



Comprehensive Annual Financial Report Years Ended June 30, 2019 and 2018



Valley Sanitary District
"A California Special District"

Valley Sanitary District

Indio, California

Comprehensive Annual Financial Report

For the Years Ended June 30, 2019 and 2018

Prepared by:
Administration and Finance Department

Valley Sanitary District

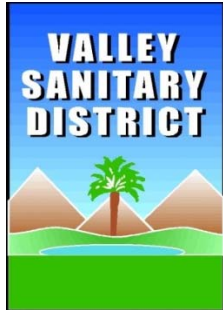
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**INTRODUCTORY SECTION
(UNAUDITED)**

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November 12, 2019

Board of Directors
Valley Sanitary District
Indio, California

Subject: Comprehensive Annual Financial Report
For the Years Ended June 30, 2019 and 2018

Introduction

It is our pleasure to submit the Comprehensive Annual Financial Report (CAFR) for the Valley Sanitary District (District) for the fiscal years ended June 30, 2019 and 2018. This report was prepared by the District's Administration and Finance Department following guidelines recommended by the Governmental Accounting Standards Board (GASB) and in accordance with Generally Accepted Accounting Principles (GAAP). The District is ultimately responsible for both the accuracy of the data and the completeness and the fairness of presentation, including all disclosures in this financial report. We believe that the data presented is accurate in all material respects. This report is designed in a manner believed to enhance your understanding of the District's financial position and activities.

Generally Accepted Accounting Principles (GAAP) requires that management provide a narrative introduction, overview, and analysis to accompany the financial statements in the form of the Management's Discussion and Analysis (MD&A) section. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The District's MD&A can be found immediately after the Independent Auditors' Report.

District Structure and Leadership

The District is a California special district, which operates under the authority of the Health and Safety Code, Sanitary District Act of 1923, § 6400 et seq. The District was formed June 1, 1925 and is governed by a five (5) member Board of Directors, elected at large from within the District's service area. The General Manager administers the day-to-day operations of the District in accordance with policies and procedures established by the Board of Directors. The District employs twenty-eight (28) regular employees, organized in three (3) departments. The District's Board of Directors meet on the second and fourth Tuesdays of each month. Meetings are publicly noticed and citizens are encouraged to attend.

The District provides sanitary sewer services to approximately 27,849 connections within its 19.5 square mile service area, located in the eastern desert area of Riverside County. The District encompasses portions of the City of Indio, the City of Coachella, and adjacent unincorporated areas of Riverside County, California.

District Services

Residential customers represent approximately 97% of the District's customer base and produce approximately 81% of the sewage flow. Currently, the District can treat approximately 12.5 million gallons of sewage a day.

Economic Condition and Outlook

The District offices are located in the City of Indio in Riverside County. The City of Indio is benefitting by the second longest economic expansion in U.S. history. Locally, consumer confidence is high, unemployment is at record lows, and overall property value has exceeded its pre-recession level. A snapshot of today's economy in Indio is a picture of progress.

Major Initiatives

During fiscal year 2019, the District completed or initiated several significant projects:

- ✓ **Perimeter Fence Extension Project** – A new anti-cut/anti-climb 8-foot-high perimeter fence was constructed on the southwest portion of the property. This security fence enhances the look of the VSD facility as well as provide site security.
- ✓ **Collection Systems Maintenance Program** – VSD operates and maintains approximately 246 miles of sanitary sewer line and delivers over six (6) million gallons per day of wastewater to its wastewater reclamation facility. In order to keep up with an aging and expanding infrastructure, VSD has begun working on a multimillion-dollar maintenance program that will span over the next several years. This program will be split into at least four (4) phases that will take place over the next ten (10) years.
- ✓ **Sewer-Siphon Replacement Design** – A sewer siphon crossing the Coachella Stormwater channel at Westward Ho Drive is in the design phase after being damaged by the flooding that occurred on February 14, 2019. Valley Sanitary District is working with Coachella Valley Water District (CVWD) to design and replace this vital sewer siphon.

Internal Control Structure

District management is responsible for the establishment and maintenance of the internal control structure that ensures the assets of the District are protected from loss, theft, or misuse. The internal control structure also ensures adequate accounting data is compiled to allow for the preparation of financial statements in conformity with GAAP. The District's internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of the control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management.

Budgetary Control

The District Board of Directors annually adopts an operating and capital budget prior to the new fiscal year. The budget authorizes and provides the basis for reporting and control of financial operations and accountability for the District's enterprise and capital projects. The budget and reporting treatment applied to the District is consistent with the accrual basis of accounting and the financial statement basis.

Investment Policy

The Board of Directors has adopted an investment policy that conforms to state law, District ordinances and resolutions, prudent money management and the "prudent person" standards. The objective of the Investment Policy is safety, liquidity, and yield. District funds are invested in the State Treasurer's Local Agency Investment Fund (LAIF) and CalTrust.

Sewer Rates and District Revenues

District policy direction ensures that all revenues from sewer use charges generated from District customers must support all District operations including capital project funding. Accordingly, all sewer use charges are reviewed on an annual basis. The sewer use charges imposed upon the customers for service are the primary component of the District's revenue. Sewer use charges are calculated on an equivalent dwelling unit (EDU) basis.

Audit and Financial Reporting

State law and bond covenants require the District to obtain an annual audit of its financial statements by an independent certified public accountant. The accounting firm, The Pun Group, LLP, Accountants & Advisors, has conducted the audit of the District's financial statements. Their unmodified Independent Auditors' Report appears in the Financial Section.

Risk Management

The District annually renews its commercial insurance package which includes a primary package, umbrella, earthquake, and excess earthquake coverage.

The District is a member of the California Sanitation Risk Management Authority (CSRMA). CSRMA administers the District's workers' compensation and employer liability program of insurance.

Other References

More information is contained in the Management's Discussion and Analysis and the Notes to the Financial Statements found in the Financial Section of the report.

Awards/Recognition

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Valley Sanitary District for its comprehensive annual financial report for the fiscal year ended June 30, 2018. This was the seventh consecutive year that the District received this prestigious award. In order to award a Certificate of achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

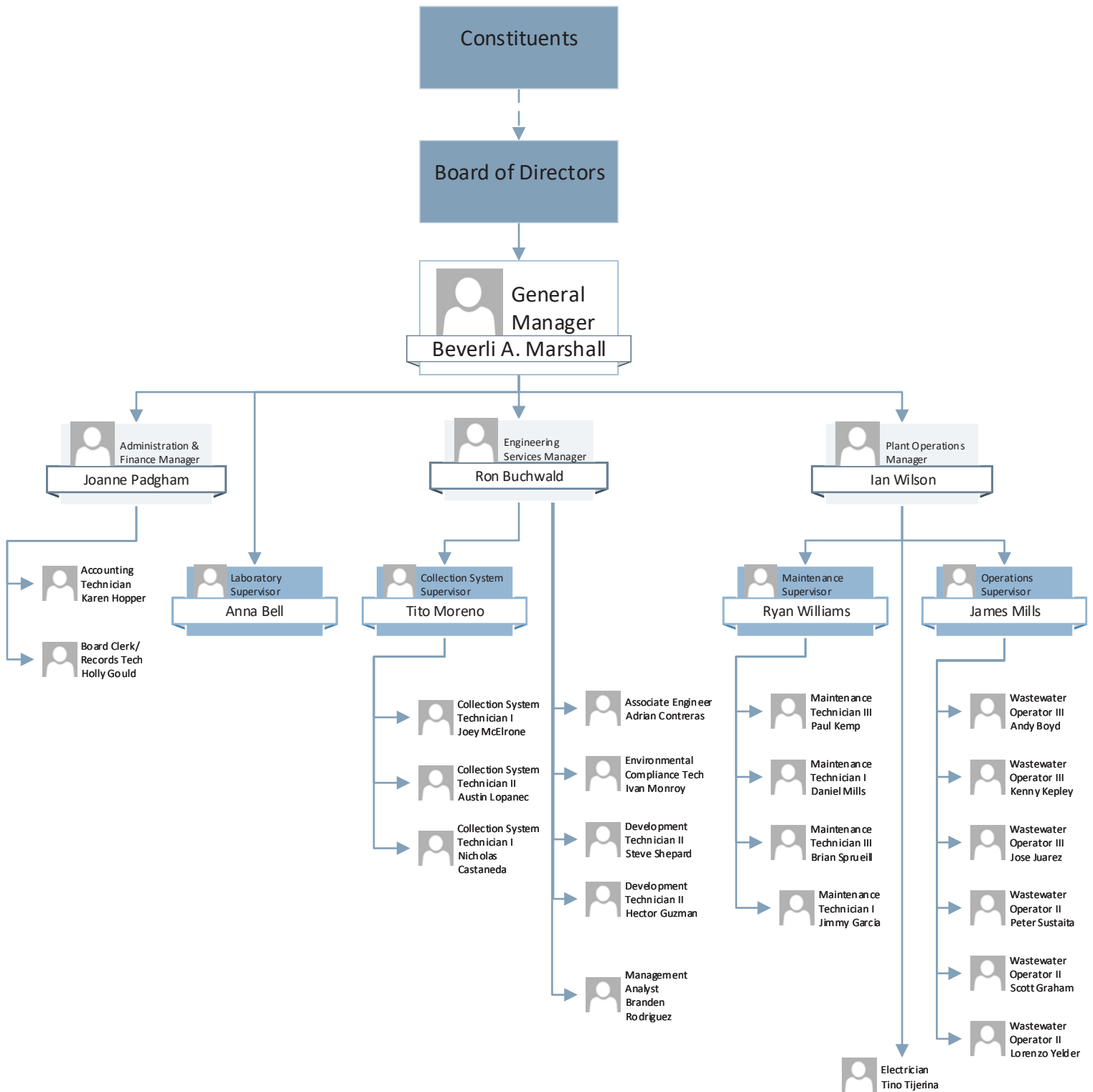
Acknowledgements

Preparation of this report was accomplished by the combined efforts of District staff. We appreciate the dedicated efforts and professionalism that our staff members bring to the District. We would like to thank the members of the Board of Directors for their continued support in the planning and implementation of the Valley Sanitary District's fiscal policies.

