

**MINUTES OF THE REGULAR MEETING OF THE
PUBLIC AFFAIRS COMMITTEE OF THE
BOARD OF DIRECTORS OF THE
VISTA IRRIGATION DISTRICT**

March 17, 2015

A meeting of the Public Affairs Committee of Vista Irrigation District was held on Tuesday, March 17, 2015, at the offices of the District, 1391 Engineer Street, Vista, California.

1. CALL TO ORDER

Chair Reznicek called the meeting to order at 9:00 a.m.

2. ROLL CALL

Committee members present: Reznicek and Miller.

Committee members absent: None.

Staff present: Brett Hodgkiss, Administrative Services Manager.

Other attendees: None.

3. APPROVAL OF AGENDA

The agenda was approved as presented.

4. PUBLIC COMMENT TIME

No public comments were presented on items not appearing on the agenda.

5. VID SCHOLARSHIP CONTEST

See staff report attached hereto.

After discussion and careful consideration of the twelve (12) scholarship applications submitted to the District, the Committee recommended that Kirandeep Chhokar from Mission Vista High School be selected as the winner of the scholarship contest and receive a \$1,500 scholarship. Based on the number of applications received and the quality of applicants, the Committee also recommended awarding \$500 scholarships to Britni Chau, Chloe Grogan and Baylin Herington all from Vista High School.

6. 2014 ANNUAL REPORT

See staff report attached hereto.

The Committee reviewed and discussed information contained in the draft 2014 Annual Report. The Committee approved the draft report and directed Mr. Hodgkiss to prepare a committee report on this topic for presentation to the Board at its April 1, 2015 meeting.

7. COMMENTS BY COMMITTEE MEMBERS

No committee member comments were presented.

8. ADJOURNMENT

There being no further business to come before the Committee, at 10:12 a.m. Chair Reznicek adjourned the meeting.



Randy L. Reznicek, Chair

ATTEST:



Lisa R. Soto, Secretary
Board of Directors
VISTA IRRIGATION DISTRICT



**PUBLIC AFFAIRS COMMITTEE
STAFF REPORT**

Agenda Item: 5

Meeting Date: March 17, 2015
Prepared By: Brett Hodgkiss
Reviewed By: Eldon Boone
Approved By: Roy Coox

SUBJECT: VID SCHOLARSHIP CONTEST

RECOMMENDATION: Review application materials and select the winner of VID's scholarship contest.

PRIOR BOARD ACTION: At its January 6, 2010 meeting, the Board decided to continue the District's scholarship contest without the California Special Districts Association's (CSDA) participation.

FISCAL IMPACT: \$3,000 for the scholarship program is included in the budget.

SUMMARY: For sixteen years, the District had participated in the scholarship contest sponsored by CSDA. After many successful years of the scholarship program, CSDA decided "to embark on a new and expanded educational opportunity to reach a greater number of students in our local schools." To this end, CSDA has replaced the scholarship program with a new educational grant program to facilitate teachers to add curriculum geared toward increasing students' knowledge and awareness of special districts and their role in local government.

In January 2010, the Board decided to continue running the District's scholarship contest without CSDA participation. While a majority of the requirements remained the same as the CSDA scholarship contest, the essay topic was changed to focus on issues impacting San Diego County water supplies. Per the Board's suggestion, the essay question was changed for the 2015 contest to make it specific to the Vista Irrigation District (VID).

The winning scholarship award is \$1,500, and the balance (\$1,500) is available to award to a runner-up (or runners-up) at the Committee's discretion. Last year, the Committee recommended and the Board awarded a \$1,500 scholarship to the contest winner, \$750 scholarship to the runner-up and two \$375 scholarships to honorable mentions.

DETAILED REPORT: In December 2014, application packets for VID's scholarship contest were provided to counselors of high schools within the District's jurisdictional boundaries. Follow-up calls were made to the counselors to make sure the application materials were received and inquire as to students' interest in the program. Additional scholarship promotional efforts included: placing information about the scholarship in Rancho Buena Vista High School's monthly scholarship bulletin; recording a segment on the scholarship program for Vista High School's daily video bulletin; issuing a news release; and announcing the program on our on-hold telephone message and web site. Application materials were also made available on the District's web site. The District received twelve applications by the February 27, 2015 deadline.

Public Affairs Committee members Reznicek and Miller are the competition judges for the contest. The Committee's recommendation for the winner, and potentially runners-up, will be submitted to the Board for their consideration at the April 1, 2015 Board meeting. A certificate will be presented to the winner (plus runner-up and honorable mention, if any) at the April 15, 2015 Board meeting. Once the student has enrolled at a university, District staff will forward a check in the amount of the scholarship award to the school on behalf of the student.

ATTACHMENTS: Scholarship Application Packages
Rating Sheet

2015 VID SCHOLARSHIP SELECTION

Candidate Name	Essay <i>(Knowledge of issue)</i> 35%	Personal Statement 35%	Community Involvement 15%	Grade Point Average <i>(Academics)</i> 15%	Comments
Matthew Antunez					
Britni Chau					
Kirandeep Chhokar					
Devon Esguerra					
Priscila Campos Garcia					
Chloe Grogan					
Baylin Herington					
Nicole Moreno					
Yesenia Vargas Navarro					
Alice Pierce					
Troy Strange					
Kalina White					

Please rate the scholarship applicants on the basis of these four (4) areas: Essay (knowledge of issue), Personal Statement, Community Involvement, Grade Point Average (Academics). Please give a rating from 1-5 (5 being high) in each of the four areas. Feel free to add any additional comments that you might have on the applicants.

PLEASE BRING THIS COMPLETED SHEET WITH YOU TO THE PUBLIC AFFAIRS COMMITTEE MEETING.

Scholarship applications were provided to the Public Affairs Committee under separate cover.



**PUBLIC AFFAIRS COMMITTEE
STAFF REPORT**

Agenda Item: 6

Meeting Date: March 17, 2015
Prepared By: Brett Hodgkiss
Reviewed By: Eldon Boone
Approved By: Roy Coox

SUBJECT: 2014 ANNUAL REPORT

RECOMMENDATION: Discuss draft 2014 Annual Report.

PRIOR BOARD ACTION: None.

FISCAL IMPACT: Design and layout of the annual report is performed in-house by District staff. No outside printing costs are anticipated for the Annual Report, since it will only be available electronically.

SUMMARY: Each year the District prepares an Annual Report that includes its financial statements, demographic data and articles about various water related topics, such as water conservation, infrastructure improvements and security. Last year, the decision was made to only post the Annual Report on the District's website and print the document only when requested.

DETAILED REPORT: On November 6, 2014, the Public Affairs Committee met and provided input on information to be contained in the 2014 Annual Report as well as the expanded four-page annual report style newsletter that would be distributed with water bills in the spring. The layout and design process of the Annual Report is complete and the Committee is being provided a draft of the document for their review. Staff would like to receive the Committee's feedback on the draft Annual Report, revise as necessary and provide a final draft version to be reviewed by the full Board at the April 1, 2015 meeting.

Staff has delayed preparation of the Spring Newsletter until such time the San Diego County Water Authority decides whether water deliveries will be reduced in fiscal year 2015 so the impacts of that decision can be communicated to our customers in the document. The newsletter will also include some of the articles and condensed demographic and financial information contained in the Annual Report. It is anticipated that the newsletter will be distributed in May.

ATTACHMENTS: Draft 2014 Annual Report



2014 ANNUAL REPORT



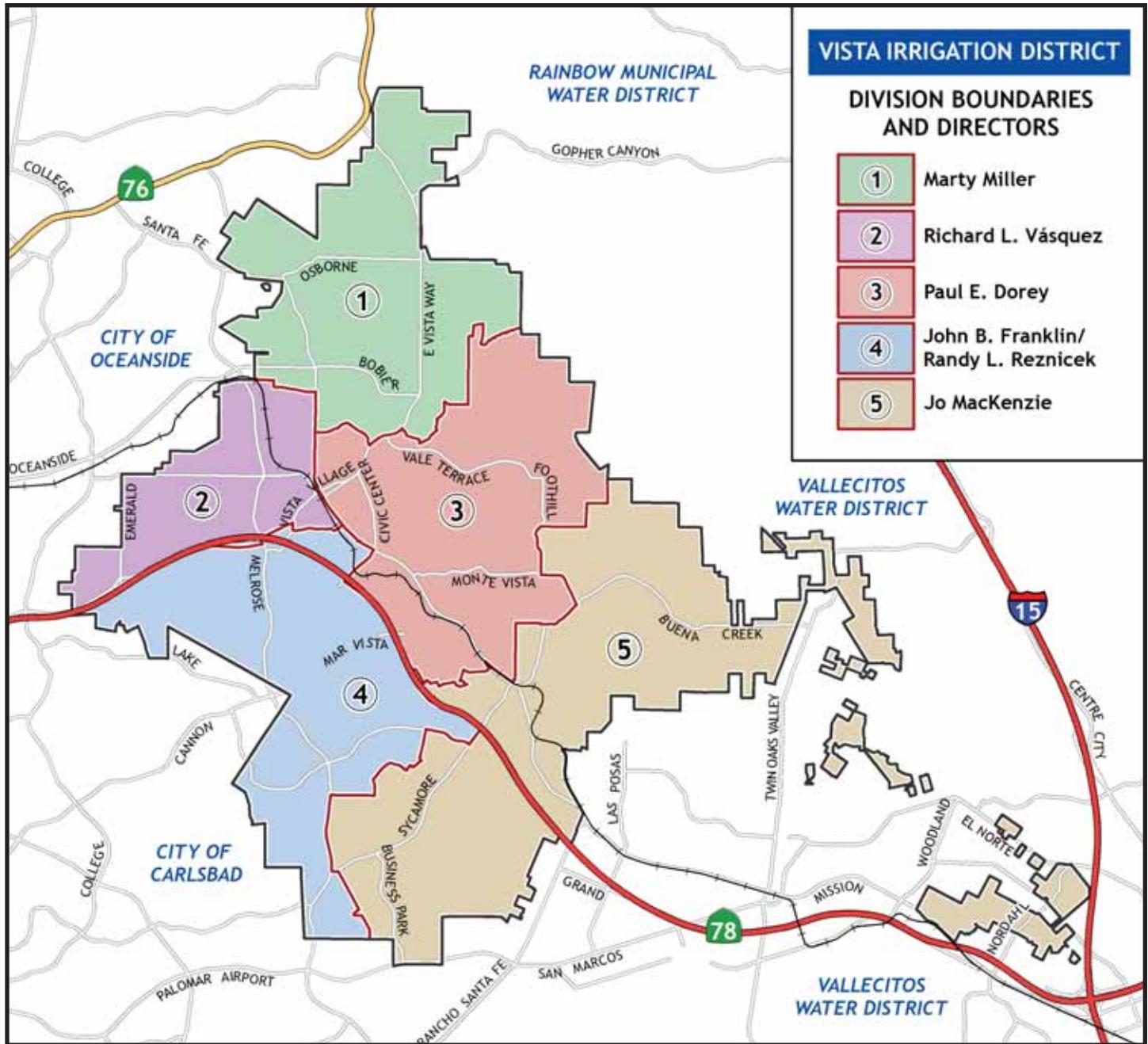
Cover photo descriptions:

1. Hydration Station installed in a local school
2. Inside the Lab at VID
3. District crews pulling a pump for maintenance on the Warner wellfield
4. VID Concrete Valve Cover Circa 1950
5. Two 14" pipelines being installed in Knob Hill Road in San Marcos
6. San Vicente Dam and Reservoir
7. The Vista Flume - The Flume delivers water from the Escondido-Vista Treatment Plant to Pechstein Reservoir

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Division Boundary Map



The Vista Irrigation District serves more than 124,000 people through approximately 28,600 residential and business connections in Vista and portions of Escondido, Oceanside, San Marcos and unincorporated areas of San Diego County.

Board of Directors

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

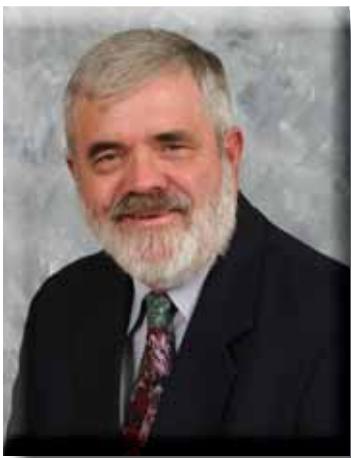
Marty Miller
Division 1



Richard L. Vásquez
Division 2



Paul E. Dorey
Division 3



John B. Franklin*
Division 4



Jo MacKenzie
Division 5



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

*John B. Franklin was elected to a seat on the Vista City Council in December 2014. Randy L. Reznicek was appointed to serve as the Director for Division 4 in January 2015.

MESSAGE FROM THE GENERAL MANAGER



Roy A. Coox
General Manager

"We continue to manage our water supply portfolio to maximize efficiency and save money wherever possible."

