 to 2013. Typically, pumped water is more heavily relied on during extended dry periods.



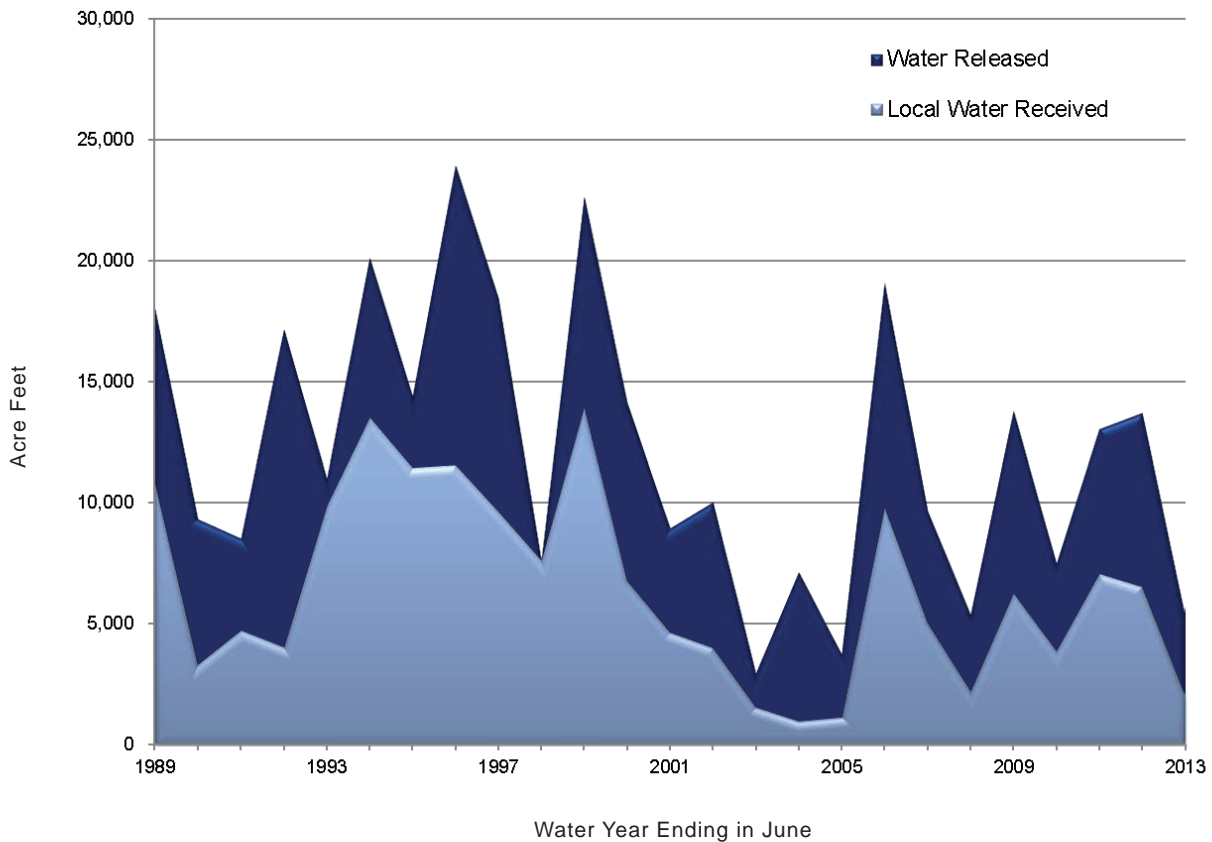
Water Stored in Lake Henshaw

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

Our discussion and analysis of the Vista Irrigation District's financial performance provides an overview of the District's financial activities for the year ended June 30, 2013. Please read it in conjunction with the District's financial statements which begin on page 24. 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 include all of the District's assets and liabilities, with the difference between the two 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 14.5%, while operating expenses increased 13.5%.
- The District realized a \$5.2 million operating gain during the current fiscal year primarily due to an increase in water revenues, resulting from the tiered-rate structure, as well as a decrease in wages and benefits, due to a decrease in the size of the District's workforce.
- Nonoperating revenues increased \$0.2 million primarily due to slightly higher property tax revenues in the current year.
- Contributed capital increased \$0.6 million due to the completion of nine capital contribution jobs in the current year, as compared to four in the prior year.