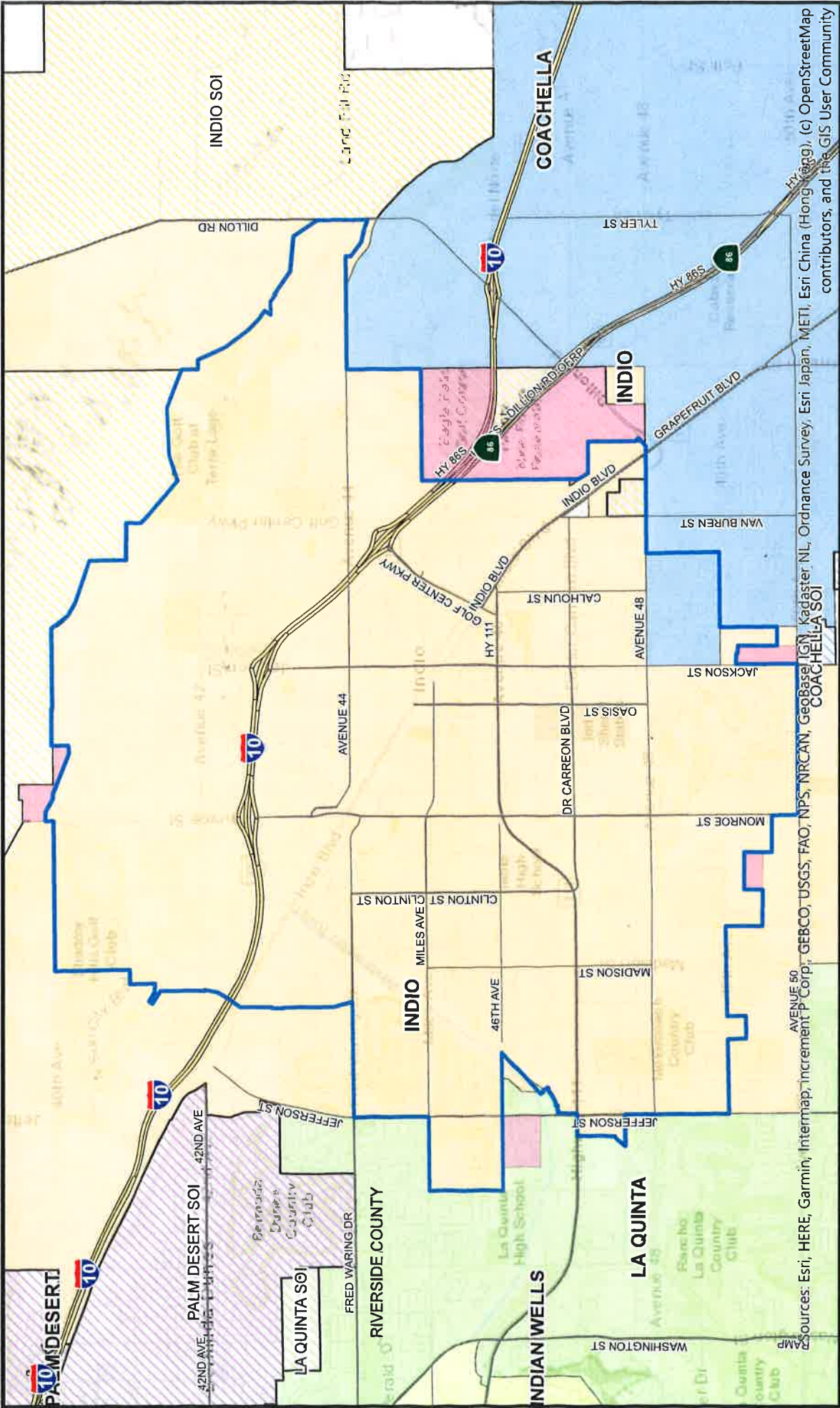
Respectfully submitted,




Beverli A. Marshall
General Manager



Valley Sanitary District and Sphere of Influence







Disclaimer: The information shown is intended to be used for reference and general display purposes only and is not to be used as an official map.

Sewer provided by District

Data Sources: County of Riverside; Registrar of Voters, LAFCO





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N

Legend

-  Valley Sanitary District Boundary
-  Valley Sanitary District Boundary Sphere of Influence (SOI)

SOI Adopted: 2006

Author: Crystal M. Craig Map Created on 9/24/19

Valley Sanitary District Board of Directors



The five-member Board of Directors are elected by the citizens who reside within Valley Sanitary District to set policy and govern the District. The current Board of Directors are:

Mike L. Duran, President

William R. Teague, Vice President

Dennis M. Coleman, Secretary/Treasurer

Debra A. Canero, Director

Scott A. Sear, Director

*Dedicated to
Valley Sanitary District Board Member
26 years of service*



Merritt Wiseman

1934 - 2018



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**Valley Sanitary District
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2018

Christopher P. Morill

Executive Director/CEO

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of the Valley Sanitary District
Indio, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the fiduciary fund financial statements of the Valley Sanitary District (the "District") as of and for the years ended June 30, 2019 and 2018 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, and the fiduciary fund financial statements of the District as of June 30, 2019 and 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of the District's Proportionate Share of the Net Pension Liability and Related Ratios, Schedule of Contributions - Pensions, the Schedule of Changes in Net Other Postemployment Benefits Liability and Related Ratios, and the Schedules of Contributions – Other Postemployment Benefits on pages 5 through 12 and 51 through 55 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Introductory Section, the Schedules of Operating Expenses, the Schedules of Changes in Fiduciary Assets and Liabilities – Agency Fund and the Statistical Section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedules of Operating Expenses and the Schedules of Changes in Fiduciary Assets and Liabilities – Agency Fund, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedules of Operating Expenses and the Schedules of Changes in Fiduciary Assets and Liabilities – Agency Fund are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Introductory and Statistical Sections have not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

To the Board of Directors
of the Valley Sanitary District
Indio, California
Page 3

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2019 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

The PwC Group, LLP

Santa Ana, California
October 11, 2019

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Valley Sanitary District

Management's Discussion and Analysis

(Required Supplementary Information) (Unaudited)

The management of the Valley Sanitary District (District) presents the District's financial statements with a narrative overview and analysis of the financial activities for the fiscal years ended June 30, 2019 and 2018. We encourage readers to consider the information presented here in conjunction with the audited financial statements which follow this section.

Financial Highlights

- The assets and deferred outflows of resource of the District exceeded its liabilities and deferred inflows of resources by \$97.3 million and \$95.5 million as of June 30, 2019 and 2018 respectively. Of this amount, \$46.4 million and \$41.8 million as of June 30, 2019 and 2018, respectively, may be used to meet the District's ongoing obligations to citizens and creditors.
- The District's total net position increased \$1.7 million during the year ended June 30, 2019, from \$95.5 million to \$97.3 million or 1.8%. This is primarily due to a 148.8% increase in investment income. The District's total net position increased \$4.1 million during the year ended June 30, 2018, from \$91.4 million to \$95.5 million or 4.5%. This is primarily due to decrease in operating expenses, and an increase in operating revenue.
- Current assets increased by 10.1% and 12.7% as of June 30, 2019 and 2018, respectively. The 2019 difference is due in part to an increase in cash and investments, accounts receivable, and inventory of materials. The 2018 difference was due in part to an increase in cash and investments, and inventory of materials.
- Noncurrent assets decreased by 5.5% and increased by 3.8% as of June 30, 2019 and 2018 respectively. The decrease in 2019 is due to depreciation and decommission of the Biological Treatment System and the increase in 2018 is due to an increase in capital assets, and investment in EVRA.
- The District's total liabilities decreased 3.8% and increased 18.8% as of June 30, 2019 and 2018 respectively. The key factor in the decrease in 2019 is due to debt repayment and the increase in 2018 is due to executing an installment sale agreement with the State Water Resources Control Board (SWRCB) for the construction of the Requa Avenue Sewer Interceptor Project.

Overview of the Financial Statements

This discussion and analysis serve as an introduction to the District's financial statements. The District's financial statements comprise two components: 1) fund financial statements and 2) notes to the financial statements. This report also contains other supplementary information in addition to the financial statements themselves.

The *statement of net position* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in *net position* may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of revenues, expenses, and changes in net position* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

The business-type activity for the District is the provision of sanitary services to the community.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The various funds are presented in the accompanying financial statements as a proprietary fund category, enterprise fund type.

Fiduciary Funds. Fiduciary funds, which consist solely of trust and agency funds, are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are *not* reflected in the *statement of net position* or the *statement of revenue, expenses, and changes in net position* because the resources of the funds are *not* available to support the District's own programs. Fiduciary funds are custodial in nature and, therefore, the accounting used does not involve the measurement of the results of operations. The fiduciary fund financial statement can be found on page 20 of this report.

Valley Sanitary District
Management's Discussion and Analysis (Continued)
(Required Supplementary Information) (Unaudited)

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The notes to the financial statements can be found on pages 23-48 of this report.

Required Supplementary Information. The Schedule of the District's Proportionate Share of the Net Pension Liability and Related Ratios are presented as required supplementary information and can be found starting on page 51 of this report.

Supplementary Information. The Schedule of Operating Expenses presents the functional expenses by activity and is presented as supplementary information beginning on page 59 of this report.

Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$97.3 million and \$95.5 million as of June 30, 2019 and 2018, respectively.

The largest portion of the District's net position during June 30, 2019 (50%) and 2018 (54%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

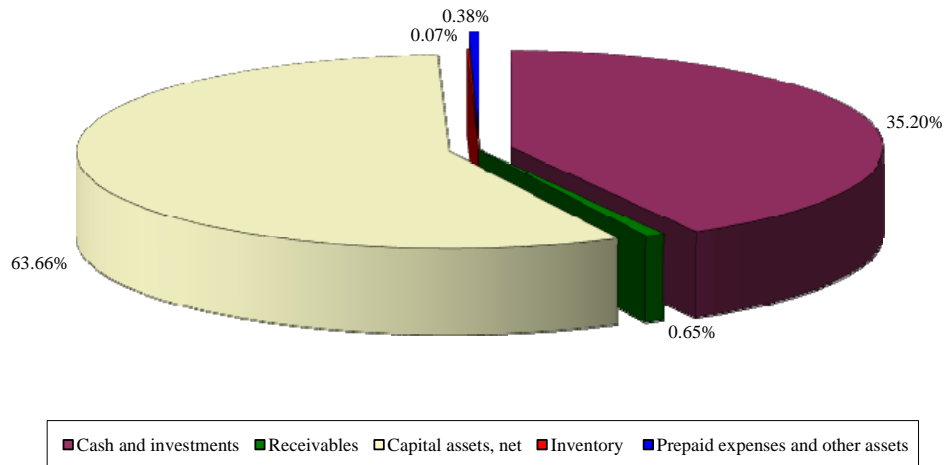
DISTRICT'S NET POSITION

At the end of the current fiscal year, the District is able to report positive balances in all three categories of net position. The same situation held true for the prior fiscal years.

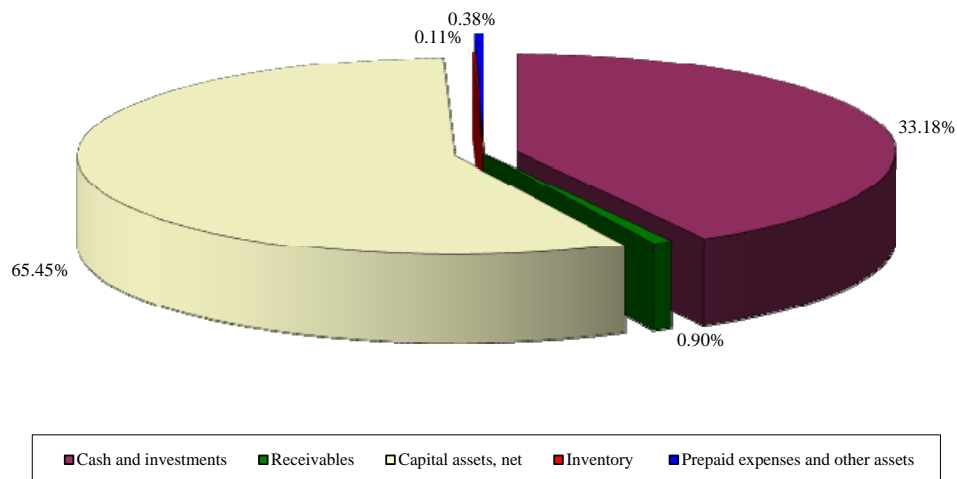
	2019	2018	2017 (As Restated)
Current assets	\$ 50,608,300	\$ 45,967,003	\$ 40,799,967
Capital assets	67,180,501	71,121,573	68,563,395
Noncurrent assets	130,000	105,000	80,000
Total assets	<u>\$ 117,788,801</u>	<u>\$ 117,088,576</u>	<u>\$ 109,443,362</u>
Deferred outflows of resources	<u>\$ 1,554,327</u>	<u>\$ 1,412,197</u>	<u>\$ 1,391,743</u>
Current liabilities	\$ 1,749,663	\$ 1,501,395	\$ 2,686,023
Noncurrent liabilities	20,307,266	21,433,407	16,623,511
Total liabilities	<u>\$ 22,056,929</u>	<u>\$ 22,934,802</u>	<u>\$ 19,309,534</u>
Deferred inflows of resources	<u>\$ 35,761</u>	<u>\$ 55,671</u>	<u>\$ 92,817</u>
Net position:			
Net investment in capital assets	\$ 48,843,501	\$ 51,797,220	\$ 61,242,162
Restricted	2,005,722	1,958,648	1,413,000
Unrestricted	46,401,215	41,754,432	28,777,592
Total net position	<u>\$ 97,250,438</u>	<u>\$ 95,510,300</u>	<u>\$ 91,432,754</u>