As I reflect on the many recent accomplishments by the District, particularly in the past year, I thought I would concentrate on significant achievements that not only are particularly noteworthy for their importance but also stand out for their uniqueness. All of these are truly District accomplishments and would not have been possible without the leadership of our Board of Directors and the efforts of our outstanding employees.

I would like to mention these recent accomplishments by the District, particularly in the financial arena:

- We have developed and adopted a rate structure that is fair, innovative, and most importantly, complies with the complicated requirements of Proposition 218. In an era when most water agencies are having a difficult time justifying what are often arbitrary tiers and amounts, our tier structure is tied to actual costs of providing service as mandated by Prop. 218.
- We have implemented water rate tiers that are tied to actual costs incurred by the District to deliver water with the third tier only being implemented during periods when our water wholesalers are reducing deliveries to us.
- Additionally, our water allocations in each tier are tied to meter size, recognizing that different meter sizes have the capacity to deliver varying amount of water. While the tier thresholds for each meter size are different, the cost per unit in each tier remains the same. This is a unique and innovative approach that is being considered by other water agencies.
- In cooperation with our employees, we implemented voluntary pension reform and health care reform at the District, which received a commendation from the Union-Tribune for our proactive efforts to control costs. At the request of our employees, we have also reduced the number of bargaining groups at the District.
- We have continued to streamline our operations and reorganize our District in an effort to improve efficiency and save costs for our ratepayers. In the past six years, we have eliminated ten positions which reduced our work force by ten percent.

I would also like to highlight specific achievements from this past year:

- We launched a unique and successful tap water outreach campaign known as Love Tap! This campaign to promote drinking tap water for health, environmental, and financial reasons has had a tremendously positive response

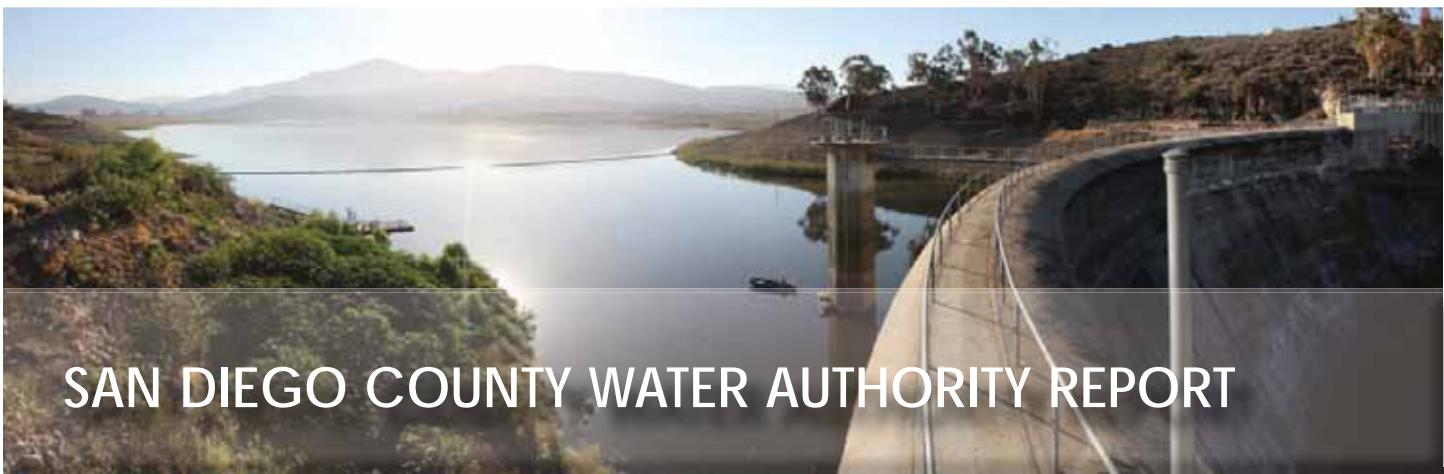
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from the public. Presentations were made to the Vista City Council, the Vista Chamber of Commerce, the Vista Rotary Club, and other community groups. The District participated in the Taste of Vista event as well as the Vista Strawberry Festival, where we arranged for recording artists TapWater, a popular west coast band, to perform and promote our campaign.

- As part of the Love Tap! campaign, the District has partnered with the Vista Unified School District to install hydration stations (water fountains for filling reusable water bottles) at elementary, middle and high schools. These hydration stations have been well received and will encourage the drinking of tap water using environmentally sustainable containers.
- At the direction of our Board, we have promoted 2-1-1 San Diego, a non-profit community resource center, to assist our customers who need help with their water bill payments. This has proven to be an innovative and effective approach that is being used by several other public agencies.
- The drought has consumed a lot of our efforts this past year, and we have acted proactively and appropriately in addressing drought issues. We have reached out to our customers through multiple channels to provide information and encourage conservation. We continue to manage our water supply portfolio (and our energy consumption as well, through solar energy and contracted electricity) to maximize efficiency and save money wherever possible.
- Speaking of saving money on water supplies, we continue to work cooperatively with the City of Oceanside to receive treated water through our new partnership agreement, which resulted in cost savings for both the City of Oceanside and the Vista Irrigation District.
- We also continue to work with other North County agencies to promote the use of recycled water within the region. Our efforts have strengthened our partnership with Oceanside in this effort and we are working cooperatively to extend a recycled water delivery system to serve customers in both jurisdictions.
- Our partnership with Escondido continues to grow stronger, as we have embarked on construction of the joint on-site chlorine generation project at the Escondido-Vista Water Treatment Plant.
- With regards to the Indian Settlement, we finally got our settlement agreement approved by the Federal government and signed by the Secretary of the Interior and the Attorney General. All that remains is for Congress to enact our settlement, hopefully in the early part of 2015. After that, almost 50 years of water rights litigation between the Vista Irrigation District, the City of Escondido, the Federal government, and the La Jolla, Pala, Pauma, Rincon, and San Pasqual Indian bands will be over.
- We have continued to work with the Save Our Heritage Organisation (SOHO) of San Diego to operate and manage our restored Warner-Carrillo Ranch House, a national and state historic landmark located on the District's Warner Ranch property. We also continue to raise funds for additional restoration activities, particularly in regards to the historic barn.

As you can see, we have been extremely busy working on projects that we feel are in the best interest of our ratepayers and that will make our customers proud. Since 1923, the Vista Irrigation District has been providing the best possible water service to our customers, and we look forward to many more years of outstanding accomplishments and service.





SAN DIEGO COUNTY WATER AUTHORITY REPORT

San Vicente Dam

For the San Diego County Water Authority (Water Authority), 2014 could be called the “Year of the Dam” once again. In 2003, the Water Authority completed construction of the historic Olivenhain Dam above Lake Hodges in north San Diego County. In 2014, the Water Authority finished the largest water storage project in San Diego County history, raising the San Vicente Dam more than 100 feet (the tallest dam raise in the United States and the tallest roller-compacted concrete dam in the world).

The San Vicente Dam, which is owned and operated by the city of San Diego, was completed in 1943. At the dam’s original height of 220 feet, the reservoir’s capacity was 90,000 acre-feet (an acre-foot of water is enough water to meet the needs of two families of four for an entire year). Raising the dam another 117 feet added another 152,000 acre-feet of water storage, more than doubling the reservoir’s capacity. Filling the reservoir will take between two and five years depending on water supply availability and water demands.

Capacity of the expanded reservoir will be shared by the city of San Diego (90,000 acre-feet) and the Water Authority (152,000 acre-feet) as will the cost of its operation. According to the Water Authority, the new storage capacity at San Vicente Reservoir serves two purposes. About two-thirds will be used for capturing surplus water during wet seasons for use in dry years and one-third will be stored for emergency use.

The San Vicente Dam Raise Project cost \$416 million and ancillary projects, including a surge tank, pump station and 11 miles of pipeline, brought the overall cost to \$838 million.

The dam raise project is part of the Water Authority’s \$1.5 billion Emergency Storage Project (ESP). The ESP is a system of reservoirs, interconnected pipelines and pumping stations designed to ensure a six-month supply of water for the region in case imported water supplies are interrupted. The ESP adds about 90,000 acre-feet of water storage for emergency use.

With the dam raise complete, attention is now being turned to several auxiliary projects, including a new marina, longer boat launch ramp and parking. Additionally, a new pipeline will be constructed to replace one that will no longer be of use once the reservoir is filled to its new capacity. It is anticipated that these projects will be completed in 2015.

The completion of the historic dam raise project was a significant accomplishment by the Water Authority. Not only did this project add storage volume greater than any reservoir in the county, it also marked the completion of the largest remaining piece of the ESP. The Vista Irrigation District supports the Water Authority’s efforts to increase storage, helping ensure the District’s customers have water during times of drought and emergency.



San Vicente Dam under construction

Getting the Word Out About the benefits of drinking tap water!



In spring 2014, the District launched a new campaign called "Love Tap!". The campaign seeks to raise the awareness in the community about the quality, value, and environmental benefits of the water the District delivers to homes and businesses.

Tap into Health

Drinking water is good for you. Tap into health by replacing sugary drinks, such as soda, with water instead. Doing so can help keep you fit and save thousands of calories. Children especially can benefit from drinking more water. First Lady Michelle Obama has promoted drinking water to fight childhood obesity and improve childhood nutrition.

The Vista Irrigation District wants its customers to know that they have a source of healthy high quality drinking water right at their own tap. The District's water is routinely tested and must meet stringent water quality standards that meet or exceed that of bottled water. Customers can learn of the results of those tests as they are contained in the District's annual Consumer Confidence Report, also known as the annual water quality report. Comparatively, bottled water companies are not required to test their water and report the findings to consumers.

Tap into Savings

Drinking tap water is an excellent value. Did you know it only costs about 20 cents to provide a family of four with drinking water for a whole month from the tap? Compare that to the price of bottled water or to water from vending machines, both of which are in many cases filtered tap water. Why not tap into savings by drinking tap water?

Tap into the Environment

Going green is as easy as drinking tap water. Drinking tap water protects our environment by reducing solid waste and energy consumption as well as the associated pollution created by the bottled water industry. The environmental costs of single use plastic bottles are staggering. Each year, 1.5 million barrels of oil are used to produce plastic water bottles. In turn, Americans throw away 38 billion water bottles annually, filling up our landfills and costing the economy over \$1 billion disposing of non-biodegradable plastic. By drinking tap water out of re-fillable bottles you are doing your part to break this cycle, reducing greenhouse gases and the impact of plastic waste on our landfills.

The District encourages its customers to learn more about the benefits of the water that is delivered to your home or business and to tap into the health, saving, and environmental benefits that drinking tap water provides. To learn more about your tap water visit the District's website at www.vid-h2o.org and view the 2014 Consumer Confidence Report.



Mobile Hydration Station

CUSTOMERS SHOW OFF THEIR WATER-WISE LANDSCAPES

Whether you are starting from scratch on a cleared lot or wanting to replace your thirsty natural grass, selecting water-wise plants can be a daunting task. You can look on the Internet, peruse books and visit local nurseries to research what types of flora are available. However, seeing plants in an established garden may be the best way to judge if a particular plant will work in your landscape.

There are many examples of water-wise landscapes in our community; people just don't know about them. The Vista Irrigation District, along with eleven other local water agencies, held California-Friendly Landscape Contests this year, providing an opportunity for water-wise landscapes to be showcased throughout the region. The Vista Irrigation District was fortunate to receive a large number of submissions, and its top three entries showed how beautiful water-wise, California-Friendly landscaping can be when used in the proper setting and mixed with other landscape components, such as hardscape and garden art.

Dennis and Kathy Rogers received the Best in District award. In 2011, they bought their home which had a front yard that consisted of four diseased trees and a slope full of weeds and gopher holes. The Rogers' designed and self-installed their front yard landscape consisting of California-Friendly plants, rock and trails. The Rogers have created their very own sanctuary that attracts local wildlife as well as residents who admire their landscape design and water-wise plants, including a wide variety of sages, yuccas and succulents.

Barbara Baskin was recognized with an honorable mention award. The Baskins purchased their house in 2009, and the landscape consisted of dead grass and weeds. They removed lawn and replaced it with colorful rock gardens containing plants of contrasting colors and heights.

Robert and Sherri Pflibsen were also recognized with an honorable mention award. They received a turf removal rebate and converted an area of lawn in their front yard to water-wise plantings. The Pflibsens replaced their lawn with a dry river bed, palms and succulents, creating an underwater theme to their landscape.

With a majority of their water consumption going to watering landscapes, homeowners are searching for ways to decrease their water use outdoors. By showcasing their beautiful landscapes in the California-Friendly Landscape Contest, these three Vista Irrigation District customers are providing other homeowners with ideas about how to reduce their own outdoor water use by installing attractive water-wise landscaping. For more information about the contest and to see more examples of water-wise landscaping, visit www.landscapetest.com.