Financial Analysis of the District

Net Position - The District's overall net position increased \$6.8 million between fiscal years 2012 and 2013, from \$100.3 to \$107.1 million. The net investment in capital assets increased \$0.7 million which reflects the excess of net capital additions over the current year depreciation and dispositions. The unrestricted net position increased \$6.1 million primarily due to operating income exceeding operating expenses.

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

	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 34.8	\$ 29.2
Capital assets	83.1	82.4
Total Assets	<u>117.9</u>	<u>111.6</u>
Liabilities	<u>10.8</u>	<u>11.3</u>
Net Position:		
Net invested in capital assets	83.1	82.4
Unrestricted	<u>24.0</u>	<u>17.9</u>
Total Net Position	<u>\$ 107.1</u>	<u>\$ 100.3</u>

Change in Net Position - The District's operating revenues increased by 14.5% to \$45.8 million. In fiscal year 2013, 97.6% of the District's operating revenues came from water sales. The increase in operating revenues resulted primarily due to increased water rates.

The District's operating expenses increased 13.5% to \$40.6 million primarily due to an increase of \$4.7 million in purchased water.

The District's nonoperating revenues increased from \$0.2 million to \$0.4 million primarily due to slightly higher property tax revenues in the current year.

The District's contributed capital increased from \$0.6 million to \$1.2 million primarily due to more capital contribution jobs completed in the current year.

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

	<u>2013</u>	<u>2012</u>
Operating Revenues		
Water sales	\$ 44.7	\$ 38.9
Property rentals	0.7	0.5
System fees	0.2	0.3
Other services	0.2	0.3
Total Operating Revenues	<u>45.8</u>	<u>40.0</u>
Operating Expenses	<u>40.6</u>	<u>35.8</u>
Operating Income	<u>5.2</u>	<u>4.2</u>
Nonoperating Revenues (Expenses)		
Property taxes	0.4	0.3
Legal settlement	(0.1)	(0.1)
Investment income	0.1	-
Total Nonoperating Revenues	<u>0.4</u>	<u>0.2</u>
Contributed Capital	<u>1.2</u>	<u>0.6</u>
Increase in Net Position	<u>\$ 6.8</u>	<u>\$ 5.0</u>

Capital Assets

At June 30, 2013, the District had invested \$159.1 million in capital assets with \$76.0 million in accumulated depreciation. Net capital assets increased \$0.7 million as a result of capital acquisitions exceeding the annual depreciation and dispositions. During the year, the District added \$3.3 million in pipeline projects and \$0.6 million in equipment. The largest capital additions were \$2.0 million in costs for several mainline replacement projects, \$0.1 million for the on-site chlorine generation system project, \$0.2 million for a pump station upgrade, and \$1.2 million of contributed pipeline projects. This year's capital retirements were comprised of the replacement/disposal of pipelines, vehicles, computer, and pumping equipment with a total historical cost for all these items of \$0.2 million. Depreciation for the year was \$3.1 million.

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

	<u>2013</u>	<u>2012</u>
Land, franchises and water rights	\$ 6.0	\$ 6.0
Buildings, canals, pipelines, reservoirs and dams	75.0	74.2
Equipment	0.8	0.5
Henshaw pumping project	0.3	0.4
Construction in progress	1.0	1.3
Total Capital Assets, Net	<u>\$ 83.1</u>	<u>\$ 82.4</u>

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

Capital Debt

At June 30, 2013, the District had no capital debt and has no immediate need to issue debt.