Valley Sanitary District
Management's Discussion and Analysis (Continued)
(Required Supplementary Information) (Unaudited)

Assets 2019

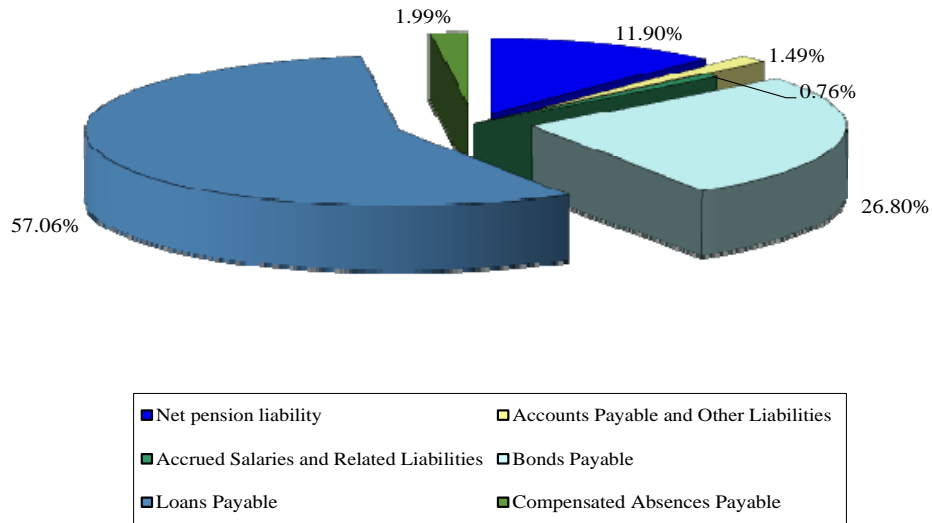


Assets 2018

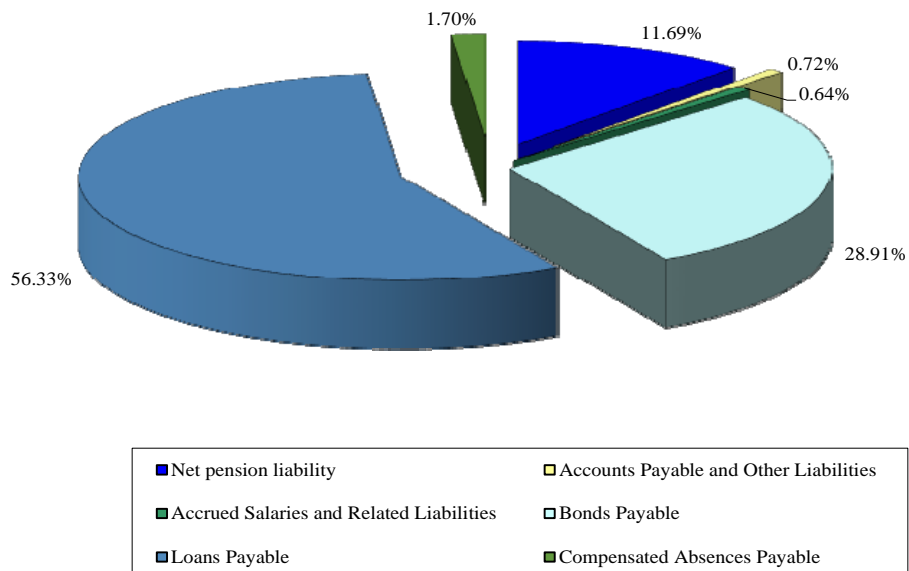


Valley Sanitary District
Management's Discussion and Analysis (Continued)
(Required Supplementary Information) (Unaudited)

Liabilities 2019



Liabilities 2018



Valley Sanitary District
Management's Discussion and Analysis (Continued)
(Required Supplementary Information) (Unaudited)

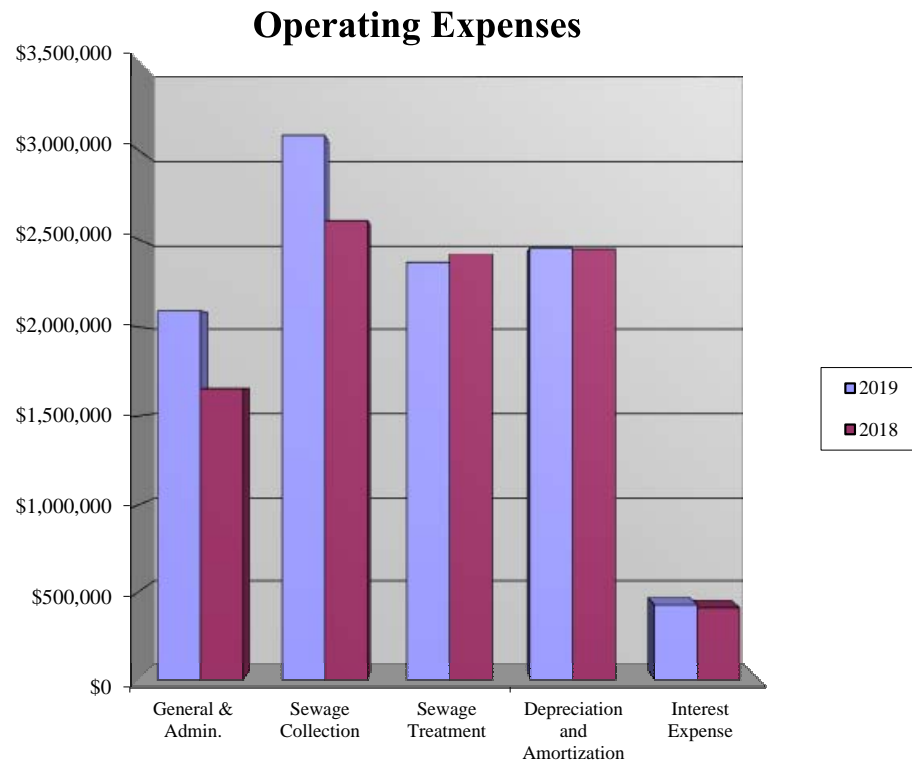
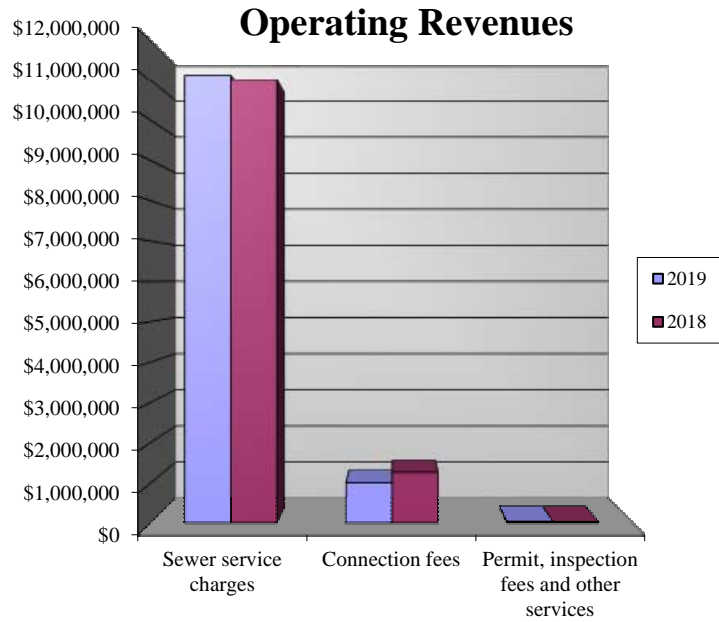
Changes in the District's net position reflect an increase of \$1,740,138 and \$4,077,546 for the years ended June 30, 2019 and 2018, respectively. The District's operating revenue increased during the year ended June 30, 2019 by \$119,081 due to an increase in sewer service customers and permit and inspection fees, while the District's operating expenses increased by \$862,798 due to increased security for the plant, a rate study, and recruitment for a new General Manager.

The District's operating revenue during the year ended June 30, 2018 by \$633,328 due to an increase in sewer connection fees, while the operating expenses increased by \$1,233,955 due to an increase in salaries, employee benefits, repairs and maintenance, and new equipment.

DISTRICT'S CHANGES IN NET POSITION

	2019	2018	2017 (Restated)
Revenues:			
Sewer service charges	\$ 11,139,580	\$ 11,004,428	\$ 10,846,682
Connection fees	1,010,031	1,272,580	791,280
Permits & inspections	25,390	17,885	22,442
Other operating	10,950	10,139	11,300
Nonoperating	2,087,638	1,300,428	945,393
Total Revenues	<u>\$ 14,273,589</u>	<u>\$ 13,605,460</u>	<u>\$ 12,617,097</u>
Expenses:			
Depreciation & nonoperating	\$ 5,000,105	\$ 2,857,366	\$ 2,407,296
Administrative	1,804,611	1,652,714	1,297,345
Sewage collection	3,367,054	2,604,267	2,091,041
Sewage treatment	2,361,681	2,413,567	2,048,207
Total Expenses	<u>\$ 12,533,451</u>	<u>\$ 9,527,914</u>	<u>\$ 7,843,889</u>
Increase in net position	\$ 1,740,138	\$ 4,077,546	\$ 4,773,208
Beginning net position	<u>95,510,300</u>	<u>91,432,754</u>	<u>86,659,546</u>
Ending net position	<u>\$ 97,250,438</u>	<u>\$ 95,510,300</u>	<u>\$ 91,432,754</u>

Valley Sanitary District
Management's Discussion and Analysis (Continued)
(Required Supplementary Information) (Unaudited)



Valley Sanitary District

Management's Discussion and Analysis (Continued)

(Required Supplementary Information) (Unaudited)

Capital Asset Administration

The District's capital assets (net of accumulated depreciation) as of June 30, 2019 and June 30, 2018 were in the amounts of \$67.1 million and \$71.0 million, respectively. This includes land, buildings, system improvements, machinery, and equipment. The decrease in the District's capital assets is due in part to the decommissioning of the Biological Treatment System and removing it from Capital Assets.