Dennis & Kathy Rogers - Best in District



Barbara Baskin - Honorable Mention

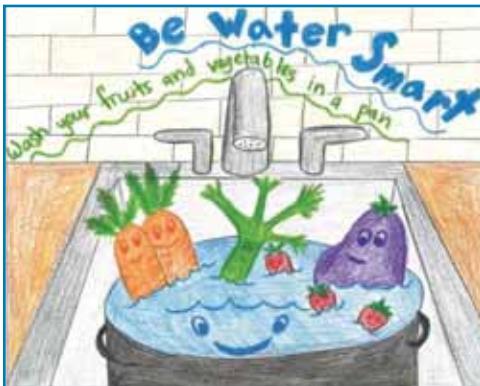


Robert & Sherri Pflibsen - Honorable Mention

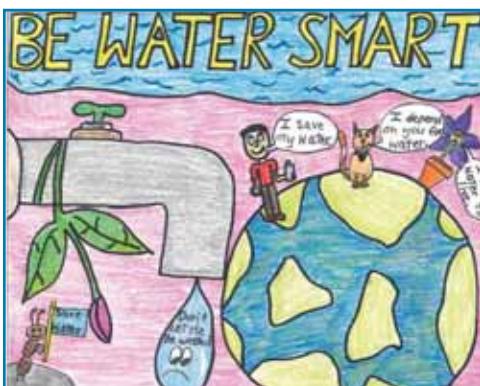
Kids Show How "Water is Life"

May is "Water Awareness Month" and the Vista Irrigation District (VID), in conjunction with other North County water agencies, sponsors a poster contest to promote awareness of the importance of water. Fourth grade students in each of the North County water agencies' service areas submit posters illustrating the significance of water in everyday life. The theme of last year's contest was "Be Water Smart."

VID received 353 entries from students in the District. The top three winners in the District's service area received cash prizes and their entries were eligible to compete in the regional contest against winners from the twelve other water Districts.



1st Place - Sophia Boyer, Empressa Elementary School



2nd Place - Jessica Garcia, Bobier Elementary School



3rd Place - Avalyn Kinley, Empressa Elementary School

Enlarged replicas of the winning posters were displayed on the District's float in the Vista Christmas Parade on December 6, 2014. A limited number of 2015 Water Awareness calendars, displaying artwork of District winners, are available at the District office.

High School Seniors Learn About Water Supply Challenges

The Vista Irrigation District also sponsors a scholarship contest. The purpose of the contest is to increase the knowledge of issues impacting the District's water sources as well as raise awareness about alternative water supplies, such as desalinated seawater and groundwater, and the importance of using water efficiently.

Congratulations to Karen Ceballos from Vista High School. She was the winner of the District's 2014 scholarship contest. Moises Lopez from Rancho Buena Vista High School was the runner-up, and Shannon Morrissey and Oscar Sowell also from Rancho Buena Vista High School were recognized as honorable mentions in the contest. All participants are congratulated for a job well done.

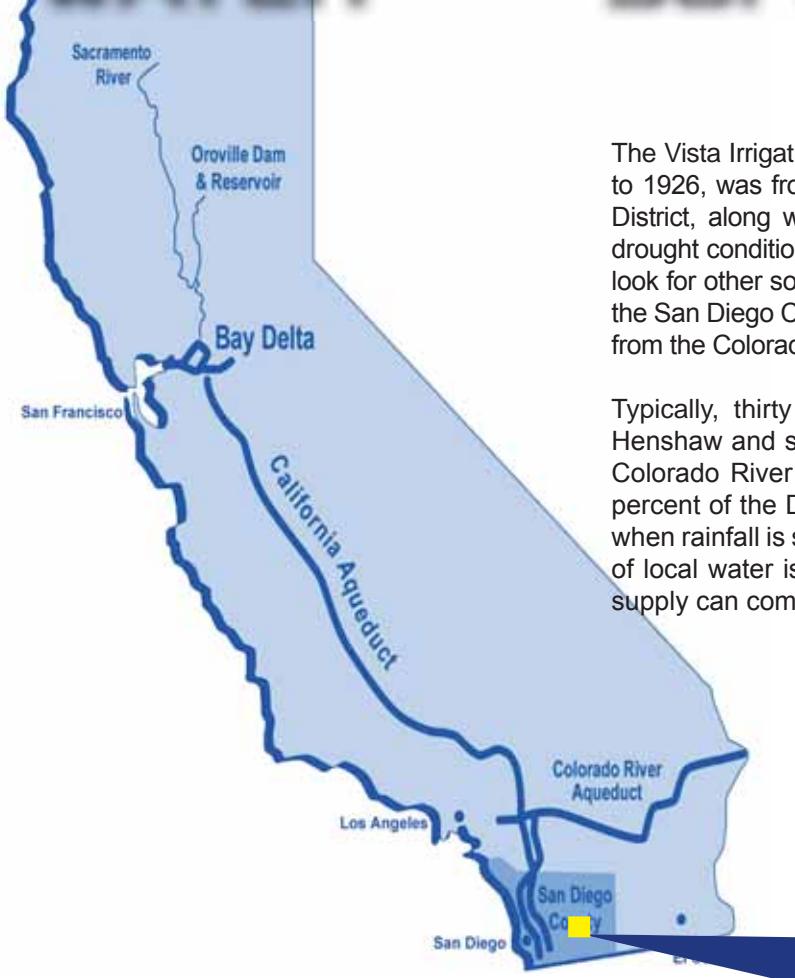
Learning About Special Districts

The Vista Irrigation District's Board of Directors continued its support of educating youth about the importance of special Districts by participating in the California Special Districts Association's (CSDA) educational grant program. This program provided grants to teachers to add curriculum geared toward increasing students' knowledge and awareness of special Districts and their role in local government.

Donna Markey, a teacher from the Vista Visions Academy, was the recipient of a CSDA grant for her project, "Tap Water – Is it Safe to Drink?" Ms. Markey's project taught students about the special Districts that serve their community and how a number of them work to keep the water supply safe. The project also sought to eliminate the common misconceptions about tap water.

Joe Vredenburgh, a teacher from Rancho Buena Vista High School, also received grant funding from CSDA for his project, "Water Education: The Common Core of Environmental Science". Mr. Vredenburgh's project taught students about water quality. As part of the project, students performed water quality testing and visited the Escondido-Vista Water Treatment Plant, where they were educated about local and imported water supplies and how those supplies are treated to drinking water standards.

WATER SUPPLY FACTS



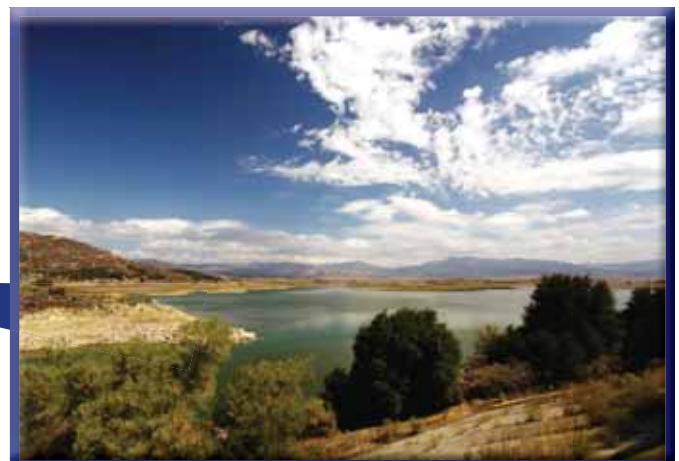
Installation of an 8" C-900 PVC pipeline in North Santa Fe and Washington Street in Vista.



Water Sources

The Vista Irrigation District's (District) 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 2014, just eight percent of the District's water came from Lake Henshaw. During years when rainfall is significantly below average, like 2014, and the availability of local water is limited, well over ninety percent of the District's water supply can come from imported sources.



Lake Henshaw - Local water source

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 \$18.7 million to this program which has allowed the replacement of just over 27 miles of older pipe ranging in size from 4 to 20 inches. This year the District spent about \$1.5 million replacing approximately 7,160 feet of pipe as part of this program.

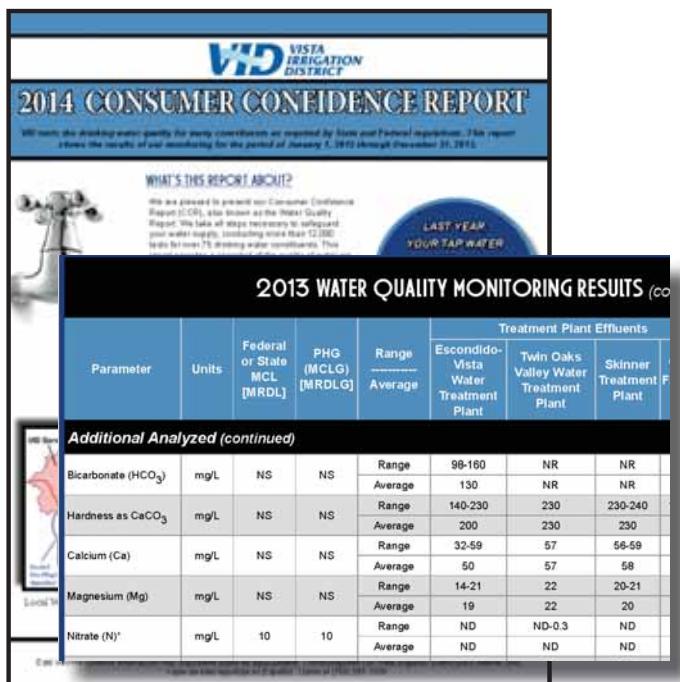
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Water Quality

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

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

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.



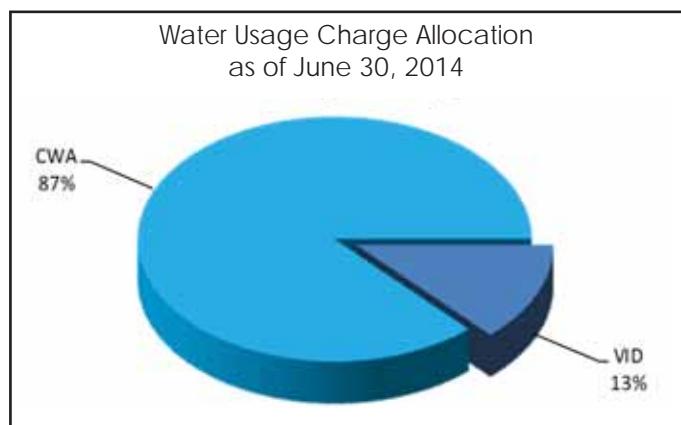
Excerpts from the 2014 Consumer Confidence Report (CCR).

Water Rates and Charges

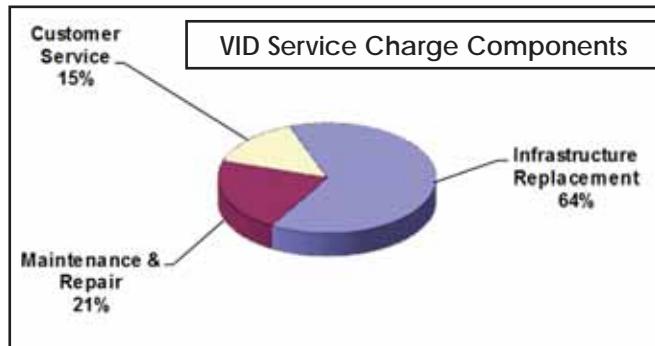
Approximately 13% of the revenue generated by water usage charges is utilized by the Vista Irrigation District to cover operating and maintenance expenses. The remaining 87% is used to pay the San Diego County Water Authority (Water Authority) for water purchases.

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, and are sometimes called "readiness-to-serve" charges because they are incurred as part of keeping the water system ready to deliver water to any customer at a moment's notice. The largest component of the service charge recovers the cost of replacing the District's aging water system infrastructure.