Contacting the District's Financial Management

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

Statements of Net Position

June 30, 2013 and Comparative Data for June 30, 2012

	<u>ASSETS</u>	
	<u>2013</u>	<u>2012</u>
<u>Current Assets:</u>		
Cash and cash equivalents (notes 1 and 2)	\$ 13,464,086	\$ 9,127,114
Investments (notes 1 and 2)	12,993,484	12,989,042
Accounts receivable, net (notes 1 and 3)	7,835,894	6,405,894
Taxes receivable	27,005	62,296
Accrued interest receivable	4,677	3,581
Inventories of materials and supplies	352,470	356,768
Prepaid expenses and other current assets	188,642	261,478
Total Current Assets	<u>34,866,258</u>	<u>29,206,173</u>
<u>Noncurrent Assets:</u>		
Capital assets: (notes 1 and 4)		
Depreciable assets, net of accumulated depreciation:		
Buildings, canals, pipelines, reservoirs and dams	74,987,426	74,231,217
Equipment	846,102	457,048
Henshaw pumping project	322,949	361,517
Nondepreciable assets:		
Land, franchises and water rights	5,960,313	5,960,313
Construction in progress	965,229	1,349,392
Total capital assets	<u>83,082,019</u>	<u>82,359,487</u>
Total Noncurrent Assets	<u>83,082,019</u>	<u>82,359,487</u>
TOTAL ASSETS	\$ <u>117,948,277</u>	\$ <u>111,565,660</u>
<u>LIABILITIES AND NET POSITION</u>		
	<u>2013</u>	<u>2012</u>
<u>Current Liabilities:</u>		
Accounts payable (note 5)	\$ 4,674,112	\$ 4,124,702
Deposits	142,456	279,974
Accrued expenses and other liabilities	1,938,315	2,850,586
Total Current Liabilities	<u>6,754,883</u>	<u>7,255,262</u>
<u>Noncurrent Liabilities:</u>		
Claims payable (note 6)	4,095,461	4,038,371
Total Liabilities	<u>10,850,344</u>	<u>11,293,633</u>
<u>Net Position:</u>		
Net Investment in capital assets	83,082,019	82,359,487
Unrestricted (note 7)	24,015,914	17,912,540
Total Net Position	<u>107,097,933</u>	<u>100,272,027</u>
TOTAL LIABILITIES AND NET POSITION	\$ <u>117,948,277</u>	\$ <u>111,565,660</u>

The accompanying notes are an integral part of the financial statements

Statements of Revenues, Expenses and Changes in Net Position

For the Year Ended June 30, 2013 and Comparative Data for June 30, 2012

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	<u>2013</u>	<u>2012</u>
<u>Operating Revenues:</u>		
Water sales	\$ 44,675,640	\$ 38,929,306
Property rentals	666,495	475,148
System fees	228,954	297,553
Other services	206,602	285,692
Total Operating Revenues	<u>45,777,691</u>	<u>39,987,699</u>
<u>Operating Expenses:</u>		
Purchased water	19,438,447	14,767,680
Wages and benefits	11,902,693	12,223,638
Contractual services	3,551,800	3,554,268
Depreciation	3,122,974	3,022,459
Supplies	969,997	1,078,481
Professional fees	799,509	831,775
Power	735,024	434,811
Office and general	477,700	422,474
Insurance	407,580	363,291
Communications	61,278	72,668
Uncollectible accounts	54,046	72,180
Burden allocation	(934,908)	(1,074,815)
Total Operating Expenses	<u>40,586,140</u>	<u>35,768,910</u>
Operating Income	<u>5,191,551</u>	<u>4,218,789</u>
<u>Nonoperating Revenues (Expenses):</u>		
Property taxes	387,889	313,008
Federal and state assistance	64,015	-
Investment income	53,471	47,225
Gain (Loss) on disposal of capital assets	9,414	(6,235)
Legal settlement	(57,090)	(83,096)
Total Nonoperating Revenues	<u>457,699</u>	<u>270,902</u>
Income Before Contributions	5,649,250	4,489,691
Capital Contributions	<u>1,176,656</u>	<u>552,881</u>
Change in Net Position	6,825,906	5,042,572
Total Net Position - Beginning	<u>100,272,027</u>	<u>95,229,455</u>
TOTAL NET POSITION - ENDING	<u>\$ 107,097,933</u>	<u>\$ 100,272,027</u>