Major capital asset events during the current fiscal year included the following:

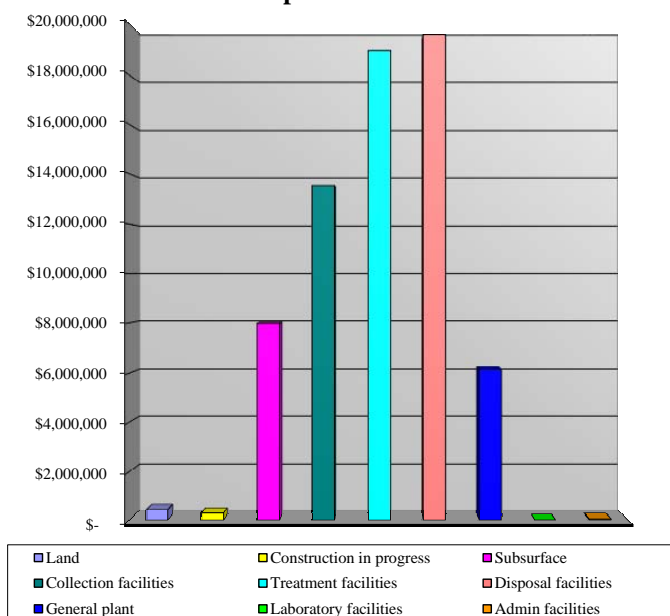
- **Security Fencing was constructed on the District property to enhance site security**
- **Purchase of a new Ferric Chloride Tank and Building February 2019**
- **Purchase of a new Ford F250 for Collection Systems June 2019**
- **The Sewer Main Rehabilitation or Replacement Project designing phase began**

DISTRICT'S CAPITAL ASSETS

Net of Accumulated Depreciation

	June 30, 2019	June 30, 2018	June 30, 2017
Land	\$ 448,364	\$ 448,364	\$ 448,364
Construction in progress	292,300	722,597	10,638,233
Subsurface	7,980,723	8,271,735	8,745,134
Collection facilities	13,531,132	13,950,048	794,946
Treatment facilities	18,974,861	21,784,467	22,643,828
Disposal facilities	19,612,224	20,234,467	20,858,204
General plant	6,161,329	5,590,486	4,693,588
Laboratory facilities	-	3,847	4,354
Admin facilities	49,568	10,166	6,744
Total	<u>\$ 67,050,501</u>	<u>\$ 71,016,573</u>	<u>\$ 68,563,395</u>

Capital Assets-Net



Additional information on the District's capital assets can be found on page 32, Note 5, of this report.

Valley Sanitary District
Management's Discussion and Analysis (Continued)
(Required Supplementary Information) (Unaudited)

Long-term Debt Administration

At the end of June 30, 2019 and 2018, the District had total long-term debt of \$18.5 million and \$20.0 million, respectively. The Certificates of Participation (COPs) was debt incurred to help fund Phase I of the District's Treatment Plan Expansion and Renovation in 2006. On June 18, 2015 the District issued Wastewater Revenue Refunding Bonds, Series 2015 in the amount of \$7,540,000, refinancing the COPs and reducing payments by about \$1,596,780 over the term of the certificates which run through 2026. Repayment of the debt is funded through sewer use fees of the District.

The District received a Clean Water State Revolving Fund (CWSRF) loan in May 2018 for \$12.9 million to construct the Requa Avenue Sewer Interceptor Project. A \$12.9 million loan for 30 years at 1.7% interest results in an estimated payment of \$553,360 annually. The first payment will be due one (1) year after the completion date of the Requa Avenue Sewer Interceptor Project, and payable thereafter on June 1st, per the 2015 Wastewater Refunding Revenue Bonds parity requirements. A restricted reserve fund has also been established, equal to one year's debt service, prior to the construction completion date of the Project and shall be maintained for the full term of the Agreement.

DISTRICT'S OUTSTANDING DEBT

	2019	2018	2017
Revenue refunding bond	\$ 5,215,000	\$ 5,835,000	\$ 6,425,000
Bond premium	695,209	795,721	896,233
CWSRF loan	12,586,437	12,920,155	7,463,459
Total	<u>\$ 18,496,646</u>	<u>\$ 19,550,876</u>	<u>\$ 14,784,692</u>

Additional information on the District's long-term debt can be found on page 34, Note 8, of this report.

Economic Factors and Next Year's Budgets and Rates

Residential and commercial development within the District's service area has experienced an increase in activity during the last three (3) years. Indio has seen significant gains with positive indicators in each of the five (5) sectors (tourism, health care, agriculture, retail sales, and housing) primarily responsible for Indio's economic health. An indication of the local economy is best demonstrated in the District's connection fee income. There were over 236 new connections in fiscal year 2018/2019 and over 298 in fiscal year 2017/2018.

The annual sewer use fee of \$313 per equivalent dwelling unit (EDU) remained the same for fiscal year 2018/2019 as fiscal year 2017/2018. The connection capacity charge of \$4,265 per EDU for the fiscal year 2018/2019 remained the same as fiscal year 2017/2018.

The fiscal year operating budget for 2019/2020 is \$9.6 million and is supplemented with \$5.3 million in capital improvement projects, to produce a total financial program of \$14.9 million. This represents a small increase of about \$81,000 over the 2018/2019 operating budget and an increase of about \$137,000 over the 2018/2019 capital improvement plan.

Requests for Information

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the General Manager, Valley Sanitary District, 45500 Van Buren Street, Indio, California, 92201, or by calling (760) 238-5400.

BASIC FINANCIAL STATEMENTS

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Valley Sanitary District
Statements of Net Position
June 30, 2019 and 2018

	Business-type Activities	
	2019	2018
ASSETS		
Current assets:		
Cash and investments	\$ 49,192,557	\$ 44,623,883
Accounts receivable, net	693,944	743,465
Interest receivable	279,942	179,074
Inventories of materials	123,733	89,972
Prepaid items	318,124	330,609
Total current assets	50,608,300	45,967,003
Noncurrent assets:		
Capital assets, net	67,050,501	71,016,573
Investment in joint venture	130,000	105,000
Total noncurrent assets	67,180,501	71,121,573
Total assets	117,788,801	117,088,576
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on refunding, net	289,646	331,523
Deferred outflows of resources related to pensions	1,250,545	1,053,075
Deferred outflows of resources related to other postemployment benefits	14,136	27,599
Total deferred outflows of resources	1,554,327	1,412,197
LIABILITIES		
Current liabilities:		
Accounts payable	308,465	143,179
Accrued payroll and related liabilities	167,833	147,907
Interest payable	19,932	22,516
Compensated absences, due within one year	264,042	230,824
Bonds payable, due within one year	650,000	620,000
Loans payable, due within one year	339,391	333,718
Total current liabilities	1,749,663	1,498,144
Noncurrent liabilities:		
Compensated absences, due in more than one year	174,729	158,168
Bonds payable, due in more than one year	5,260,209	6,010,721
Loans payable, due in more than one year	12,247,046	12,586,437
Aggregate net pension liability	2,490,030	2,551,281
Net other postemployment benefits liabilities	135,252	130,051
Total noncurrent liabilities	20,307,266	21,436,658
Total liabilities	22,056,929	22,934,802
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to pensions	35,698	55,671
Deferred inflows of resources related to other postemployment benefits	63	-
Total deferred inflows of resources	35,761	55,671
NET POSITION		
Net investment in capital assets	48,843,501	51,797,220
Restricted for debt service	2,005,722	1,958,648
Unrestricted	46,401,215	41,754,432
Total net position	\$ 97,250,438	\$ 95,510,300

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Valley Sanitary District
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2019 and 2018

	Business-type Activities	
	2019	2018
OPERATING REVENUES:		
Sewer service charges	\$ 11,139,580	\$ 11,004,428
Connection fees	1,010,031	1,272,580
Permit and inspection fees	25,390	17,885
Other services	10,950	10,139
Total operating revenues	12,185,951	12,305,032
OPERATING EXPENSES:		
General and administrative	1,804,611	1,652,714
Sewage collection	3,367,054	2,604,267
Sewage treatment	2,361,681	2,413,567
Depreciation	2,451,371	2,444,764
Total operating expenses	9,984,717	9,115,312
NET OPERATING INCOME	2,201,234	3,189,720
NONOPERATING REVENUES (EXPENSES):		
Property taxes	862,297	794,367
Homeowners' tax relief	5,873	5,978
Investment income	1,193,840	479,862
Interest expenses	(428,612)	(412,602)
Other revenues	25,628	245
Gain (loss) on disposal of assets	(2,120,122)	19,976
Total nonoperating revenues (expenses)	(461,096)	887,826
CHANGE IN NET POSITION	1,740,138	4,077,546
NET POSITION:		
Beginning of year	95,510,300	91,432,754
End of year	<u>\$ 97,250,438</u>	<u>\$ 95,510,300</u>

Valley Sanitary District
Statements of Cash Flows
For the Years Ended June 30, 2019 and 2018

	Business-type Activities	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash receipts from customers	\$ 12,261,100	\$ 12,228,601
Cash payments to suppliers and vendors for goods and services	(3,570,393)	(4,409,614)
Cash payments to employees for services	(4,009,205)	(3,532,618)
Net cash provided by operating activities	4,681,502	4,286,369
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Property taxes	862,297	794,367
Homeowners' tax relief	5,873	5,978
Net cash provided by noncapital financing activities	868,170	800,345
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of capital assets	(641,329)	(4,904,622)
Proceeds from sale of assets	35,908	26,656
Principal paid on bonds payable	(620,000)	(590,000)
Interest paid on bonds and loans payable	(489,831)	(299,687)
Issuance of loans payable	-	5,282,688
Principal paid on loans payable	(333,718)	-
Net cash (used in) capital and related financing activities	(2,048,970)	(484,965)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest and change in fair value of investments	1,092,972	373,733
Cash payment to joint venture	(25,000)	(25,000)
Net cash provided by investing activities	1,067,972	348,733
Net increase in cash and cash equivalents	4,568,674	4,950,482
CASH AND CASH EQUIVALENTS:		
Beginning of year	44,623,883	39,673,401
End of year	<u>\$ 49,192,557</u>	<u>\$ 44,623,883</u>

Valley Sanitary District
Statements of Cash Flows (Continued)
For the Years Ended June 30, 2019 and 2018

	Business-type Activities	
	2019	2018
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net operating income	\$ 2,201,234	\$ 3,189,720
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	2,451,371	2,444,764
Other nonoperating revenues	25,628	245
Changes in operating assets and liabilities		
Accounts receivable	49,521	(76,676)
Inventories of materials	(33,761)	(36,897)
Prepaid items	12,485	3,148
Pensions related deferred outflows of resources	(197,470)	(56,297)
OPEB related deferred outflows of resources	13,463	(6,034)
Accounts payable	165,286	(1,528,289)
Accrued payroll and related liabilities	19,926	(19,645)
Compensated absences	49,779	(5,753)
Net pension liability	(61,251)	421,557
Other postemployment benefits liability	5,201	(6,328)
Pensions related deferred inflows of resources	(19,973)	(37,146)
OPEB related deferred inflows of resources	63	-
Net cash provided by operating activities	\$ 4,681,502	\$ 4,286,369
NONCASH ITEMS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Amortization of deferred loss on refunding	\$ 41,877	\$ 41,877
Amortization of premium	\$ (100,512)	\$ (100,512)
Increase in loans payable attributed to accrued interest	\$ -	\$ 174,008

Valley Sanitary District
Statements of Fiduciary Assets and Liabilities
June 30, 2019 and 2018

		Fiduciary Fund	
		2019	2018
ASSETS			
Cash and investments	\$	666,784	\$ 631,153
Cash with fiscal agent		623,134	624,042
Assessment receivable		15,129	18,596
Interest receivable		4,042	2,699
Total assets	\$	<u>1,309,089</u>	<u>\$ 1,276,490</u>
LIABILITIES			
Due to bondholders	\$	1,309,089	\$ 1,276,490
Total liabilities	\$	<u>1,309,089</u>	<u>\$ 1,276,490</u>

NOTES TO THE BASIC FINANCIAL STATEMENTS

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Valley Sanitary District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2019 and 2018

Note 1 – Reporting Entity

Valley Sanitary District (the “District”) was formed on June 1, 1925 under the Health and Safety Code, Sanitary District Act of 1923, Section 6400 et. seq., for the purpose of operation and maintenance of sewer collection, transmission and treatment facilities, and serving a population of approximately 89,000 in the City of Indio, portions of the City of Coachella, and adjacent unincorporated areas of the County of Riverside. The District is a municipal corporation governed by a 5-member elected board of directors.