More Information about the Vista Irrigation District

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

Employee Service Awards

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

5 Years of Service

Pictured L-R with Director Dorey: Richard Larsen; Sharon Turner; Steve Tester; Ken Wulf; Christian Magill; Bill Moses; and Juan Perez



10 Years of Service

L-R: Darin Schuck and Oscar Chavez



15 Years of Service

L-R: Donald Brunt; Sonia Enriquez; and Jenny Brust



20 Years of Service

L-R: Frank Wolinski and Eldon Boone



30 Years of Service

L-R: Glenn Miller and Dan Wilson



35 Years of Service

Danny Dambach



DISTRICT



DEMOGRAPHICS

Distribution System

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

RESERVOIR	SIZE AND TYPE	EXISTING CAPACITY (Million Gallons)	FLOOR ELEVATIONS	TOP WATER ELEVATIONS
			(Feet)	(Feet)
Lupine Hills	Prestressed Concrete – 137'Dia. – 34' High	3.30	536.0	568.0
Pechstein	Prestressed Concrete – 355'Dia. - 28' High	20.00	810.0	837.0
Deodar	Prestressed Concrete - 86' Dia. - 31' High	1.30	869.0	899.0
San Luis Rey	Concrete - 156' x 136' x 26' High	3.00	540.0	565.0
Virginia Pl. (A)	Concrete - 100' Dia. - 13'8" High	0.76	695.0	708.0
Summit Trail (C)	Concrete - 100' Dia. - 13'8" High	0.76	625.0	638.0
Edgehill (E)	Concrete - 96' Dia. - 12' High	1.49	741.0	753.0
Cabrillo Cir. (E-1)	Concrete - 90' Dia. - 13'8" High	0.62	546.8	560.0
Rockhill (MD)	Concrete - 55' Dia. - 14' High	0.23	886.4	899.0
Edgehill (HP)	Prestressed Concrete – 160' Dia. – 33' High	4.85	942.7	972.0
Buena Creek (HB)	Prestressed Concrete – 160' Dia. – 33' High	4.85	950.9	980.0
Elevado (H)	Prestressed Concrete – 160' Dia. – 36' High	5.30	774.0	810.0
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)	24,191
Commercial/Industrial	1,637
Irrigation	897
Agricultural	562
Fire Service (Fire Sprinklers)	1,228
Governmental	94
Total	28,609

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	267 miles
14" to 36" AC	17 miles
4" to 12" PVC	81 miles
14" to 18" PVC	1 mile
4" to 12" Steel	68 miles
14" to 42" Steel	26 miles
All other materials larger than 4"	5 miles
Total	473 miles

Water Equivalents

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

Performance of Distribution Systems

(Fiscal Year 2013-2014)

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

	Water In	Water Out
Received at Intake of Main Conduit (Henshaw Water)	1,695	
Received from San Diego Aqueduct (Imported)	18,439	
Miscellaneous Purchases	0	
Metered to VID users		19,128
Losses		1,006
Total	20,134	20,134

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

	July 1, 2013	July 1, 2014
Rincon Indians	0	0
Escondido Replacement	0	0
Vista Replacement	0	0
Escondido Pumped	0	0
Escondido Contract	1,144	951
Vista Contract	4,289	4,131
Vista Pumped	458	392
Unallocated Henshaw Surplus	(929)	(829)
Total	4,962	4,645

Lake Henshaw Releases

(Fiscal Year 2013-2014)

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	323
Delivered to Rincon Indians	7
Escondido "A" Water*	0
In Lieu "A" Water*	0
Escondido "B" Water*	1,246
In Lieu "B" Water, Esc. Joint Well Water*	609
Replacement Water to Lake Wohlford	1,695
Loss of Release below Intake	151
Total Releases	4,031

*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

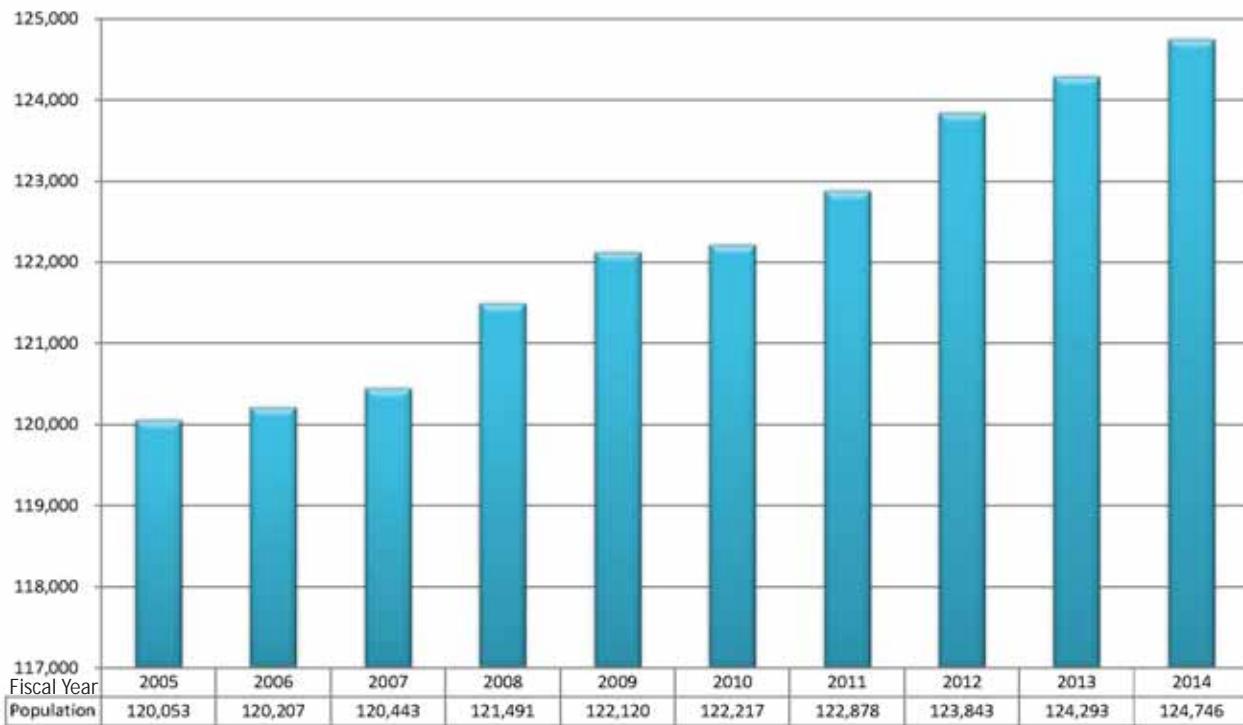
This table presents an annual accounting of various sources of inflows, such as run-off and pumped water from the Warner Basin aquifer, and outflows of water from the lake.

	Acre Feet
Total Storage July 1, 2013	4,962
Less Release	(4,031)
Less Evaporation	(4,679)
Less Spill	0
Plus Pumped Water	8,268
Plus Runoff*	125
Total Storage July 1, 2014	4,645

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

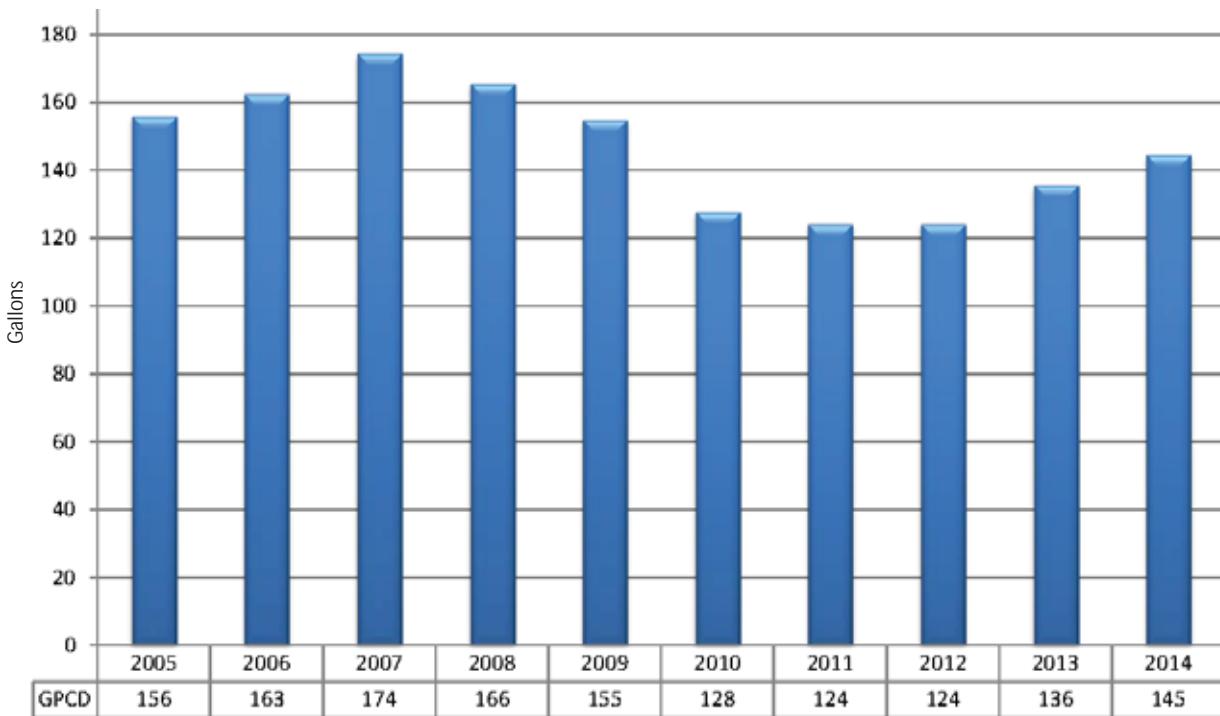
Population

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.



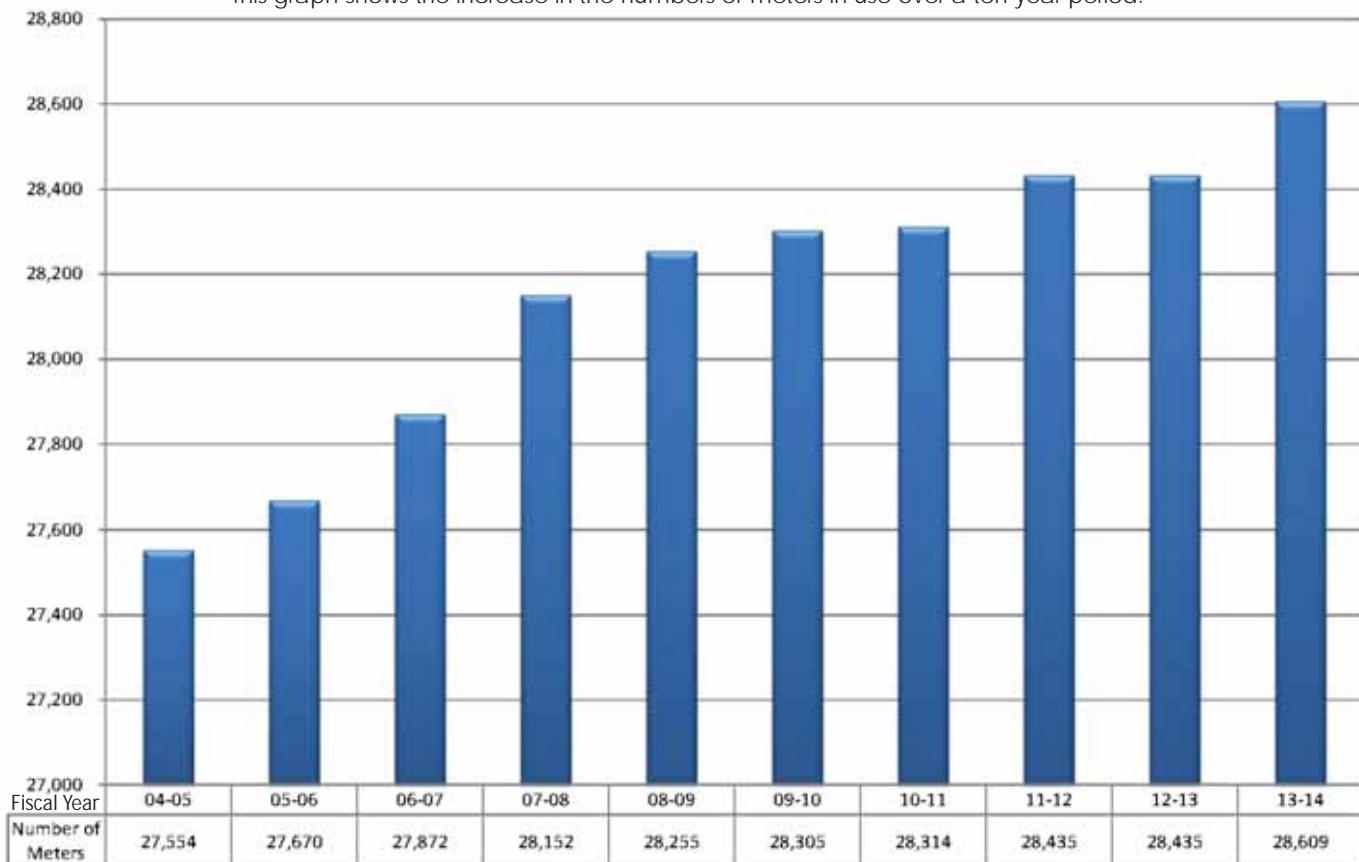
Average Daily Water User Per Person

SBX 7-7 requires retail water agencies to achieve a 10% reduction in per capita water use by 2015 and 20% reduction in per capita water use by December 31, 2020 (referred to as "20 X 2020"). The District's 2015 interim target for 2015 is 159 GPCD and its 2020 target is 142 GPCD. The District's estimated daily per capita water use in 2014 was 145 gallons per capita per day(GPCD), which is 14 GPCD less than its 2015 interim target.