The accompanying notes are an integral part of the financial statements

Statements of Cash Flows

For the Year Ended June 30, 2013 and Comparative Data for June 30, 2012

	<u>2013</u>	<u>2012</u>
<u>Cash Flows From Operating Activities:</u>		
Receipts from customers	\$ 44,545,047	\$ 40,579,972
Payments to suppliers	(33,862,027)	(36,163,654)
Payments to employees	(4,103,281)	(4,128,885)
Collection of deposits	259,824	335,993
Return of deposits	(400,342)	(587,705)
Net Cash Provided by Operating Activities	<u>6,439,221</u>	<u>35,721</u>
<u>Cash Flows From Noncapital Financing Activities:</u>		
Receipts from property taxes	<u>387,889</u>	<u>313,008</u>
<u>Cash Flows From Capital and Related Financing Activities:</u>		
Proceeds from disposal of capital assets	9,604	33
Acquisition of capital assets	(2,639,356)	(3,002,254)
Receipts from developers for capital purposes	28,000	81,555
Proceeds from Federal and State assistance	64,015	-
Net Cash Used by Capital and Related Financing Activities	<u>(2,537,737)</u>	<u>(2,920,666)</u>
<u>Cash Flows From Investing Activities:</u>		
Proceeds from maturities of investments	13,000,000	14,000,000
Interest on cash and investments	26,973	37,495
Purchase of investments	(12,979,374)	(13,980,561)
Net Cash Provided by Investing Activities	<u>47,599</u>	<u>56,934</u>
Net Increase (Decrease) in Cash and Cash Equivalents	4,336,972	(2,515,003)
Cash and Cash Equivalents - Beginning	<u>9,127,114</u>	<u>11,642,117</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 13,464,086</u>	<u>\$ 9,127,114</u>
<u>Reconciliation of Operating Income to Net</u>		
<u>Cash Provided by Operating Activities:</u>		
Operating Income	\$ 5,191,551	\$ 4,218,789
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	3,122,974	3,022,459
Change in Assets and Liabilities:		
Accounts receivable, net	(1,430,000)	35,203
Taxes receivable	35,291	(4,081)
Inventories of materials and supplies	4,298	(84,483)
Prepaid expenses and other current assets	72,836	38,046
Accounts payable	549,410	803,142
Accrued expenses and other liabilities	(966,621)	(7,741,642)
Deposits - operating	(140,518)	(251,712)
Net Cash Provided by Operating Activities	<u>\$ 6,439,221</u>	<u>\$ 35,721</u>
<u>Noncash Investing, Capital and Financing Activities:</u>		
Contributed capital assets	\$ 1,176,656	\$ 552,881
Capital asset acquisitions included in accounts payable and accrued expenses	\$ 86,683	\$ 109,308
Increase in fair value of investments	\$ 25,068	\$ 14,980

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 21,180 acres. Historically, the District has received 30% of its water supply from Lake Henshaw which, along with the surrounding 43,000 acre Warner Ranch, is owned and operated by the District. The remaining 70% of the District's supply comes from Northern California through the State Water Project and from the Colorado River. These sources are conveyed to the District via aqueducts owned and operated by water wholesalers, the Metropolitan Water District of Southern California and the San Diego County Water Authority. The District is governed by a Board of Directors consisting of five directors elected by geographical divisions, based on District population, for four-year alternating terms.

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

Basis of Accounting

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

Use of Estimates

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

Implementation of New Pronouncement

Beginning with the current fiscal year, the District implemented GASBS No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. This statement is designed to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on the District's net position.

Revenue Recognition

The District recognizes revenues from water sales, property rentals, investments and other fees and services as they are earned. Taxes and assessments are recognized as revenue, based upon amounts reported to the District by the County of San Diego. The District first utilizes restricted resources to finance qualifying activities, then unrestricted resources as they are needed. Operating activities generally result from providing services and producing and delivering goods. As such, the District considers fees received from water sales, capacity fees, connection and installation fees and property rentals to be operating revenues. The collection of deposits and return of deposits related to operating activities are reported in the District's cash flows from operating activities. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The collection of deposits and return of deposits related to the specific purpose of deferring the cost of acquiring, constructing or improving assets are reported in the District's cash flows from capital and related financing activities.

Pronouncements of GASB and FASB

The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The GASB is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board

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

Pronouncements of GASB and FASB (Continued)

issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the District has the option to apply FASB pronouncements issued after that date, the District has chosen not to do so.