The accompanying financial statements present the District and its component unit, an entity for which the District is considered to be financially accountable. Blended component units are, in substance, part of the primary government’s operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the primary government.

Blended Component Unit

Valley Sanitary District Wastewater Facilities Corporation (the “Corporation”) was activated in 2006 by the District. The Corporation was organized pursuant to the Nonprofit Public Benefit Corporation Law of the State of California, being Part 2 of Division 2 of Title 1 of the California Corporation Code. It was formed for the purpose of providing financial assistance to the District by acquiring, constructing, improving and developing certain real and personal property, together with appurtenances and appurtenant work for the use, benefit and enjoyment of the public. The District’s Board of Directors sits as the Corporation’s Board of Directors. The Corporation’s activities are blended with those of the District in these financial statements. There was no activity in the Corporation until the fiscal year 2007-2008. Separate financial statements of the Corporation are not issued.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation

Financial statement presentation follows the recommendations promulgated by the Governmental Accounting Standards Board (“GASB”) commonly referred to as accounting principles generally accepted in the United States of America (“U.S. GAAP”). GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting standards.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Business-Type Activities

The Financial Statements (i.e., the statement of net position, the statement of revenues, expenses and changes in net position, and the statement of cash flows) report information on all of the activities of the primary government and its component units. The District accounts for its operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Valley Sanitary District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2019 and 2018

Note 2 – Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Business-Type Activities (Continued)

The Financial Statements are reported using the “*economic resources*” measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as all eligibility requirements have been met. Interest associated with the current fiscal period is considered to be susceptible to accrual and so has been recognized as revenue of the current fiscal period.

Operating revenues are those revenues that are generated from the primary operations of the District. The District reports a measure of operations by presenting the change in net position from operations as “operating income” in the statement of revenues, expenses, and changes in net position. Operating activities are defined by the District as all activities other than financing and investing activities (interest expense and investment income), grants and subsidies, settlement receivable allowance, and other infrequently occurring transactions of a non-operating nature. Operating expenses are those expenses that are essential to the primary operations of the District. All other expenses are reported as non-operating expenses.

Fiduciary Fund Financial Statements

The District reports an *Agency Fund*. Agency fund financial statements include a Statement of Fiduciary Net Position. The Agency Fund is purely custodial in nature (assets equal liabilities), and thus does not involve measurement of results of operations. The Agency Fund is used to account for assets for the Assessment District No. 2004 (Shadow Hills Interceptor) for which the District acts as an agent for its debt service activities.

Accounting Changes

GASB Statement No. 83, *Certain Asset Retirement Obligations (GASB 83)*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. Also see Note 5 on disposal of District’s Wetlands.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements (GASB 88)*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. See Note 8 for District’s long-term debt disclosures.

Cash, Cash Equivalents, and Investments

Cash and cash equivalents include all highly liquid investments with original maturities of 90 days or less and are carried at cost, which approximates fair value. Investments are reported at amortized cost, which approximates fair value. Changes in fair value that occur during the fiscal year are recognized as investment income for that fiscal year.

Valley Sanitary District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2019 and 2018

Note 2 – Summary of Significant Accounting Policies (Continued)

Cash, Cash Equivalents, and Investments (Continued)

The District participates in an investment pool managed by the State of California titled Local Agency Investment Fund (“LAIF”), which has invested a portion of the pooled funds in structured notes and asset-backed securities. LAIF’s investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these structured notes and asset-backed securities are subject to market risk and to change in interest rates. The reported value of the pool approximates the fair value of the pool shares. The District also participates in CalTrust Medium Term Fund.

Receivables and Allowance for Doubtful Accounts

Customer accounts receivable consist of amounts owed by private individuals and organizations for services rendered in the regular course of business operations. Receivables are shown net of allowances for doubtful accounts. Uncollectable accounts are based on prior experience and management’s assessment of the collectability of existing accounts.

Inventory of Materials

Inventories consist of expendable supplies, spare parts and fittings and are valued at cost using first-in first-out basis.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond the fiscal year ended are recorded as prepaid items.

Capital Assets

Capital assets are valued at historical cost, or estimated historical cost, if actual historical cost was not available. Donated capital assets are valued at acquisition value on the date donated. The District policy has set the capitalization threshold for reporting capital assets at \$5,000, all of which must have an estimated useful life in excess of one year. Depreciation is recorded on a straight-line basis over estimated useful lives of the assets as follows:

Subsurface Lines	40 years
General Plant	10-40 years
Machinery and equipment	5-10 years
Collection, Treatment and Disposal Facilities	10-40 years

Major outlays for capital assets are capitalized as projects are constructed, and repairs and maintenance costs are expensed. Interest accrued during capital assets construction, if any, is capitalized as part of the asset cost, net of interest income on construction bond proceeds.

Valley Sanitary District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2019 and 2018

Note 2 – Summary of Significant Accounting Policies (Continued)

Deferred Outflows of Resources and Deferred Inflows of Resources

The Statement of Net Position reports separate sections for deferred outflows of resources, and deferred inflows of resources, when applicable.

Deferred Outflows of Resources represent outflows of resources (consumption of net position) that apply to future periods and that, therefore, will not be recognized as an expense until that time.

Deferred Inflows of Resources represent inflows of resources (acquisition of net position) that apply to future periods and that, therefore, are not recognized as revenue until that time.

Compensated Absences

District policy permits its employees to accumulate not more than two (2) times their current annual vacation. Employees are compensated twelve (12) days of sick leave per year with a maximum accrual not to exceed 120 days. The combined unused vacation and sick pay will be paid to employee or his/her beneficiary upon leaving the District's employment. The amount due will be determined using salary/wage rate in effect at the time of separation.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the plans and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by the plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value. The following timeframes are used for pension reporting:

For the year ended June 30, 2019

Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Measurement Period	July 1, 2017 to June 30, 2018

For the year ended June 30, 2018

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Measurement Period	July 1, 2016 to June 30, 2017

Gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time. The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense. The amortization period differs depending on the source of the gain or loss. The difference between projected and actual earnings is amortized using the straight-line method over five (5) years. All other amounts are amortized straight-line over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period.

Valley Sanitary District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2019 and 2018

Note 2 – Summary of Significant Accounting Policies (Continued)

Other Postemployment Benefits

For purposes of measuring the net other postemployment benefits (“OPEB”) liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the plans and additions to/deductions from the plans’ fiduciary net position have been determined on the same basis as they are reported by the plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value. The following timeframes are used for pension reporting:

For the year ended June 30, 2019

Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Measurement Period	July 1, 2017 to June 30, 2018

For the year ended June 30, 2018

Valuation Date	June 30, 2017
Measurement Date	June 30, 2017
Measurement Period	July 1, 2016 to June 30, 2017

Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time. The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense. The amortization period differs depending on the source of the gain or loss. The difference between projected and actual earnings is amortized using the straight-line method over five (5) years. All other amounts are amortized straight-line over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period.

Long-Term Debt

Debt premiums and discounts are deferred and amortized over the life of the debt using the effective interest method. Long-term debt is reported net of the applicable bond premium or discount. Debt issuance costs are expensed when incurred.

Arbitrage Rebate Requirement

The District is subject to the Internal Revenue Code (“IRC”) Section 148(f), related to its tax exempt revenue bonds. The IRC requires that investment earnings on gross proceeds of any revenue bonds that are in excess of the amount prescribed will be surrendered to the Internal Revenue Service. The District had no rebate liability for arbitrage as of June 30, 2019.

Valley Sanitary District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2019 and 2018

Note 2 – Summary of Significant Accounting Policies (Continued)

Net Position

Net position represents the difference between all other elements in the statement of net position and should be displayed in the following three components:

Net Investment in Capital Assets – This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of those assets, net of deferred outflows/inflows of resources related to the debt.

Restricted – This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

Unrestricted – This component of net position is the amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

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

Property Taxes

Property taxes are levied on July 1 and are payable in two installments: November 1 and February 1 of each year. Property taxes become delinquent on December 10 and April 10, for the first and second installments, respectively. The lien date is January 1. The County of Riverside, California ("County") bills and collects property taxes and remits them to the District according to a payment schedule established by the County.

The County is permitted by State law to levy properties at 1% of full market value (at time of purchase) and can increase the property tax rate at no more than 2% per year. The District receives a share of this basic tax levy proportionate to what it received during the years 1976-1978.

Property taxes are recognized in the fiscal year for which the taxes have been levied.

No allowance for doubtful accounts was considered necessary.

Use of Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the certain reported amounts and disclosure. Accordingly, actual results could differ from those estimates.

Valley Sanitary District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2019 and 2018

Note 3 – Cash and Investments

At June 30, 2019 and 2018, cash and investments are classified in the accompanying statements of net position as follows:

	2019			2018		
	Business-Type Activities	Fiduciary Fund	Total	Business-Type Activities	Fiduciary Fund	Total
Cash and investments	\$ 49,192,557	\$ 666,784	\$ 49,859,341	\$ 44,623,883	\$ 631,153	\$ 45,255,036
Cash and investments with fiscal agent	-	623,134	623,134	-	624,042	624,042
Total cash and investments	\$ 49,192,557	\$ 1,289,918	\$ 50,482,475	\$ 44,623,883	\$ 1,255,195	\$ 45,879,078

At June 30, 2019 and 2018, cash and investments consisted of the following:

	2019	2018
Cash on hand	\$ 500	\$ 500
Demand deposits	1,966,854	1,733,244
Investments	48,515,121	44,145,334
Total cash and investments	\$ 50,482,475	\$ 45,879,078

Demand Deposits

At June 30, 2019 and 2018, the carrying amount of cash deposit was \$1,966,854 and \$1,733,244, respectively, which was fully insured and/or collateralized with securities held by the pledging financial institutions in the District's name as discussed below.

The California Government Code requires California banks and savings and loan associations to secure the District's cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the District's name.

The fair value of pledged securities must equal at least 110% of the District's cash deposits. California law also allows institutions to secure the District's deposits by pledging first trust deed mortgage notes having a value of 150% of the District's total cash deposits. The District may waive collateral requirements for cash deposits, which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation. The District, however, has not waived the collateralization requirements.

Investments Authorized by the California Code and The District's Investment Policy

Under the provisions of the District's investment policy and in accordance with California Government Code, the District is authorized to invest or deposit in the following:

- Local Agency Investment Fund (LAIF) established by the State Treasurer
- Bonds issued by the District with a 5-year maximum maturity
- United States Treasury Bills, Notes and Bonds with a 5-year maximum maturity
- Federally Insured Certificates of Deposit with a 5-year maximum maturity
- Collateralized bank deposits with a 5-year maximum maturity
- Fixed income instruments with an average maturity of one (1) year or less including: Mortgage-backed securities; asset-backed securities; banker's acceptances; commercial paper; certificates of deposits; repurchase agreements backed by 102% U.S. agency securities and U.S. Treasury obligations; medium-term notes; and rated money-market funds. All securities must be rated A- or better at the time of purchase
- United States Government Agency Notes & Bonds with a 5-year maximum maturity
- Shares of Beneficial Interest issued by joint powers authority

Valley Sanitary District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2019 and 2018

Note 3 – Cash and Investments (Continued)

Local Agency Investment Fund

The District's investments with Local Agency Investment Fund ("LAIF") include a portion of the pooled funds invested in Structured Notes and Asset-Backed Securities. These investments include the following:

- **Structured Notes** - debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.
- **Asset-Backed Securities** - the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as CMO's) or credit card receivables.