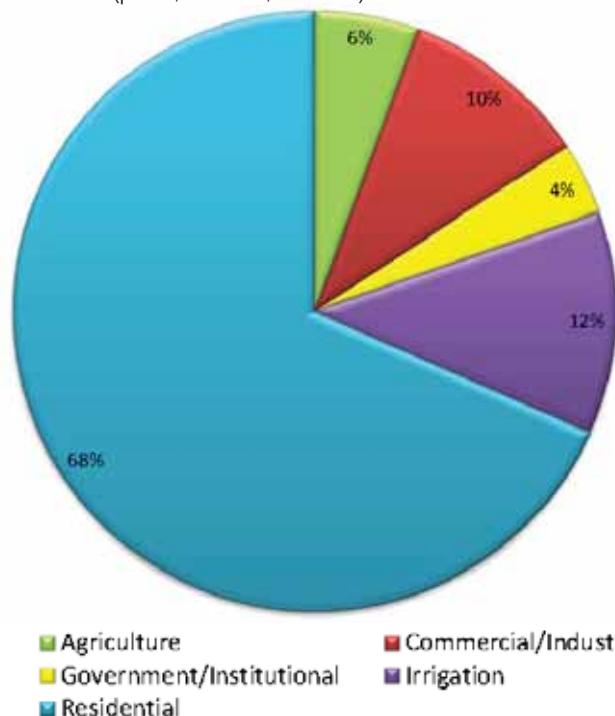
Meters in Use

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



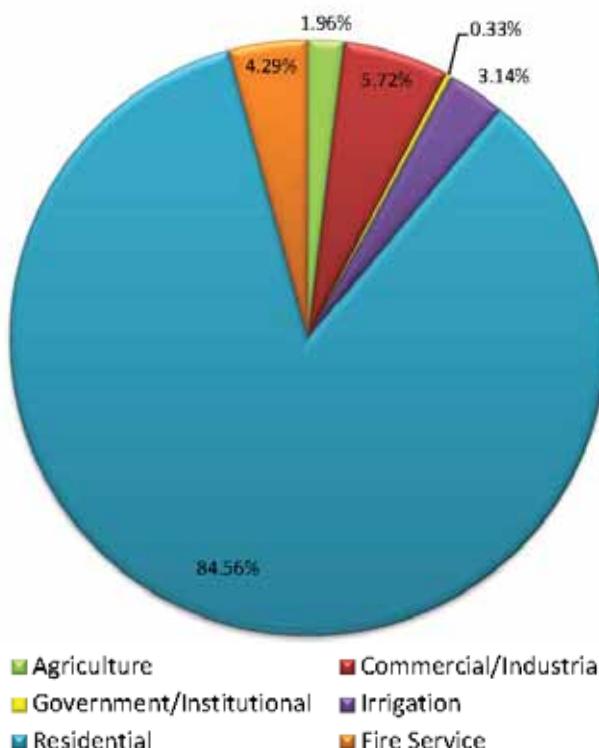
Water Delivered by Use Type

This graph shows how much water is delivered for different uses. As illustrated, a majority of the water delivered to District customers (68%) is for residential use. The balance is delivered for irrigation, commercial/industrial (business), agriculture and governmental/institutional (parks, libraries, schools) uses.



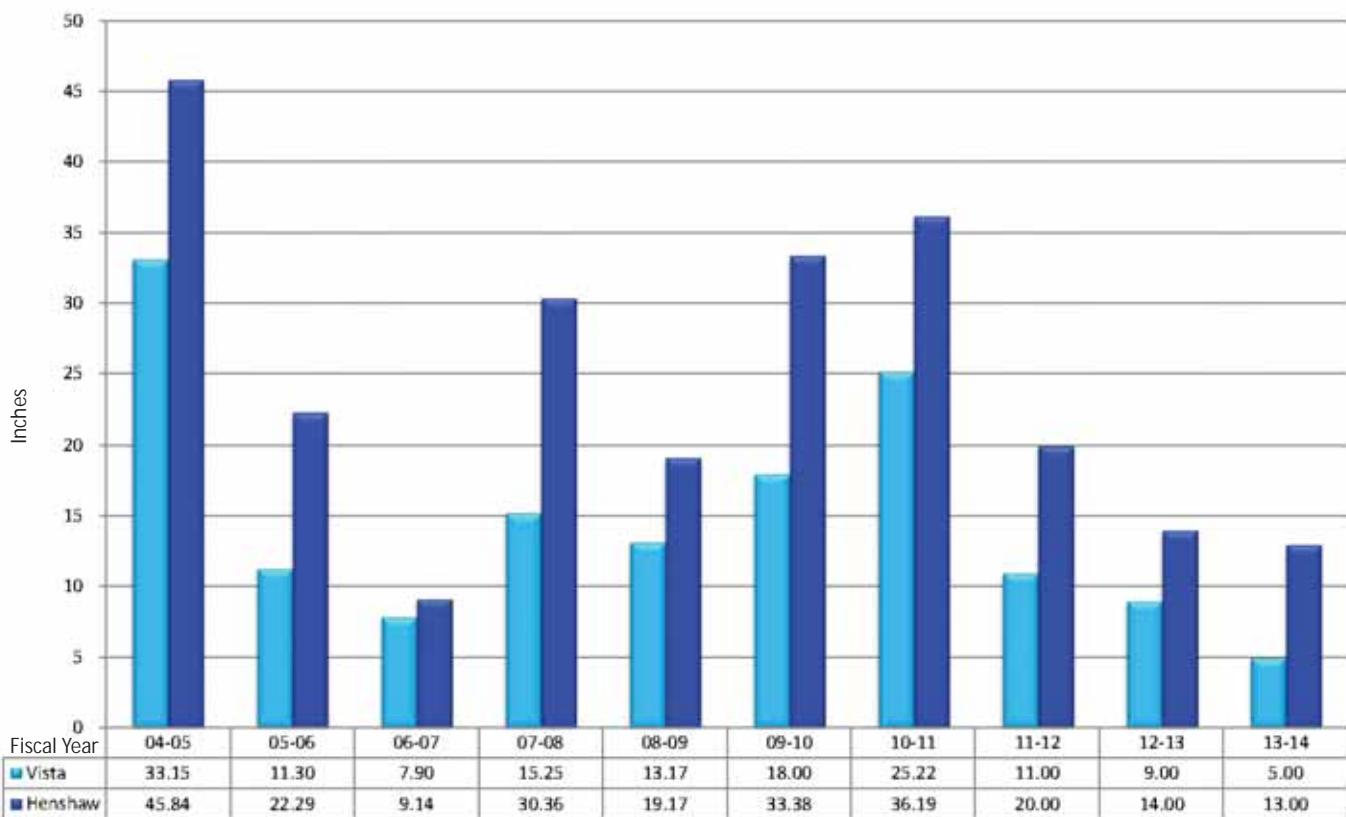
Meters in Service by Use Type

This graph shows meters in service by use. Almost 85% of the District's 28,609 meters are used to supply water to single-family residences.

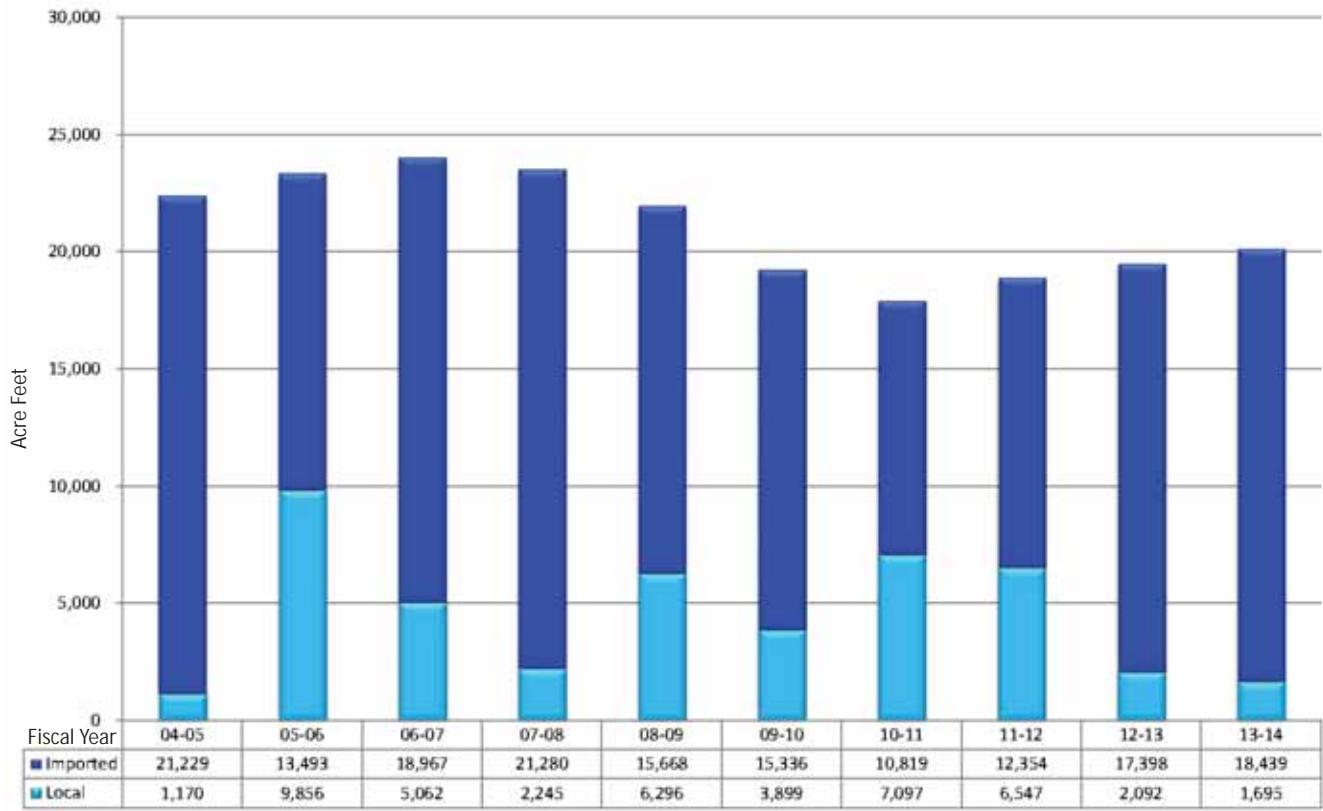


Rainfall (July 1 - June 30)

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

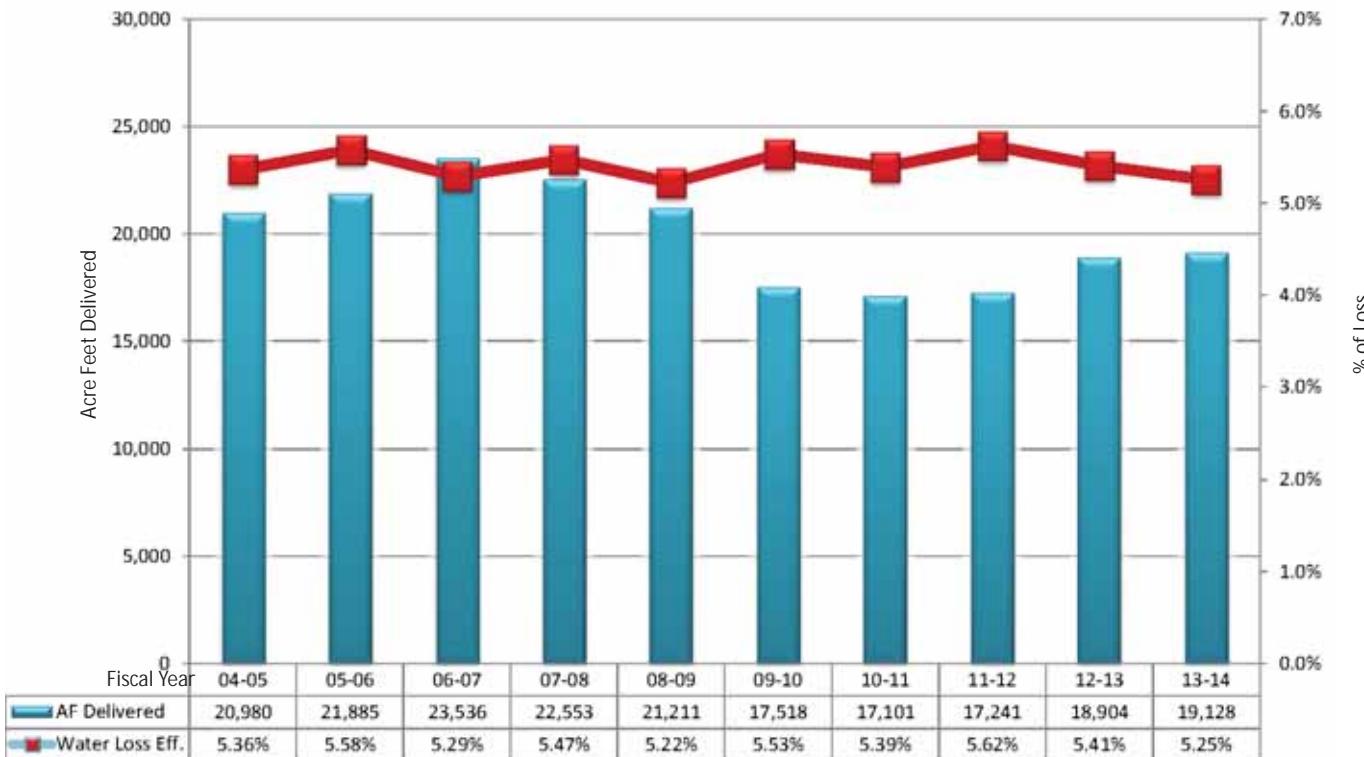
Water Received

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.