Cash and Cash Equivalents

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

Investments

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

Accounts Receivable

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

Inventories of Materials and Supplies

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

Capital Assets and Depreciation

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

	<u>Useful Life</u>
Buildings, canals, pipelines, reservoirs and dams	15 - 60 years
Equipment	3 - 20 years
Henshaw pumping project	10 - 20 years

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 \$100,000,000 per occurrence (total insurable value \$27,553,913) 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 \$2,000,000 and excess insurance coverage has been purchased.

Note 1 - Reporting Entity and Summary of Significant Accounting Policies: (Continued)**Risk Management** (Continued)

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

Public Officials' Liability - Insured up to \$60,000,000 per occurrence; the Authority is self-insured up to \$2,000,000 and excess insurance coverage has been purchased.

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

Dam Failure Liability - Insured up to \$5,000,000 per occurrence; 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.

Vacation and Sick Leave

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

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.

Comparative Data

Comparative total data for the prior year have been presented in order to provide an understanding of the changes in the financial position and operations of the District. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

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.

Note 2 - Cash and Investments:

The following is a detail of cash and cash equivalents as of June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Cash on hand	\$ 5,039	\$ 4,910
Deposits	619,392	407,746
State Treasurer's investment pool	8,491,805	4,374,221
California Asset Management Program	4,347,850	4,340,237
Total cash and cash equivalents	<u>\$ 13,464,086</u>	<u>\$ 9,127,114</u>

Note 2 - Cash and Investments: (Continued)

As of June 30, 2013 and 2012, the District had the following investments:

<u>Investment</u>	<u>Maturity</u>		<u>2013</u> <u>Fair Value</u>	<u>2012</u> <u>Fair Value</u>
State Treasurer's investment pool	9 months weighted average	\$	8,491,805	4,374,221
California Asset Management Program	1 month weighted average		4,347,850	4,340,237
Total cash equivalents		\$	<u>12,839,655</u>	<u>8,714,458</u>
U.S. Treasury bills	6 months weighted average	\$	12,993,484	12,989,042
Total Investments		\$	<u>12,993,484</u>	<u>12,989,042</u>

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

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

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

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). On November 9, 2010, the

Note 2 - Cash and Investments: (Continued)*Custodial Credit Risk - Deposits.* (Continued)

FDIC issued a Final Rule implementing section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act that provided for unlimited deposit insurance coverage for deposit balances in noninterest-bearing transaction accounts beginning December 31, 2010, through December 31, 2012. As of June 30, 2012, the District's bank balances were \$687,765, and were fully insured. Beginning on January 1, 2013, combined deposits are insured by the FDIC up to \$250,000. As of June 30, 2013, the District's bank balances were \$567,737, of which \$250,000 were insured and the remaining \$317,737 were uninsured and collateralized with securities held by the pledging institution's trust department.

Note 3 - Accounts Receivable, Net:

As of June 30, 2013 and 2012, the net balances were comprised of accounts receivable balances of \$8,318,186 and \$6,847,118, respectively, less the allowances for doubtful accounts of \$482,292 and \$441,224, respectively.

Note 4 - Capital Assets:

Capital assets consist of the following at June 30, 2013:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land, franchises, and water rights	\$ 5,960,313	\$ -	\$ -	\$ 5,960,313
Construction in progress	1,349,392	2,211,076	(2,595,239)	965,229
Total capital assets not being depreciated	<u>7,309,705</u>	<u>2,211,076</u>	<u>(2,595,239)</u>	<u>6,925,542</u>
Capital assets being depreciated:				
Buildings, canals, pipelines, reservoirs and dams	140,806,546	3,670,109	(33,816)	144,442,839
Equipment	4,480,302	559,751	(215,132)	4,824,921
Henshaw pumping project	2,917,377	-	-	2,917,377
Total capital assets being depreciated	<u>148,204,225</u>	<u>4,229,860</u>	<u>(248,948)</u>	<u>152,185,137</u>
Less accumulated depreciation for:				
Buildings, canals, pipelines, reservoirs and dams	(66,575,329)	(2,913,709)	33,625	(69,455,413)
Equipment	(4,023,254)	(170,697)	215,132	(3,978,819)
Henshaw pumping project	(2,555,860)	(38,568)	-	(2,594,428)
Total accumulated depreciation	<u>(73,154,443)</u>	<u>(3,122,974)</u>	<u>248,757</u>	<u>(76,028,660)</u>
Total capital assets being depreciated, net	<u>75,049,782</u>	<u>1,106,886</u>	<u>(191)</u>	<u>76,156,477</u>
Total capital assets, net	<u>\$ 82,359,487</u>	<u>\$ 3,317,962</u>	<u>\$ (2,595,430)</u>	<u>\$ 83,082,019</u>