LAIF is overseen by the Local Agency Investment Advisory Board, which consists of five members, in accordance with State statute.

As of June 30, 2019 and 2018, the District had \$46,841,897 and \$42,514,996 invested in LAIF, which had invested 1.77% and 2.67% of the pooled investment funds in Structured Notes and Asset-Backed Securities, respectively. LAIF is reported at amortized costs, which approximates fair value.

CalTrust Medium Term Fund

As of June 30, 2019 and 2018, the District had \$1,050,090 and \$1,006,296, respectively, invested in CalTrust Medium Term Fund. CalTrust Medium Term Fund is reported at amortized costs, which approximates fair value.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment is, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. However, the District does not have a formal policy regarding interest rate risk.

As of June 30, 2019, all of the District's investments had maturity dates of twelve (12) months or less.

Disclosures Relating to Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

Valley Sanitary District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2019 and 2018

Note 3 – Cash and Investments (Continued)

Disclosures Relating to Custodial Credit Risk (Continued)

As of June 30, 2019 and 2018, the District had the following investments with the following ratings:

	Legal Rating	2019				2018		
		AAA	Not Rated	Total		AAA	Not Rated	Total
Local Agency Investment Fund	N/A	\$ -	\$ 46,841,897	\$ 46,841,897	\$ -	\$ 42,514,996		\$ 42,514,996
CalTrust Medium Trust Fund	N/A	-	1,050,090	1,050,090	-	1,006,296		1,006,296
Held by bond trustee:								
Money market mutual fund	N/A	623,134	-	623,134	624,042	-		624,042
Total investments		<u>\$ 623,134</u>	<u>\$ 47,891,987</u>	<u>\$ 48,515,121</u>	<u>\$ 624,042</u>	<u>\$ 43,521,292</u>		<u>\$ 44,145,334</u>

Note 4 – Accounts Receivable

Accounts receivable primarily consists of sewer use fees - direct billings, connection fees, and reimbursements as well as the District's allocation of property taxes and sewer use charges collected but not remitted by the County of Riverside.

As of June 30, 2019 and 2018, the accounts receivable were as follows:

	2019	2018
Direct billing, connection fee and reimbursement receivables	\$ 409,123	\$ 403,114
Property taxes and sewer use receivable from County of Riverside	281,993	340,351
Other receivables	2,828	-
Total accounts receivables	<u>\$ 693,944</u>	<u>\$ 743,465</u>

Valley Sanitary District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2019 and 2018

Note 5 – Capital Assets

Summary of changes in capital assets for the year ended June 30, 2019 is as follows:

	Balance July 1, 2018	Additions	Deletions	Reclassification	Balance June 30, 2019
Capital assets, not depreciated					
Land	\$ 448,364	\$ -	\$ -	\$ -	\$ 448,364
Construction in progress	722,597	239,194	(14,263)	(655,228)	292,300
Total capital assets, not depreciated	1,170,961	239,194	(14,263)	(655,228)	740,664
Capital assets, being depreciated					
Subsurface	20,483,529	-	(52,136)	-	20,431,393
Sewage collection facilities	16,700,965	-	(72,220)	-	16,628,745
Wastewater treatment facilities	39,116,395	-	(3,623,832)	-	35,492,563
Sludge disposal facilities	24,752,529	-	(40,579)	-	24,711,950
General plant facilities	7,615,186	355,801	(91,357)	655,228	8,534,858
Laboratory facilities	31,120	-	(20,997)	-	10,123
Administrative facilities	87,903	46,334	(41,107)	-	93,130
Total capital assets, being depreciated	108,787,627	402,135	(3,942,228)	655,228	105,902,762
Less accumulated depreciation					
Subsurface	(12,211,794)	(291,012)	52,136	-	(12,450,670)
Sewage collection facilities	(2,750,917)	(418,915)	72,219	-	(3,097,613)
Wastewater treatment facilities	(17,331,928)	(671,688)	1,485,914	-	(16,517,702)
Sludge disposal facilities	(4,517,666)	(622,639)	40,579	-	(5,099,726)
General plant facilities	(2,024,700)	(440,186)	91,357	-	(2,373,529)
Laboratory facilities	(27,273)	(127)	17,277	-	(10,123)
Administrative facilities	(77,737)	(6,804)	40,979	-	(43,562)
Total accumulated depreciation	(38,942,015)	(2,451,371)	1,800,461	-	(39,592,925)
Total capital assets, being depreciated, net	69,845,612	(2,049,236)	(2,141,767)	655,228	66,309,837
Total capital assets, net	\$ 71,016,573	\$ (1,810,042)	\$ (2,156,030)	\$ -	\$ 67,050,501

Included in the disposal of wastewater treatment facilities is the Wetlands project developed in 1998. The development of the Wetlands project was a mitigating measure to reduce the environmental impact of the District's wastewater treatment plant expansion in meeting the California Environmental Quality Act ("CEQA") requirement. The wastewater treatment expansion was completed with the construction of Wetlands area to treat primary effluent to secondary effluent standards. No unavoidable adverse significant environmental impacts from the Wetlands project was identified in the initial measurement date of November 13, 1998. Certain mitigation measures were incorporated into the project to reduce the environmental effects to the level of insignificance. During the process of disposing the Wetlands, the District evaluated the environmental impact and obtained approval from United States Environmental Protection Agency on the disposal. It was determined that the District had no asset retirement obligation at June 30, 2019.

Valley Sanitary District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2019 and 2018

Note 5 – Capital Assets (Continued)

Summary of changes in capital assets for the year ended June 30, 2018 is as follows:

	Balance July 1, 2017	Additions	Deletions	Reclassification	Balance June 30, 2018
Capital assets, not depreciated					
Land	\$ 448,364	\$ -	\$ -	\$ -	\$ 448,364
Construction in progress	10,638,233	528,696	-	(10,444,332)	722,597
Total capital assets, not depreciated	11,086,597	528,696	-	(10,444,332)	1,170,961
Capital assets, being depreciated					
Subsurface	20,397,501	86,028	-	-	20,483,529
Sewage collection facilities	3,336,851	3,086,083	(52,700)	10,330,731	16,700,965
Wastewater treatment facilities	39,380,696	-	(264,301)	-	39,116,395
Sludge disposal facilities	24,752,529	-	-	-	24,752,529
General plant facilities	6,475,931	1,194,343	(168,689)	113,601	7,615,186
Laboratory facilities	69,186	-	(38,066)	-	31,120
Administrative facilities	78,431	9,472	-	-	87,903
Total capital assets, being depreciated	94,491,125	4,375,926	(523,756)	10,444,332	108,787,627
Less accumulated depreciation					
Subsurface	(11,922,367)	(289,427)	-	-	(12,211,794)
Sewage collection facilities	(2,541,905)	(261,711)	52,699	-	(2,750,917)
Wastewater treatment facilities	(16,736,868)	(852,682)	257,622	-	(17,331,928)
Sludge disposal facilities	(3,894,325)	(623,341)	-	-	(4,517,666)
General plant facilities	(1,782,343)	(411,046)	168,689	-	(2,024,700)
Laboratory facilities	(64,832)	(507)	38,066	-	(27,273)
Administrative facilities	(71,687)	(6,050)	-	-	(77,737)
Total accumulated depreciation	(37,014,327)	(2,444,764)	517,076	-	(38,942,015)
Total capital assets, being depreciated, net	57,476,798	1,931,162	(6,680)	10,444,332	69,845,612
Total capital assets, net	\$ 68,563,395	\$ 2,459,858	\$ (6,680)	\$ -	\$ 71,016,573

Valley Sanitary District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2019 and 2018

Note 6 – Investment in Joint Venture

On December 18, 2013, the District entered into a joint powers agreement with the City of Indio (the “City”) to form the East Valley Reclamation Authority (the “JPA”) to plan, program, finance, design and operate a reclaimed water facility to bring a sustainable water supply and manage the water resources for the customers of the Indio Water Authority (a blended component unit of the City) and the District. The costs and expenses of the JPA are generally shared equally by the City and the District unless otherwise determined by the JPA’s Board of Directors, except that the District is responsible for 100% of the costs and expenses associated with the design and construction of facilities for the District’s compliance with any permit terms. During both years ended June 30, 2019 and 2018, the District made contribution to the JPA in the amount of \$25,000. As of June 30, 2019 and 2018, the District reported investments in joint venture in the amounts of \$130,000 and \$105,000, respectively. Copies of the annual financial report for the JPA may be obtained from the finance department of the City of Indio.

	June 30,	
	2019*	2018
Total Asset	\$ 205,897	\$ 157,802
Total Liabilities	308	861
Total Net Position	<u>\$ 205,589</u>	<u>\$ 156,941</u>
Operating Expenses	<u>\$ (3,973)</u>	<u>\$ (6,809)</u>
Nonoperating Revenues	<u>\$ 50,000</u>	<u>\$ 49,882</u>

*Unaudited balances

Note 7 – Compensated Absences

Summary of changes in compensated absences for the year ended June 30, 2019 and 2018 is as follows:

Year Ended	Beginning Balance	Additions	Deletions	Ending Balance	Due within One Year	Due in More Than One Year
June 30, 2019	\$ 388,992	\$ 334,141	\$ (284,362)	\$ 438,771	\$ 264,042	\$ 174,729
June 30, 2018	394,745	338,605	(344,358)	388,992	230,824	158,168

Note 8 – Long-term Debt

Summary of changes in long-term debt for the year ended June 30, 2019 is as follows:

	Balance July 1, 2018	Additions	Deletions	Balance June 30, 2019	Due within One Year	Due in More Than One Year
2015 Wastewater Revenue Refunding Bonds	\$ 5,835,000	\$ -	\$ (620,000)	\$ 5,215,000	\$ 650,000	\$ 4,565,000
Bond Premium, net of amortization	795,721	-	(100,512)	695,209	-	695,209
State Water Resources Control Board Revolving Fund Loan	12,920,155	-	(333,718)	12,586,437	339,391	12,247,046
Total long-term debt	<u>\$ 19,550,876</u>	<u>\$ -</u>	<u>\$ (1,054,230)</u>	<u>\$ 18,496,646</u>	<u>\$ 989,391</u>	<u>\$ 17,507,255</u>

Valley Sanitary District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2019 and 2018

Note 8 – Long-term Debt (Continued)

Summary of changes in long-term debt for the year ended June 30, 2018 is as follows:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018	Due within One Year	Due in More Than One Year
2015 Wastewater Revenue Refunding Bonds	\$ 6,425,000	\$ -	\$ (590,000)	\$ 5,835,000	\$ 620,000	\$ 5,215,000
Bond Premium, net of amortization	896,233	-	(100,512)	795,721	-	795,721
State Water Resources Control Board Revolving Fund Loan	7,463,459	5,456,696	-	12,920,155	333,718	12,586,437
Total long-term debt	\$ 14,784,692	\$ 5,456,696	\$ (690,512)	\$ 19,550,876	\$ 953,718	\$ 18,597,158

2015 Wastewater Revenue Refunding Bonds

On August 26, 2006, the District issued the 2006 Certificates of Participation in the amount of \$12,915,000. The purpose of the Certificates was to fund Phase I of the District's treatment plant expansion. Interest ranging from 3.50% to 4.375% is payable semi-annually on February 1st and August 1st commencing February 1, 2007.