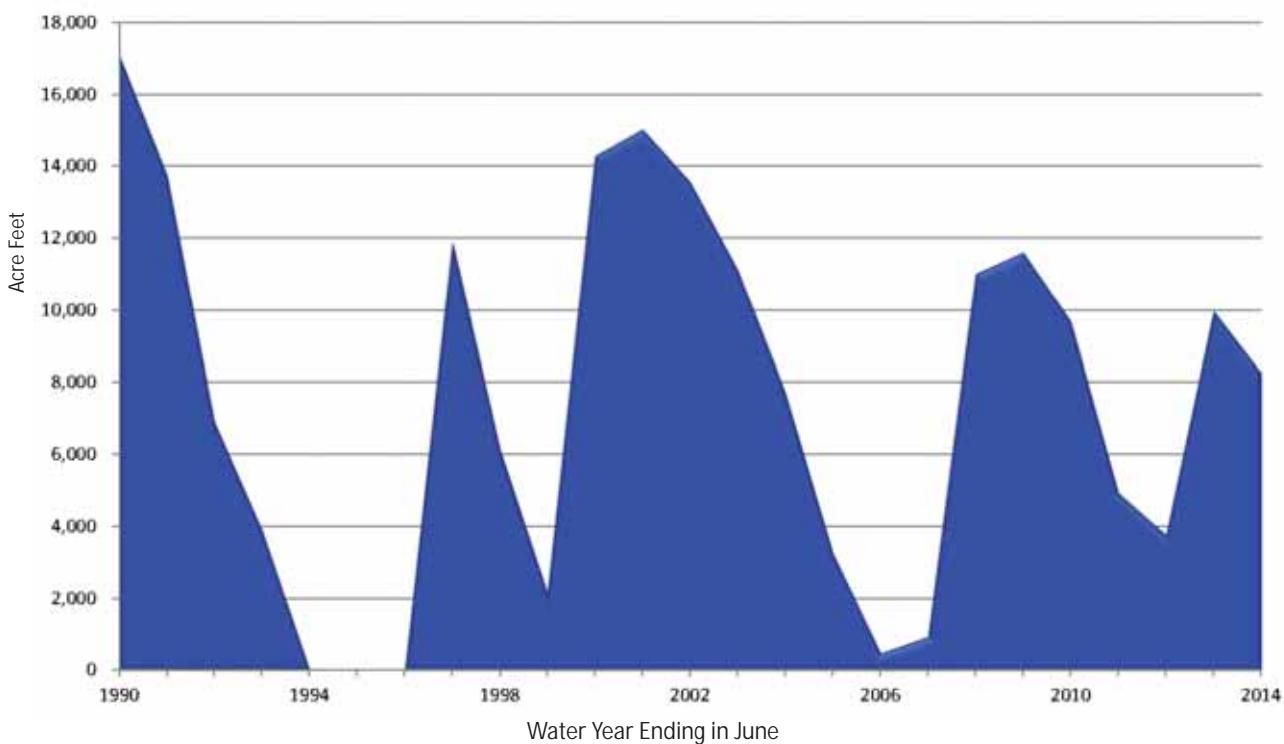
Distribution Efficiency

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



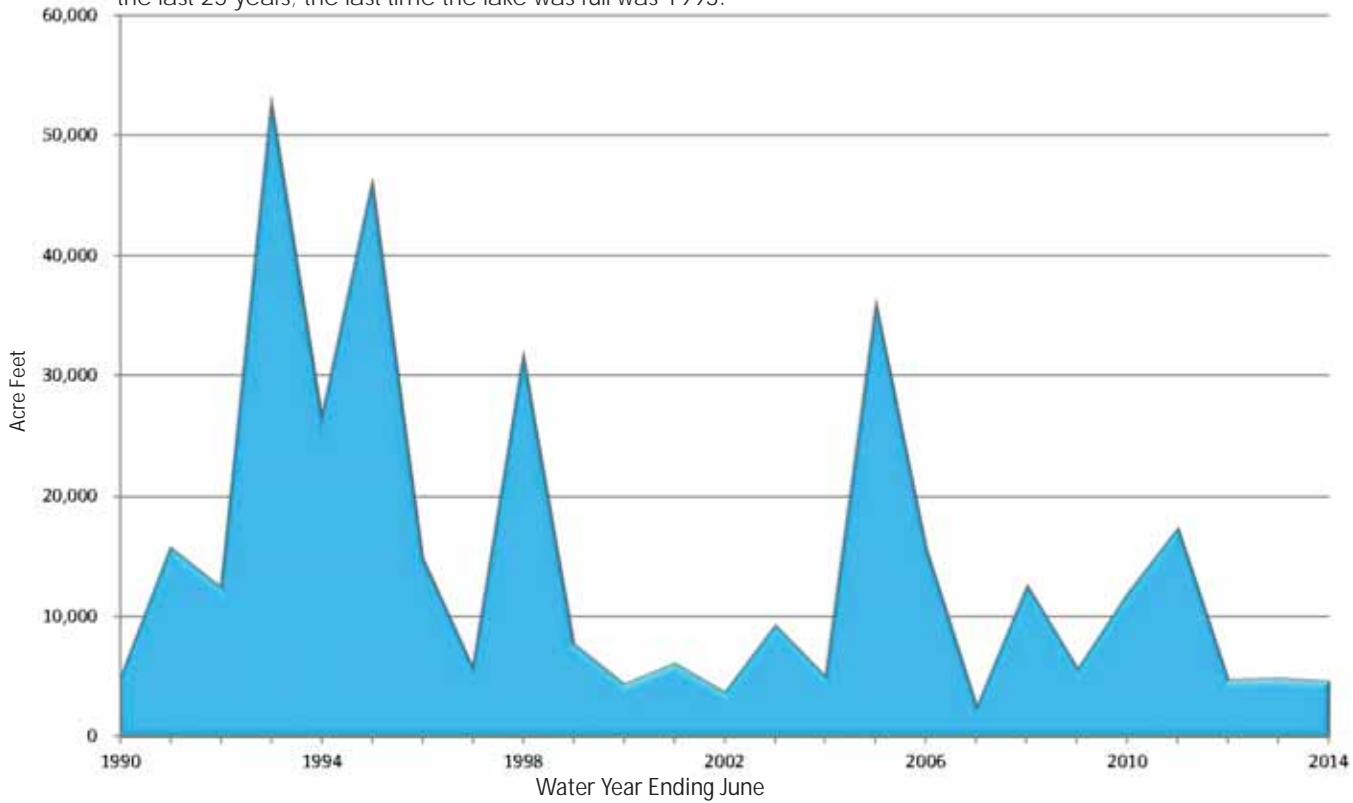
Water Pumped from Warner Basin (Yearly Totals)

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 1990 to 2014. Typically, pumped water is more heavily relied on during extended dry periods.