Note 4 - Capital Assets: (Continued)

Capital assets consisted of the following at June 30, 2012:

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	Ending <u>Balance</u>
Capital assets not being depreciated:				
Land, franchises, and water rights	\$ 5,960,313	\$ -	\$ -	\$ 5,960,313
Construction in progress	<u>1,337,861</u>	<u>2,787,195</u>	<u>(2,775,664)</u>	<u>1,349,392</u>
Total capital assets not being depreciated	<u>7,298,174</u>	<u>2,787,195</u>	<u>(2,775,664)</u>	<u>7,309,705</u>
Capital assets being depreciated:				
Buildings, canals, pipelines, reservoirs and dams	137,907,236	2,955,692	(56,382)	140,806,546
Equipment	4,374,664	171,820	(66,182)	4,480,302
Henshaw pumping project	<u>2,884,529</u>	<u>32,848</u>	<u>-</u>	<u>2,917,377</u>
Total capital assets being depreciated	<u>145,166,429</u>	<u>3,160,360</u>	<u>(122,564)</u>	<u>148,204,225</u>
Less accumulated depreciation for:				
Buildings, canals, pipelines, reservoirs and dams	(63,803,564)	(2,821,879)	50,114	(66,575,329)
Equipment	(3,929,852)	(159,584)	66,182	(4,023,254)
Henshaw pumping project	<u>(2,514,865)</u>	<u>(40,995)</u>	<u>-</u>	<u>(2,555,860)</u>
Total accumulated depreciation	<u>(70,248,281)</u>	<u>(3,022,458)</u>	<u>116,296</u>	<u>(73,154,443)</u>
Total capital assets being depreciated, net	<u>74,918,148</u>	<u>137,902</u>	<u>(6,268)</u>	<u>75,049,782</u>
Total capital assets, net	\$ <u>82,216,322</u>	\$ <u>2,925,097</u>	\$ <u>(2,781,932)</u>	\$ <u>82,359,487</u>

Note 5 - Accounts Payable:

At June 30, 2013, the accounts payable of \$4,674,112 included \$3,523,250 for water purchases from the San Diego County Water Authority and \$1,150,862 for obligations to other vendors. The accounts payable of \$4,124,702 at June 30, 2012 included \$3,133,335 for water purchases from the San Diego County Water Authority and \$991,367 for obligations to other vendors.

Note 6 - Noncurrent Liabilities:

Noncurrent liabilities consist of the following at June 30, 2013:

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	Ending <u>Balance</u>
Claims payable	\$ <u>4,038,371</u>	\$ <u>57,090</u>	\$ <u>-</u>	\$ <u>4,095,461</u>
Total noncurrent liabilities	\$ <u>4,038,371</u>	\$ <u>57,090</u>	\$ <u>-</u>	\$ <u>4,095,461</u>

Note 6 - Noncurrent Liabilities: (Continued)

Noncurrent liabilities consisted of the following at June 30, 2012:

	Beginning <u>Balance</u>	Additions	Deletions	Ending <u>Balance</u>
Claims payable	\$ 3,955,275	\$ 83,096	\$ -	\$ 4,038,371
Pension plan side-fund debt:				
Due within one year	907,547	-	(907,547)	-
Due beyond one year	<u>7,324,573</u>	<u>-</u>	<u>(7,324,573)</u>	<u>-</u>
Total noncurrent liabilities	<u>\$ 12,187,395</u>	<u>\$ 83,096</u>	<u>\$ (8,232,120)</u>	<u>\$ 4,038,371</u>

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

Note 7 - Unrestricted Net Position:

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

	<u>2013</u>	<u>2012</u>
Emergency and contingency	\$ 8,000,000	\$ 8,000,000
Future construction	7,007,114	1,882,555
Working capital	9,000,000	8,000,000
Water purchase stabilization	-	23,065
Ranch improvements	<u>8,800</u>	<u>6,920</u>
Total unrestricted net position	<u>\$ 24,015,914</u>	<u>\$ 17,912,540</u>

Note 8 - Defined Benefit Pension Plan:**Plan Description**

The District's contributes to the California Public Employees Retirement System (PERS), a cost-sharing multiple-employer public employee defined benefit pension plan. PERS provides retirement, disability benefits and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. PERS issues a publicly available financial report that includes financial statements and required supplementary information for the cost sharing plans that are administered by PERS. Copies of the PERS' annual financial report may be obtained by writing to 400 "P" Street, Sacramento, California 95814.

Note 8 - Defined Benefit Pension Plan: (Continued)**Contributions and Funding Policy**

Active plan members in the Plan are required to contribute 4.5% of their annual covered salary.

The District is required to contribute at an actuarially determined rate. The rate for the year ended June 30, 2013 was 19.835% of annual covered payroll. In January 2012 of the prior fiscal year, the District opted to make a lump sum payment of \$8,232,120 in order to pay off the side fund (the difference between the funded status of the PERS pool and the funded status of the District's plan at the time PERS pooled the agencies together in 2003), which reduced the pooled employer contribution rate from 30.253% to 19.36%.

The contribution requirements of plan members and the District are established and may be amended by the District's Board of Directors in conjunction with applicable labor contracts. The District's contributions to the plan for the years ending June 30, 2011, 2012 and 2013 were \$2,364,295, \$10,135,592 (which included the \$8,232,120 side fund prepayment discussed above) and \$1,450,517, respectively, and were equal to the required contributions for each year.

Note 9 - Other Postemployment Benefits:**Plan Description**

In accordance with the terms and conditions of the employment agreements for all employees, 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 at will 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 at will employees). The years of coverage may be split between the retiree and spouse; however, the maximum coverage for a retiree may not exceed ten years, and the number of years of coverage for the spouse may not exceed the number of years of coverage for the retiree. A specific health plan provides this direct insurance coverage to retiring employees that reside in the California service area as defined by the plan. If the retiree lives outside the California service area, the District reimburses the retiree quarterly for health insurance premiums not to exceed the current premiums paid to the specific health plan.

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

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. Pre-funding OPEB obligations produces important benefits: Investment returns from trust fund investments will be used to pay for future obligations thereby lowering future employer costs; the higher investment return rate, expected to be earned by trust assets used to pre-fund OPEB obligations, will lower the employer's reported annual expense and the net OPEB obligation; a lower unfunded liability may result in a higher bond rating; and the financial security of employees and retirees is improved.

The District fully funds its OPEB liability through the CERBT. For the years ended June 30, 2013 and 2012, 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

Note 9 - Other Postemployment Benefits: (Continued)**Funding Policy and Annual OPEB Cost** (Continued)

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 <u>2013</u>	Retiree Healthcare Plan <u>2012</u>
	Actuarially determined	Actuarially determined
Contribution rate:		
District	4.4%	4.4%
Annual required contribution	\$ 350,168	\$ 332,565
Contributions made	<u>(372,888)</u>	<u>(307,783)</u>
Increase in net OPEB obligation/(asset)	(22,720)	24,782
Net OPEB obligation (asset) - beginning of year	<u>(43,897)</u>	<u>(68,679)</u>
Net OPEB obligation (asset) - end of year	<u>\$ (66,617)</u>	<u>\$ (43,897)</u>

Net OPEB asset balances are included in the "Prepaid expenses and other current assets" line on the Statements of Net Position.

Annual OPEB Cost includes interest and the ARC adjustment, in addition to the ARC. However, the net difference between the interest on the asset and the ARC adjustment are immaterial to the District's financial statements and are not separately disclosed. Additionally, the Contributions Made exceeds the ARC by an amount immaterial to the District's financial statements and the District has chosen to disclose the ARC as its Annual OPEB Cost.