On June 18, 2015, the District issued Wastewater Revenue Refunding Bonds, Series 2015 in the amount of \$7,540,000. The purpose of the bond issuance was to provide funds to defease and refund on current basis the District's outstanding 2006 Certificates of Participation (Treatment Plan Expansion) and pay the costs of issuing the bonds. The bonds are payable from and secured by a lien on net revenue of the wastewater system of the District. The aggregate difference in debt service as result of the refinancing was in the amount of \$1,596,780. The economic gain on the refinancing was \$500,181. Interest rate of 5% (except for 2.125% in 2023) is payable semi-annually on each December 1 and June 1 beginning December 1, 2015. The bonds are not subject to redemption prior to maturity. The outstanding balances as of June 30, 2019 and 2018 were in the amounts of \$5,215,000 and \$5,835,000, respectively.

Future debt service requirements are as follows:

Year Ending June 30,	Principal	Interest	Total
2020	\$ 650,000	\$ 239,187	\$ 889,187
2021	685,000	206,688	891,688
2022	715,000	172,437	887,437
2023	750,000	136,687	886,687
2024	765,000	120,750	885,750
2025-2026	1,650,000	124,750	1,774,750
Total	\$ 5,215,000	\$ 1,000,499	\$ 6,215,499

State Water Resources Control Board Revolving Fund Loan

The District executed the installment sale agreement with the State Water Resources Control Board (the "SWRCB") for the construction of the Requa Avenue Sewer Interceptor Project. As part of the Requa Avenue Sewer Interceptor Project, the District constructed 4.2 miles of new gravity flow sewer pipeline and related utility improvements designed to collect and convey sanitary sewer flow within an existing public right-of-way through central Indio, California, to the existing District's Water Reclamation Plant. The SWRCB provided financial assistance. The total amount of the loan funded was \$12,920,155. Beginning June 2019, the District will repay the principal of the project funds, together with all interest accruing thereon, annually to the SWRCB. As of June 30, 2019 and 2018, the outstanding balances of the SWRCB revolving fund loan were in the amounts of \$12,586,437 and \$12,920,155, respectively.

Valley Sanitary District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2019 and 2018

Note 8 – Long-term Debt (Continued)

State Water Resources Control Board Revolving Fund Loan (Continued)

Future debt service requirements are as follows:

Year Ending June 30,	Principal	Interest	Total
2020	\$ 339,391	\$ 213,969	\$ 553,360
2021	345,161	208,199	553,360
2022	351,028	202,332	553,360
2023	356,997	196,363	553,360
2024	363,065	190,296	553,361
2025	369,237	184,124	553,361
2026-2030	1,942,503	824,300	2,766,803
2031-2035	2,113,326	653,478	2,766,804
2036-2040	2,299,170	467,632	2,766,802
Thereafter	4,106,559	320,327	4,426,886
	\$ 12,586,437	\$ 3,461,020	\$ 16,047,457

A reserve account is required to be maintained equal to one (1) year of the SWRCB revolving fund loan debt service payments from unrestricted net revenues. The reserve requirement is \$553,360 for the duration of the loan. The balances held in the reserve at June 30, 2019 and 2018 were in the amounts of \$1,106,722 and \$1,059,648, respectively. Debt covenants of the SWRCB revolving fund loan require that the District have net revenues that are at least 125% of the total debt service payments (including 2015 Wastewater Revenue Refunding Bonds). Net revenue and total debt service paid during the year ended June 30, 2019 were in the amounts of \$4,652,605 and \$1,443,549, respectively, which resulted in ratio of 322%. Net revenue and total debt service paid during the year ended June 30, 2018 were in the amounts of \$5,690,579 and \$889,687, respectively, which resulted in ratio of 640%.

Note 9 – Conduit Debt

Limited Obligation Improvement Bonds

On July 21, 2005, the District issued \$8,080,000 limited obligation improvement bonds, series 2005 for Assessment District No. 2004-VSD (Shadow Hills Interceptor). Interest ranging from 3.05% to 5.20% is payable semi-annually on March 2nd and September 2nd of each year commencing from March 2, 2006. The bonds mature September 2nd commencing September 2, 2007 and continuing through 2030 with optional call dates beginning September 2, 2014.

The bonds are limited obligations of the District payable solely from the installments of assessments levied on the assessment parcels within the District and other funds pledged under the fiscal agent agreement. The District shall only be obligated to pay the principal of the bonds, or the interest thereon, from funds described in the Indenture and neither the faith and credit nor the taxing power of the District, the State of California or any of its political subdivisions is pledged to the payment of principal or interest on the bonds. Therefore, the limited obligation improvement bonds are not included in the accompanying financial statements. As of June 30, 2019 and 2018, the outstanding balances of the bonds were in the amounts of \$5,365,000 and \$5,690,000, respectively.

Valley Sanitary District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2019 and 2018

Note 10 – Pension Plans

General Information about the Pension Plan

Plan Description

The District contributes to the California Public Employees' Retirement System ("CalPERS"), a cost-sharing multiple-employer defined benefit pension plan. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. A full description of the pension plan, benefit provisions, assumptions (for funding, but not accounting purposes), and membership information are listed in the June 30, 2017 and 2016 Annual Actuarial Valuation Report. This report and CalPERS' audited financial statements are publicly available reports that can be obtained at CalPERS' website under Forms and Publications.

Employees Covered by Benefit Terms

At June 30, 2017 and 2016 valuation dates, the following employees were covered by the benefit terms:

	2017		2016	
	Classic	PEPRA	Classic	PEPRA
Active employees	18	10	18	7
Transferred and terminated employees	18	3	19	2
Retired Employees and Beneficiaries	10	-	8	-
Total	46	13	45	9

Benefit Provided

CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. A classic CalPERS member becomes eligible for Service Retirement upon attainment of age 55 with at least five (5) years of credited service. Public Employee Pension Reform Act (PEPRA) miscellaneous members become eligible for service retirement upon attainment of age 62 with at least five (5) years of service. The service retirement benefit is a monthly allowance equal to the product of the benefit factor, years of service, and final compensation. The final compensation is the highest average annual compensation during any consecutive 12-or 36-month period of employment. Retirement benefits for classic miscellaneous employees are calculated as 2.5% of the highest average annual compensation during any consecutive 12-or 36-month period of employment. Retirement benefits for PEPRA miscellaneous employees are calculated as 2% of the average final three (3) year compensation.

Participant is eligible for non-industrial disability retirement if they become disabled and has at least five (5) years of credited service. There is no special age requirement. The standard non-industrial disability retirement benefit is a monthly allowance equal to 1.8% of final compensation, multiplied by service. Industrial disability benefits are not offered to miscellaneous employees.

An employee's beneficiary may receive the basic death benefit if the employee dies while actively employed. The employee must be actively employed with the District to be eligible for this benefit. An employee's survivor who is eligible for any other pre-retirement death benefit may choose to receive that death benefit instead of this basic death benefit. The basic death benefit is a lump sum in the amount of the employee's accumulated contributions, where interest is currently credited at 7.5% per year, plus a lump sum in the amount of one month salary for each completed year of current service, up to a maximum of six months' salary. For purposes of this benefit, one month salary is defined as the member's average monthly full-time rate of compensation during the 12 months preceding death.

Upon the death of a retiree, a one-time lump sum payment of \$500 will be made to the retiree's designated survivor(s), or to the retiree's estate.

Valley Sanitary District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2019 and 2018

Note 10 – Pension Plans (Continued)

General Information about the Pension Plan (Continued)

Benefit Provided (Continued)

Benefit terms provide for annual cost-of-living adjustments to each employee's retirement allowance. Beginning the second calendar year after the year of retirement, retirement and survivor allowances will be annually adjusted on a compound basis by 2%.

Contributions

Section 20814(c) of the California Public Employees' Retirement Law ("PERL") requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The Public agency cost-sharing plans covered by the miscellaneous risk pools, the Plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the measurement period ended June 30, 2018, the active employee contribution rate for miscellaneous plan and PEPRA miscellaneous plan is 8.00% and 6.50% of annual pay, respectively, and the employer's contribution rate is 10.277% and 6.903% of annual payroll, respectively.

For the measurement period ended June 30, 2017, the active employee contribution rate for miscellaneous plan and PEPRA miscellaneous plan is 8.00% and 6.50% of annual pay, respectively, and the employer's contribution rate is 10.236% and 6.930% of annual payroll, respectively.

Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

The June 30, 2017 and 2016 valuations were rolled forward to determine the June 30, 2018 and 2017 total pension liabilities, based on the following actuarial methods and assumptions:

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

Actuarial Cost Method	Entry Age Normal in accordance with the requirement of GASB Statement No. 68
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table ¹	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.00% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.50% thereafter

¹The mortality table used in 2018 was developed based on CalPERS' specific data. The table includes 15 years of mortality improvements using Society of Actuaries Scale 90% of scale MP 2016. For more details on this table, please refer to December 2017 Experience Study Report (based on CalPERS demographic data from 1997 to 2015) that can be found on the CalPERS website at www.calpers.ca.gov under Forms and Publications.

Valley Sanitary District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2019 and 2018

Note 10 – Pension Plans (Continued)

Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension (Continued)

The mortality table used in 2017 was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to 2014 experience study report.

Change of Assumption

In 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. There were no changes in the discount rate. In 2017, the accounting discount rate was reduced from 7.65 to 7.15 percent.

Long-term Expected Rate of Return

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all of the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

The expected real rates of return by asset class are as followed:

Asset Class ¹	Assumed Asset Allocation	Real Return Years 1-10 ²	Real Return Years 11+ ³
Global Equity	50.00%	4.80%	5.98%
Fixed Income	28.00%	1.00%	2.62%
Inflation Assets	0.00%	0.77%	1.81%
Private Equity	8.00%	6.30%	7.23%
Real Estate	13.00%	3.75%	4.93%
Liquidity	1.00%	0.00%	-0.92%

¹In the CalPERS' CAFR, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities.

²An expected inflation of 2.00% used for this period

³An expected inflation of 2.92% used for this period.

Valley Sanitary District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2019 and 2018

Note 10 – Pension Plans (Continued)

Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension (Continued)

Discount Rate

The discount rate used to measure the 2018 and 2017 total pension liabilities were 7.15 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the District's proportionate share of the net pension liabilities of the Plan as of the measurement date at June 30, 2018 and 2017, calculated using the discount rate of 7.15%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.15%) or 1 percentage-point higher (8.15%) than the current rate:

Measurement Date	Plan's Aggregate Net Pension Liability/(Asset)		
	Discount Rate	Current Discount	Discount Rate
	- 1% (6.15%)	Rate (7.15%)	+ 1% (8.15%)
June 30, 2018	\$ 3,999,679	\$ 2,490,030	\$ 1,243,839
June 30, 2017	3,977,073	2,551,281	1,370,415

Pension Plan Fiduciary Net Position

Detail information about the plan's fiduciary net position is available in the separately issued CalPERS financial report and can be obtained from CalPERS' website under Forms and Publications.