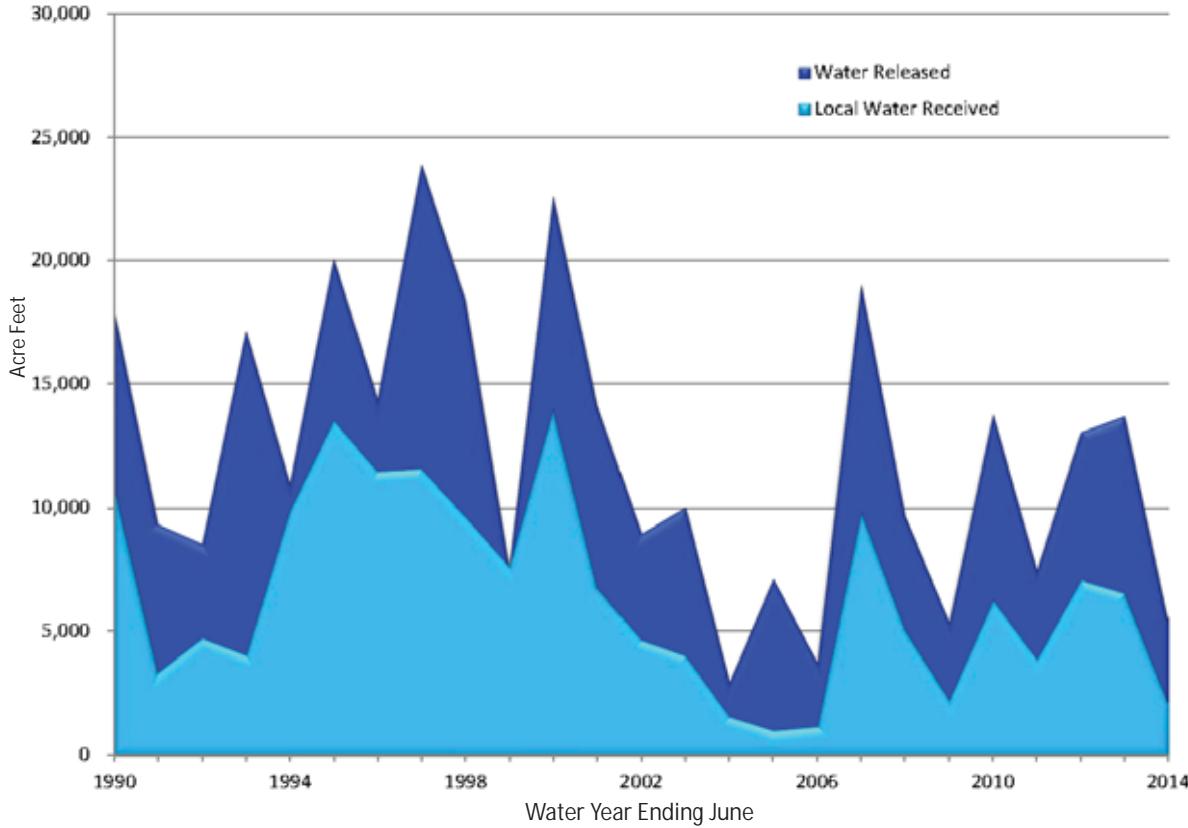
Water Stored in Lake Henshaw

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

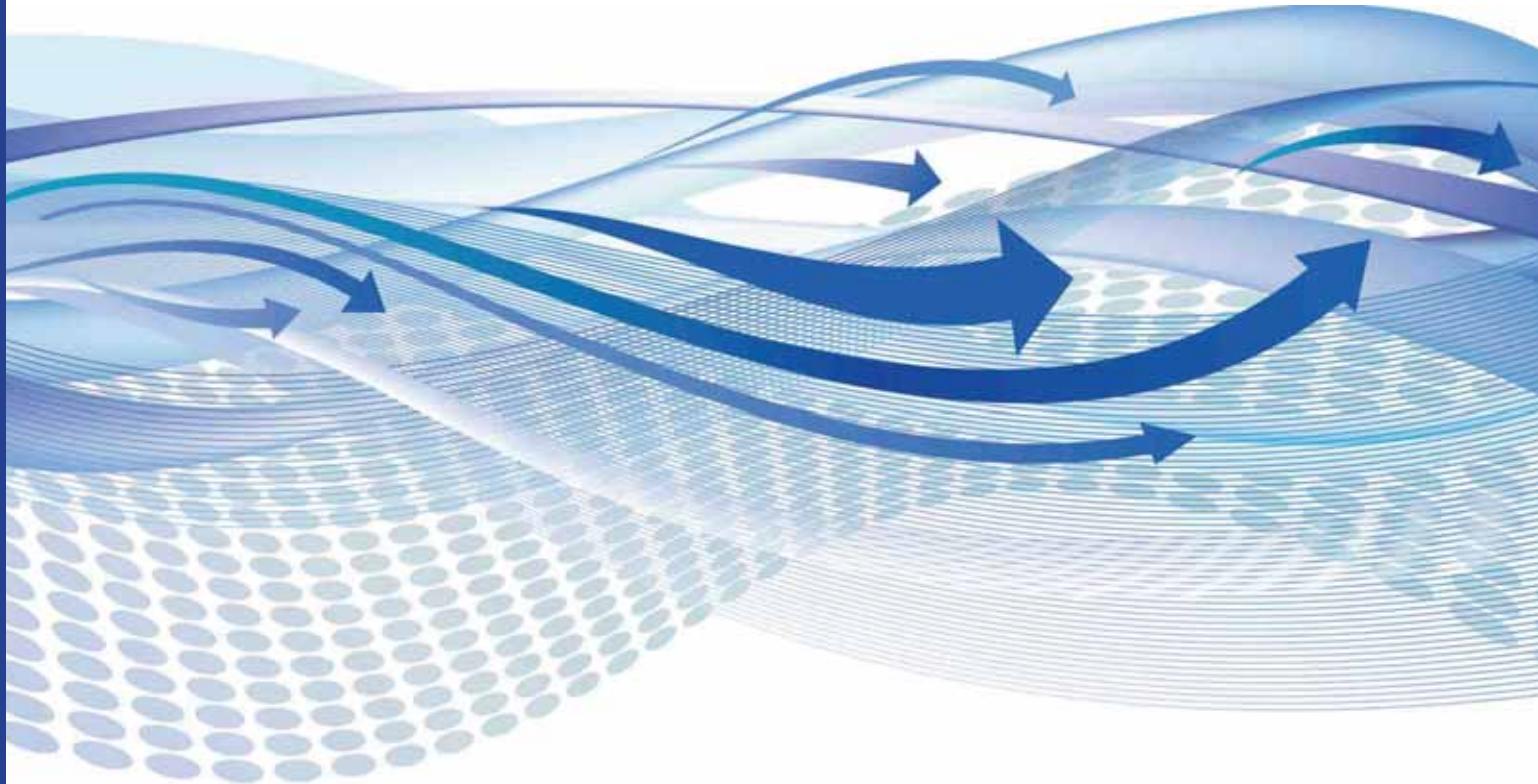


Water Released from Lake Henshaw versus Local Water Received

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



DISTRICT FINANCIALS



Management's Discussions and Analysis

Financial Statements

Notes to Financial Statements

Management's Discussion and Analysis

Our discussion and analysis of the Vista Irrigation District's financial performance provides an overview of the District's financial activities for the year ended June 30, 2014. Please read it in conjunction with the District's financial statements which begin on page 26. This annual financial report consists of two parts -- Management's Discussion and Analysis (this section) and the Financial Statements.

Financial Statements

The District's financial statements include four components:

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

The statements of net position 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.

See independent auditors' report.

Management's Discussion and Analysis

Financial Highlights

- Overall, operating revenues increased 6.4%, while operating expenses increased 6.5%.
- The District realized a \$5.5 million operating gain during the current fiscal year from an increase in water revenues, resulting from the tiered-rate structure, as well as an increase in construction development activity.
- Contributed capital decreased \$1.2 million due to the completion of two capital contribution jobs in the current year, as compared to nine in the prior year.

Financial Analysis of the District

Net Position - The District's overall net position increased \$5.9 million between fiscal years 2013 and 2014, from \$107.1 to \$113.0 million. The net investment in capital assets decreased \$1.3 million which reflects the excess of current year depreciation and dispositions over the net capital additions. During the current year, the District's long-term prepaid expenses increased \$2.1 million primarily due to a prepayment to fully fund its OPEB liability. The unrestricted net position increased \$7.2 million primarily due to operating income exceeding operating expenses.

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

	<u>2014</u>	<u>2013</u>
Current assets	\$ 40.7	\$ 34.8
Capital assets	81.8	83.1
Long-term prepaid expenses	2.1	-
Total Assets	<u>124.6</u>	<u>117.9</u>
Liabilities	<u>11.6</u>	<u>10.8</u>
Net Position:		
Net investment in capital assets	81.8	83.1
Unrestricted	31.2	24.0
Total Net Position	<u>\$ 113.0</u>	<u>\$ 107.1</u>

See independent auditors' report.

Management's Discussion and Analysis

Change in Net Position - The District's operating revenues increased by 6.4% to \$48.7 million. In fiscal year 2014, 96.3% 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 6.5% to \$43.2 million primarily due to an increase of \$1.9 million in purchased water, as well a \$0.5 million write-off of design costs for a flume replacement project that was determined to be less cost effective than to rehabilitate the flume.

The District's contributed capital decreased from \$1.2 million to \$67.3 thousand primarily due to less capital contribution jobs completed in the current year.

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

	<u>2014</u>	<u>2013</u>
Operating Revenues		
Water sales	\$ 46.9	\$ 44.7
Property rentals	0.7	0.7
System fees	0.7	0.2
Other services	<u>0.4</u>	<u>0.2</u>
Total Operating Revenues	<u>48.7</u>	<u>45.8</u>
Operating Expenses	<u>43.2</u>	<u>40.6</u>
Operating Income	<u>5.5</u>	<u>5.2</u>
Nonoperating Revenues (Expenses)		
Property taxes	0.4	0.4
Legal settlement	(0.1)	(0.1)
Investment income	<u>0.1</u>	<u>0.1</u>
Total Nonoperating Revenues	<u>0.4</u>	<u>0.4</u>
Contributed Capital	<u>-</u>	<u>1.2</u>
Increase in Net Position	<u>\$ 5.9</u>	<u>\$ 6.8</u>

See independent auditors' report.

Management's Discussion and Analysis

Capital Assets

At June 30, 2014, the District had invested \$160.9 million in capital assets with \$79.2 million in accumulated depreciation. Net capital assets decreased \$1.3 million as a result of annual depreciation and dispositions exceeding the capital acquisitions. During the year the District added \$1.9 million of capital assets. The largest capital additions were \$1.5 million in costs for several mainline replacement projects, \$0.2 million for SCADA upgrades and expansion, \$0.1 million for pump station upgrades, and \$0.1 million for pipeline extensions. This year's capital reductions included a \$0.5 million write-off of construction-in-progress design costs for a flume replacement project and replacement/disposals of pipelines, pumping equipment, and SCADA valves with a total historical cost for all these items of \$76.6 thousand. Depreciation for the year was \$3.2 million.

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

	<u>2014</u>	<u>2013</u>
Land, franchises and water rights	\$ 6.0	\$ 6.0
Buildings, canals, pipelines, reservoirs and dams	73.9	75.0
Equipment	1.0	0.8
Henshaw pumping project	0.4	0.3
Construction in progress	0.5	1.0
Total Capital Assets, Net	<u>\$ 81.8</u>	<u>\$ 83.1</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, 2014, the District had no capital debt and has no immediate need to issue debt.

Contacting the District's Financial Management

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

See independent auditors' report.

Financial Statements

**VISTA IRRIGATION DISTRICT
STATEMENTS OF NET POSITION
JUNE 30, 2014 AND COMPARATIVE DATA FOR JUNE 30, 2013**

ASSETS

	<u>2014</u>	<u>2013</u>
<u>Current Assets:</u>		
Cash and cash equivalents (notes 1 and 2)	\$ 18,836,902	\$ 13,464,086
Investments (notes 1 and 2)	12,995,802	12,993,484
Accounts receivable, net (notes 1 and 3)	8,135,457	7,835,894
Taxes receivable	28,332	27,005
Accrued interest receivable	5,384	4,677
Inventories of materials and supplies	384,909	352,470
Prepaid expenses and other current assets (note 9)	141,230	188,642
Total Current Assets	40,528,016	34,866,258
<u>Noncurrent Assets:</u>		
Capital assets: (notes 1 and 4)		
Depreciable assets, net of accumulated depreciation:		
Buildings, canals, pipelines, reservoirs and dams	73,941,664	74,987,426
Equipment	1,046,119	846,102
Henshaw pumping project	353,829	322,949
Nondepreciable assets:		
Land, franchises and water rights	5,960,313	5,960,313
Construction in progress	456,338	965,229
Total capital assets	81,758,263	83,082,019
Long-term prepaid expenses (note 9)	2,265,950	-
Total Noncurrent Assets	84,024,213	83,082,019
TOTAL ASSETS	\$ 124,552,229	\$ 117,948,277

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

(Continued)

Financial Statements

**VISTA IRRIGATION DISTRICT
STATEMENTS OF NET POSITION
JUNE 30, 2014 AND COMPARATIVE DATA FOR JUNE 30, 2013**

LIABILITIES AND NET POSITION

	<u>2014</u>	<u>2013</u>
<u>Current Liabilities:</u>		
Accounts payable (note 5)	\$ 5,161,654	\$ 4,674,112
Deposits	491,890	142,456
Accrued expenses and other liabilities	<u>1,698,990</u>	<u>1,938,315</u>
Total Current Liabilities	<u>7,352,534</u>	<u>6,754,883</u>
<u>Noncurrent Liabilities:</u>		
Claims payable (note 6)	4,190,193	4,095,461
Total Liabilities	<u>11,542,727</u>	<u>10,850,344</u>
<u>Net Position:</u>		
Net investment in capital assets	81,758,263	83,082,019
Unrestricted (note 7)	<u>31,251,239</u>	<u>24,015,914</u>
Total Net Position	<u>113,009,502</u>	<u>107,097,933</u>
TOTAL LIABILITIES AND NET POSITION	\$ <u>124,552,229</u>	\$ <u>117,948,277</u>

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

Financial Statements

**VISTA IRRIGATION DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014 AND COMPARATIVE DATA FOR JUNE 30, 2013**

	<u>2014</u>	<u>2013</u>
<u>Operating Revenues:</u>		
Water sales	\$ 46,858,642	\$ 44,675,640
Property rentals	705,845	666,495
System fees	667,311	228,954
Other services	454,842	206,602
Total Operating Revenues	<u>48,686,640</u>	<u>45,777,691</u>
<u>Operating Expenses:</u>		
Purchased water	21,351,934	19,438,447
Wages and benefits	12,026,730	11,902,693
Contractual services	3,932,249	3,551,800
Depreciation	3,222,382	3,122,974
Supplies	1,369,388	969,997
Professional fees	634,801	799,509
Power	603,100	735,024
Insurance	476,242	407,580
Office and general	445,363	477,700
Uncollectible accounts	60,389	54,046
Communications	57,814	61,278
Burden allocation	<u>(947,821)</u>	<u>(934,908)</u>
Total Operating Expenses	<u>43,232,571</u>	<u>40,586,140</u>
Operating Income	<u>5,454,069</u>	<u>5,191,551</u>
<u>Nonoperating Revenues (Expenses):</u>		
Property taxes	443,255	387,889
Investment income	45,451	53,471
Federal and state assistance	-	64,015
Gain (Loss) on disposal of capital assets	(3,819)	9,414
Legal settlement	<u>(94,732)</u>	<u>(57,090)</u>
Total Nonoperating Revenues	<u>390,155</u>	<u>457,699</u>
Income Before Contributed Capital	5,844,224	5,649,250
Contributed Capital	<u>67,345</u>	<u>1,176,656</u>
Change in Net Position	<u>5,911,569</u>	<u>6,825,906</u>
Total Net Position - Beginning	<u>107,097,933</u>	<u>100,272,027</u>
TOTAL NET POSITION - ENDING	<u>\$ 113,009,502</u>	<u>\$ 107,097,933</u>

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

Financial Statements

**VISTA IRRIGATION DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014 AND COMPARATIVE DATA FOR JUNE 30, 2013**

	<u>2014</u>	<u>2013</u>
<u>Cash Flows From Operating Activities:</u>		
Receipts from customers	\$ 48,387,077	\$ 44,545,047
Payments to suppliers	(37,412,340)	(33,862,027)
Payments to employees	(4,108,627)	(4,103,281)
Collection of deposits	936,178	259,824
Return of deposits	(586,744)	(400,342)
Net Cash Provided by Operating Activities	<u>7,215,544</u>	<u>6,439,221</u>
<u>Cash Flows From Noncapital Financing Activities:</u>		
Receipts from property taxes	<u>441,928</u>	<u>387,889</u>
<u>Cash Flows From Capital and Related Financing Activities:</u>		
Proceeds from disposal of capital assets	6,785	9,604
Acquisition of capital assets	(2,349,686)	(2,639,356)
Receipts from developers for capital purposes	15,819	28,000
Proceeds from Federal and State assistance	-	64,015
Net Cash Used by Capital and Related Financing Activities	<u>(2,327,082)</u>	<u>(2,537,737)</u>
<u>Cash Flows From Investing Activities:</u>		
Proceeds from maturities of investments	13,000,000	13,000,000
Interest on cash and investments	26,299	26,973
Purchase of investments	<u>(12,983,873)</u>	<u>(12,979,374)</u>
Net Cash Provided by Investing Activities	<u>42,426</u>	<u>47,599</u>
Net Increase in Cash and Cash Equivalents	5,372,816	4,336,972
Cash and Cash Equivalents - Beginning	<u>13,464,086</u>	<u>9,127,114</u>
CASH AND CASH EQUIVALENTS - ENDING	\$ <u>18,836,902</u>	\$ <u>13,464,086</u>

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

(Continued)

Financial Statements

**VISTA IRRIGATION DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014 AND COMPARATIVE DATA FOR JUNE 30, 2013**

	<u>2014</u>	<u>2013</u>
<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</u>		
Operating Income		
	\$ 5,454,069	\$ 5,191,551
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	3,222,382	3,122,974
Prior year construction in progress expensed	491,982	-
Change in Assets and Liabilities:		
Accounts receivable, net	(299,563)	(1,394,709)
Inventories of materials and supplies	(32,439)	4,298
Prepaid expenses and other assets	(2,218,538)	72,836
Accounts payable	487,542	549,410
Deposits	349,434	(140,518)
Accrued expenses and other liabilities	(239,325)	(966,621)
Net Cash Provided by Operating Activities	<u>\$ 7,215,544</u>	<u>\$ 6,439,221</u>
<u>Noncash Investing, Capital and Financing Activities:</u>		
Contributed capital assets	\$ 67,345	\$ 1,176,656
Capital asset acquisitions included in accounts payable and accrued expenses	\$ 16,475	\$ 86,683
Increase in fair value of investments	\$ 18,445	\$ 25,068

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

Notes to Financial Statements

Note 1 - Reporting Entity and Summary of Significant Accounting Policies:

Description of the Reporting Entity

Vista Irrigation District (District) is a public entity established in 1923, pursuant to the Irrigation District Act of the California Water Code, for the purpose of providing water services to the properties in the District. The District's service area lies within the northwestern quadrant of San Diego County, encompassing approximately 21,180 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

Effective July 1, 2013, the District adopted the provisions of GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

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,

Notes to Financial Statements

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

Revenue Recognition (Continued)

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.