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:

	Fiscal <u>Year</u>	Annual <u>OPEB Cost</u>	Percent of OPEB Cost <u>Contributed</u>	Net OPEB <u>Obligation (Asset)</u>
Retiree Healthcare Plan	2011	\$ 318,022	100.0%	(\$68,679)
Retiree Healthcare Plan	2012	\$ 332,565	100.0%	(\$43,897)
Retiree Healthcare Plan	2013	\$ 350,168	100.0%	(\$66,617)

Note 9 - Other Postemployment Benefits: (Continued)**Funded Status and Funding Progress**

The funded status of the plan was as follows:

Actuarial Valuation Date	Actuarial Value of Plan Assets (A)	Actuarial Accrued Liability (B)	Unfunded Liability (A-B)	Funded Ratio (A/B)	Annual Covered Payroll (C)	Unfunded Liability as a % of Annual Covered Payroll [(A-B)/C]
July 1, 2010	\$848,599	\$3,396,726	(\$2,548,127)	25.0%	\$7,741,925	(32.9%)
July 1, 2011	\$1,109,493	\$3,779,819	(\$2,670,326)	29.4%	\$7,523,865	(35.5%)
July 1, 2012	\$1,370,387	\$4,162,912	(\$2,792,525)	32.9%	\$7,416,382	(37.7%)

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

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, 2011
Actuarial cost method	Projected Unit Credit
Amortization method	Level percentage of pay
Remaining amortization period	26 years
Asset valuation method	Market Value
Actuarial assumptions:	
Investment rate of return	7.61%
Projected salary increases	3.25%

The actuarial cost method used for determining the benefit obligations is the Projected Unit Credit with service prorated. The actuarial assumptions included a 7.61% investment rate of return, which is the assumed rate of the expected long-term investment returns on plan assets calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 8.5% for 2012, 8, 7, and 6 percent for 2013, 2014, and 2015, respectively, to an ultimate rate of 5% after 2015. Both rates included a 3% 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, 2011 is assumed to be 26 years. It is assumed the District's payroll will increase 3.25% per year.

Note 10 - Commitments and Contingencies:**Commitments**

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

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

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

1. Allocation of Local Water and Supplemental Water

- a) The Rincon Band shall receive its historic right to the first 6 cubic feet per second of the natural flow of the San Luis Rey River (local water). The District and Escondido shall have the right to use the remaining local water, subject to the right of the Bands to divert and use local water through an acre foot for acre foot exchange with supplemental water.
- b) The Indian Water Authority (an intertribal entity established by the Bands) shall be entitled to the benefit of the 16,000 acre feet of supplemental water provided by the Settlement Act. The Indian Water Authority may exchange supplemental water for local water.

2. Financial Obligations

- a) The Indian Water Authority is responsible for all costs associated with obtaining supplemental water. The District and Escondido are responsible for all costs associated with maintaining and operating the local water system, including the cost of a proposed canal undergrounding on the San Pasqual Indian Reservation (currently estimated to cost \$15 million). The cost of the proposed undergrounding project will be divided evenly between the District and Escondido.
- b) In return for the Bands' and the United States' agreement that the Settlement shall be an entire agreement, and no obligations among the parties from the 1894, 1914, and 1922 contracts shall endure, there shall be no annual charges paid by the District or Escondido for the use of tribal lands, and all liability among the parties shall be waived prior to the effective date of the Settlement Agreement. The District and Escondido agree to each pay the Indian Water Authority \$3.85 million on October 1, 2008. This amount can be paid either as a lump sum, or paid over the next 20 years at 5% interest, or paid over 20 years, delayed for 5 years, at 6% interest. Any payment may be prepaid without a prepayment penalty.
- c) The Rincon Band's entitlement to 2,900 acre-feet per year of local water is estimated to cost the District approximately \$225,000 annually, based on the current cost of imported water and the assumption that the new formulation of the Rincon entitlement will result in the District purchasing additional imported water.

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

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

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

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

Litigation

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

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

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

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



Back cover photos:

Top left - Current VID logo

Top right: Replacing the original Caldwell Siphon (2008)

Bottom - The Vista Flume circa 2010

VID **VISTA
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