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

Notes to Financial Statements

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

Risk Management (Continued)

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 \$28,176,569) 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.

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

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

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

Dam Failure Liability - Insured up to \$5,000,000 per occurrence with \$250,000 deductible; the Authority is self-insured up to \$250,000 and excess insurance coverage has been purchased.

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

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

Notes to Financial Statements

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

Property Taxes (Continued)

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, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Cash on hand	\$ 7,615	\$ 5,039
Deposits	463,333	619,392
State Treasurer's investment pool	12,212,937	8,491,805
California Asset Management Program	<u>6,153,017</u>	<u>4,347,850</u>
Total cash and cash equivalents	<u>\$ 18,836,902</u>	<u>\$ 13,464,086</u>

As of June 30, 2014 and 2013, the District had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>2014</u>	<u>2013</u>
		<u>Fair Value</u>	<u>Fair Value</u>
State Treasurer's investment pool	8 months weighted average	\$ 12,212,937	\$ 8,491,805
California Asset Management Program	2 months weighted average	<u>6,153,017</u>	<u>4,347,850</u>
Total cash equivalents		<u>\$ 18,365,954</u>	<u>\$ 12,839,655</u>
U.S. Treasury bills	6 months weighted average	<u>\$ 12,995,802</u>	<u>\$ 12,993,484</u>
Total Investments		<u>\$ 12,995,802</u>	<u>\$ 12,993,484</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.

Notes to Financial Statements

Note 2 - Cash and Investments: (Continued)

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). 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 \$567,767, 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. As of June 30, 2014, the District's bank balances were \$375,057, of which \$250,000 were insured and the remaining \$125,057 were uninsured and collateralized.

Note 3 - Accounts Receivable, Net:

As of June 30, 2014 and 2013, the net balances were comprised of accounts receivable balances of \$8,670,818 and \$8,318,186, respectively, less the allowances for doubtful accounts of \$535,361 and \$482,292, respectively.

Notes to Financial Statements

Note 4 - Capital Assets:

Capital assets consist of the following at June 30, 2014:

	Beginning <u>Balance</u>	Additions	Retirements	Ending <u>Balance</u>
Capital assets not being depreciated:				
Land, franchises, and water rights	\$ 5,960,313	\$ -	\$ -	\$ 5,960,313
Construction in progress	965,229	1,620,505	(2,129,396)	456,338
Total capital assets not being depreciated	<u>6,925,542</u>	<u>1,620,505</u>	<u>(2,129,396)</u>	<u>6,416,651</u>
Capital assets being depreciated:				
Buildings, canals, pipelines, reservoirs and dams	144,442,839	1,942,769	(65,168)	146,320,440
Equipment	4,824,921	415,435	(11,474)	5,228,882
Henshaw pumping project	2,917,377	59,919	-	2,977,296
Total capital assets being depreciated	<u>152,185,137</u>	<u>2,418,123</u>	<u>(76,642)</u>	<u>154,526,618</u>
Less accumulated depreciation for:				
Buildings, canals, pipelines, reservoirs and dams	(69,455,413)	(2,977,926)	54,563	(72,378,776)
Equipment	(3,978,819)	(215,417)	11,473	(4,182,763)
Henshaw pumping project	(2,594,428)	(29,039)	-	(2,623,467)
Total accumulated depreciation	<u>(76,028,660)</u>	<u>(3,222,382)</u>	<u>66,036</u>	<u>(79,185,006)</u>
Total capital assets being depreciated, net	<u>76,156,477</u>	<u>(804,259)</u>	<u>(10,606)</u>	<u>75,341,612</u>
Total capital assets, net	<u>\$ 83,082,019</u>	<u>\$ 816,246</u>	<u>\$ (2,140,002)</u>	<u>\$ 81,758,263</u>

During the year ended June 30, 2014, \$491,982 previously held in construction-in-progress for the design phase of a flume replacement project was expensed to contractual services. A cost analysis study determined that it was more cost effective to rehabilitate the flume, rather than to replace it.

Notes to Financial Statements

Note 4 - Capital Assets: (Continued)

Capital assets consisted 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	<u>1,349,392</u>	<u>2,211,076</u>	<u>(2,595,239)</u>	<u>965,229</u>
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	<u>4,480,302</u>	<u>559,751</u>	<u>(215,132)</u>	<u>4,824,921</u>
Henshaw pumping project	<u>2,917,377</u>	<u>-</u>	<u>-</u>	<u>2,917,377</u>
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	<u>(4,023,254)</u>	<u>(170,697)</u>	<u>215,132</u>	<u>(3,978,819)</u>
Henshaw pumping project	<u>(2,555,860)</u>	<u>(38,568)</u>	<u>-</u>	<u>(2,594,428)</u>
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 5 - Accounts Payable:

At June 30, 2014, the accounts payable of \$5,161,654 included \$3,992,490 for water purchases from the San Diego County Water Authority and \$1,169,164 for obligations to other vendors. The accounts payable of \$4,674,112 at June 30, 2013 included \$3,523,250 for water purchases from the San Diego County Water Authority and \$1,150,862 for obligations to other vendors.

Notes to Financial Statements

Note 6 - Noncurrent Liabilities:

Changes in the claims payable amounts in fiscal years ended June 30, 2013 and 2014 were as follows:

<u>Fiscal Year</u>	Consumer		
	<u>Beginning Balance</u>	<u>Price Index Adjustment</u>	<u>Ending Balance</u>
2013	\$ 4,038,371	\$ 57,090	\$ 4,095,461
2014	\$ 4,095,461	\$ 94,732	\$ 4,190,193

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

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

Note 7 - Unrestricted Net Position:

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

	<u>2014</u>	<u>2013</u>
Emergency and contingency	\$ 8,000,000	\$ 8,000,000
Future construction	14,204,249	7,007,114
Working capital	9,000,000	9,000,000
Ranch improvements	46,990	8,800
Total unrestricted net position	<u>\$ 31,251,239</u>	<u>\$ 24,015,914</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.

Contributions and Funding Policy

Based on the date of hire, active plan members in the Plan are required to contribute either 4.5%, 7.0% or 6.25% of their annual covered salary.

Notes to Financial Statements

Note 8 - Defined Benefit Pension Plan: (Continued)

Contributions and Funding Policy (Continued)

Also based on the active plan members date of hire, the District is required to contribute at an actuarially determined rate. The rates for the year ended June 30, 2014 were 20.273%, 8.049% or 6.25% of annual covered payroll.

The District's contributions to the Plan for the years ending June 30, 2012, 2013 and 2014 were \$10,135,592 (which included a \$8,232,120 side fund prepayment), \$1,450,517 and \$1,459,677, 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 employees hired before January 1, 2012, the District offers postemployment healthcare benefits to eligible employees who retire on or after January 1, 2006 under CalPERS, who have reached the minimum age of 50, and have completed fifteen years of service with the District (ten years for management employees). The plan is a single-employer benefit plan. Coverage will not extend beyond a combined fifteen years for the retiree and their eligible spouse (twenty years for management employees). The years of coverage may be split between the retiree and spouse; however, the maximum coverage for a retiree may not exceed ten years, and the number of years of coverage for the spouse may not exceed the number of years of coverage for the retiree. A specific health plan provides this direct insurance coverage to retiring employees that reside in the California service area as defined by the plan. If the retiree lives outside the California service area, the District reimburses the retiree quarterly for health insurance premiums not to exceed the current premiums paid to the specific health plan.

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

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

The District fully funds its OPEB liability through the CERBT. For the years ended June 30, 2014 and 2013, the District was fully funded in a prepaid status (in relation to the Annual Required Contribution), and was not required to make any contributions to the CERBT.

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

Funding Policy and Annual OPEB Cost

The District's annual other postemployment benefit (OPEB) cost (expense) for the plan is calculated based on the "annual required contribution of the employer" (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the value of employer promised benefits expected to be earned or allocated for each fiscal year and to amortize any unfunded

Notes to Financial Statements

Note 9 - Other Postemployment Benefits: (Continued)

Funding Policy and Annual OPEB Cost (Continued)

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>2014</u>	Retiree Healthcare Plan <u>2013</u>
Contribution rate: District	Actuarially determined 4.3%	Actuarially determined 4.4%
Annual required contribution	\$ 307,072	\$ 350,168
Adjustment to annual required contribution	4,080	2,689
Interest on net OPEB asset	<u>(5,070)</u>	<u>(3,341)</u>
Annual OPEB cost (expense)	306,082	349,516
Contributions made	<u>(2,505,415)</u>	<u>(372,236)</u>
Increase (decrease) in net OPEB obligation/(asset)	(2,199,333)	(22,720)
Net OPEB obligation (asset) - beginning of year	<u>(66,617)</u>	<u>(43,897)</u>
Net OPEB obligation (asset) - end of year	<u>\$ (2,265,950)</u>	<u>\$ (66,617)</u>

In June 2014, the District opted to make a lump sum payment of \$2,119,265 in order to pay off the unfunded portion of the District's OPEB liability.

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

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

	<u>Year End</u>	Annual OPEB Cost	<u>Actual Contribution</u>	Percent of OPEB Cost <u>Contributed</u>	Net OPEB Obligation (Asset)
Retiree Healthcare Plan	June 30, 2012	\$332,565	\$307,783	92.5%	(\$43,897)
Retiree Healthcare Plan	June 30, 2013	\$349,516	\$372,236	106.5%	(\$66,617)
Retiree Healthcare Plan	June 30, 2014	\$306,082	\$2,505,415	818.5%	(\$2,265,950)

Notes to Financial Statements

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, 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%)
July 1, 2013	\$1,238,734	\$3,574,767	(\$2,336,033)	34.7%	\$7,494,718	(31.2%)

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

Due to the \$2,119,265 prepayment at the end of the current year, the District is fully funded as of June 30, 2014.

Actuarial Methods and Assumptions

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

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

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

Notes to Financial Statements

Note 10 - Commitments and Contingencies:

Commitments

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

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

1. Allocation of Local Water and Supplemental Water

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

2. Financial Obligations

- a) The Indian Water Authority is responsible for all costs associated with obtaining supplemental water. The District and Escondido are responsible for all costs associated with maintaining and operating the local water system, including the cost of a proposed canal undergrounding on the San Pasqual Indian Reservation (currently estimated to cost \$27 million). The cost of the proposed undergrounding project will be divided evenly between the District and Escondido.
- b) In return for the Bands’ and the United States’ agreement that the Settlement shall be an entire agreement, and no obligations among the parties from the 1894, 1914, and 1922 contracts shall endure, there shall be no annual charges paid by the District or Escondido for the use of tribal lands, and all liability among the parties shall be waived prior to the effective date of the Settlement Agreement. The District and Escondido agree to each pay the Indian Water Authority \$3.85 million on October 1, 2008. This amount can be paid either as a lump sum, or paid over the next 20 years at 5% interest, or paid over 20 years, delayed for 5 years, at 6% interest. Any payment may be prepaid without a prepayment penalty.
- c) The Rincon Band’s entitlement to 2,900 acre-feet per year of local water is estimated to cost the District approximately \$230,000 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.

Notes to Financial Statements

Note 10 - Commitments and Contingencies: (Continued)

Commitments (Continued)

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.

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.

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