Proportionate Share of Net Pension Liability and Pension Expense

The following table shows the plan's proportionate share of the risk pool collective net pension liability over the measurement period:

	Increase (Decrease)		
	Total Pension Liability	Fiduciary Net Position	Net Pension Liability/(Asset)
Balance at: 6/30/17 (Valuation date)	\$ 11,154,724	\$ 8,603,443	\$ 2,551,281
Balance at: 6/30/18 (Measurement date)	11,928,870	9,438,840	2,490,030
Net changes during 2017-2018	774,146	835,397	(61,251)
Balance at: 6/30/16 (Valuation date)	\$ 9,319,119	\$ 7,189,395	\$ 2,129,724
Balance at: 6/30/17 (Measurement date)	11,154,724	8,603,443	2,551,281
Net changes during 2016-2017	1,835,605	1,414,048	421,557

Valley Sanitary District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2019 and 2018

Note 10 – Pension Plans (Continued)

Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension (Continued)

Proportionate Share of Net Pension Liability and Pension Expense (Continued)

The following is the approach established by the plan actuary to allocate the net pension liability and pension expense to the individual employers within the risk pool for the measurement periods ended June 30, 2018 and 2017.

- (1) In determining a cost-sharing plan's proportionate share, total amounts of liabilities and assets are first calculated for the risk pool as a whole on the valuation date (June 30, 2017 and 2016). The risk pool's fiduciary net position ("FNP") subtracted from its total pension liability ("TPL") determines the net pension liability ("NPL") at the valuation date.
- (2) Using standard actuarial roll forward methods, the risk pool TPL is then computed at the measurement date (June 30, 2018 and 2017). Risk pool FNP at the measurement date is then subtracted from this number to compute the NPL for the risk pool at the measurement date. For purposes of FNP in this step and any later reference thereto, the risk pool's FNP at the measurement date denotes the aggregate risk pool's FNP at June 30, 2018 and 2017 less the sum of all additional side fund (or unfunded liability) contributions made by all employers during the measurement period (2017-2018 and 2016-2017).
- (3) The individual plan's TPL, FNP and NPL are also calculated at the valuation date. TPL is allocated based on the rate plan's share of the actuarial accrued liability. FNP is allocated based on the rate plan's share of the market value assets.
- (4) Two ratios are created by dividing the plan's individual TPL and FNP as of the valuation date from (3) by the amounts in step (1), the risk pool's total TPL and FNP, respectively.
- (5) The plan's TPL as of the measurement date is equal to the risk pool TPL generated in (2) multiplied by the TPL ratio generated in (4). The plan's FNP as of the Measurement Date is equal to the FNP generated in (2) multiplied by the FNP ratio generated in (4) plus any additional side fund (or unfunded liability) contributions made by the employer on behalf of the plan during the measurement period.
- (6) The plan's NPL at the measurement date is the difference between the TPL and FNP calculated in (5).

Deferred outflows of resources, deferred inflows of resources, and pension expense is allocate based on the District's share of risk pool actuarial accrued liability at the beginning of measurement period.

The District's proportionate share of the net pension liability was as follows:

2019		2018	
<u>Measurement Date</u>		<u>Measurement Date</u>	
June 30, 2017	0.02573%	June 30, 2016	0.02461%
June 30, 2018	0.02584%	June 30, 2017	0.02573%
Change - Increase		Change - Increase	
(Decrease)	0.00011%	(Decrease)	0.00111%

For the years ended June 30, 2019 and 2018, the District recognized pension expense in the amounts of \$536,288 and \$651,740, respectively.

Valley Sanitary District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2019 and 2018

Note 10 – Pension Plans (Continued)

Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension (Continued)

Proportionate Share of Net Pension Liability and Pension Expense (Continued)

The amortization period differs depending on the source of the gain or loss. The difference between projected and actual earnings is amortized over 5-years straight line. All other amounts are amortized straight-line over the average expected remaining service lives of all members that are provided with benefits (active, inactive and retired) as of the beginning of the measurement period.

The Expected Average Remaining Service Lifetime (“EARSL”) is calculated by dividing the total future service years by the total number of plan participants (active, inactive, and retired) in the risk pool. The EARSL for risk pool for the measurement date ended June 30, 2018 and 2017 are both 3.8 years, which was obtained by dividing the total service years of 516,147 and 490,088 (the sum of remaining service lifetimes of the active employees) by 135,474 and 130,595 (the total number of participants: active, inactive, and retired), respectively.

At June 30, 2019 and 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2019		2018	
	Deferred outflows of Resources	Deferred inflows of Resources	Deferred outflows of Resources	Deferred inflows of Resources
Pension contribution after measurement date	\$ 814,982	\$ -	\$ 323,626	\$ -
Changes of assumptions	229,059	-	429,970	-
Difference between expected and actual experience	67,368	-	-	(49,994)
Projected earnings on pension plan investments				
under/(in excess of) actual earnings	13,158	-	105,270	-
Adjustment due to differences in proportions	125,978	-	194,209	-
Employer's actual contributions in excess of/(under)				
employer's proportionate share of contribution	-	(35,698)	-	(5,677)
Total	<u>\$ 1,250,545</u>	<u>\$ (35,698)</u>	<u>\$ 1,053,075</u>	<u>\$ (55,671)</u>

Deferred outflows of resources related to pensions resulting from District’s contributions subsequent to the measurement date in the amount of \$814,982 and \$323,626 will be recognized as a reduction of the collective net pension liability in the years ended June 30, 2020 and 2019, respectively.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	Deferred Outflows/ (Inflows) of Resources		Deferred Outflows/ (Inflows) of Resources
Year Ended June 30,	2019	Year Ended June 30,	2018
2020	\$ 305,550	2019	\$ 234,820
2021	190,872	2020	307,307
2022	(72,618)	2021	194,150
2023	(23,939)	2022	(62,499)
2024		2023	-
Thereafter		Thereafter	-
	<u>\$ 399,865</u>		<u>\$ 673,778</u>

Valley Sanitary District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2019 and 2018

Note 10 – Pension Plans (Continued)

Deferred Compensation Plans

The District has made available to its employees four deferred compensation plans, whereby employees authorize the District to withhold funds from salary to be invested. Funds may be withdrawn by participants upon termination of employment or retirement. The District makes no contributions under the plans. Pursuant Internal Revenue Code (“IRC”) Section 457, the plan assets are held in trust in which all assets and income of the 457 plans were placed. The assets, all property and rights purchased with such amount, and all income attributable to such amounts, property, or rights are held in trust for the exclusive benefit of the participants and their beneficiaries. These assets are not the property of the District and, as such, are not subject to the claims of the District's general creditors. As a result, the assets of the 457 plan are not reflected in the financial statements.

Note 11 – Other Postemployment Benefits (“OPEB”)

General Information about the OPEB Plan

Plan Description

The District contributes to a single-employer defined benefit plan to provide postemployment medical benefits. Specifically, the District offers postretirement medical benefits to all employees who retire from the District after attaining age 50 with at least 5 years of service. The plan does not provide a publicly available financial report.

Benefits provided by the plan is as follow:

Benefit Types Provided	Medical only	
Duration of Benefits	Lifetime	
Required Services	5 years	
Minimum Age	50 years old	
Dependent Coverage	Yes	
District Contribution %	100.00%	
District Cap	\$126.35 per month* for measurement period 17-18	\$115.20 per month* for measurement period 16-17

* This amount will increase as provided in California Government Code Section 22892

Employees Covered by Benefit Term

At June 30, 2017 valuation date, the following employees were covered by the benefit term:

Active employees	28
Inactive employees receiving benefits	4
Inactive employees entitled to but not receiving benefits	-
Total	<u>32</u>

Contribution

The obligation of the District to contribute to the plan is established and may be amended by the District’s Board of Directors. For the years ended June 30, 2019 and 2018, the average contribution rate was not applicable. Employees are not required to contribute to the plan. The District made contributions on pay-as-you-go basis.

Valley Sanitary District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2019 and 2018

Note 11 – Other Postemployment Benefits (Continued)

Net OPEB Liability

The District's 2019 and 2018 net OPEB liabilities were measured as of June 30, 2018 and 2017, respectively, and the total OPEB liabilities used to calculate the net OPEB liabilities were determined by an actuarial valuation as of June 30, 2017.

Actuarial Assumptions

Total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Actuarial Cost Method:	Entry age actuarial cost method
Actuarial Assumptions:	
Inflation	2.75%
Investment Rate of Return/Discount Rate	7.00%
Healthcare Cost Trend	4.00%
Payroll Increase	2.75%
Mortality Rate Table	2014 CalPERS Active Mortality for Miscellaneous Employees
Retirement Rate	Hired < 1/1/2013: 2009 CalPERS 2.5% @ 55 Rates for Misc. Employees Hired > 12/31/2012: 2009 CalPERS 2.0% @ 60 Rates for Misc. Employees adjusted to reflect minimum retirement age of 52
Service Requirement	100% at 5 Years of Service
Medical Costs	Future Retirees Pre-65 \$1,449 Future Retirees Post-65 \$1,449
Participation Rate	< 65 Non-Medicare Participation % at 60% > 65 Medicare Participation % at 60%
Turnover	2009 CalPERS Turnover for Miscellaneous Employees

Discount Rate

The discount rate of 7% was used in the valuation. It was assumed that contributions would be sufficient to fully fund the obligation over a period not to exceed 30 years. The District used historic 30 year real rates of return for each asset class along with the assumed long-term inflation assumption to set the discount rate. The District offset the expected investment return by investment expenses of 25 basis points. The following is the assumed asset allocation and assumed rate of return:

Asset Class	Percentage of Portfolio	Assumed Gross Return
US Large Cap	43.00%	7.795%
US Small Cap	23.00%	7.795%
Long-Term Corporate Bonds	12.00%	5.295%
Long-Term Government Bonds	6.00%	4.500%
Treasury Inflation Protected Securities (TIPS)	5.00%	7.795%
US Real Estate	8.00%	7.795%
All Commodities	3.00%	7.795%
	<u>100.00%</u>	

The District looked at rolling periods of time for all asset classes in combination to appropriately reflect correlation between asset classes. That means that the average returns for any asset class don't necessarily reflect the averages over time individually, but reflect the return for the asset class for the portfolio average. The District used geometric means.

Valley Sanitary District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2019 and 2018

Note 11 - Other Postemployment Benefits (Continued)

Change in the Net OPEB Liability

	2019		
	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance at June 30, 2017 (measurement date)	\$ 245,539	\$ 115,488	\$ 130,051
Changes recognized for the measurement period:			
Service Cost	9,016	-	9,016
Interest on total OPEB liability	17,288	-	17,288
Employer contributions	-	27,960	(27,960)
Employee contributions	-	-	-
Actual investment income	-	8,919	(8,919)
Administrative expenses	-	(193)	193
Benefit payments	(6,158)	(6,158)	-
Other	-	(15,583)	15,583
Net change during measurement period 2017-2018	20,146	14,945	5,201
Balance at June 30, 2018 (Measurement Date)	\$ 265,685	\$ 130,433	\$ 135,252

	2018		
	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Rolled back balance at June 30, 2016	\$ 226,723	\$ 90,344	\$ 136,379
Changes recognized for the measurement period:			
Service Cost	8,775	-	8,775
Interest on total OPEB liability	15,962	-	15,962
Employer contributions	-	21,565	(21,565)
Employee contributions	-	-	-
Actual investment income	-	9,580	(9,580)
Administrative expenses	-	(80)	80
Benefit payments	(5,921)	(5,921)	-
Other	-	-	-
Net change during measurement period 2016-2017	18,816	25,144	(6,328)
Balance at June 30, 2017 (Measurement Date)	\$ 245,539	\$ 115,488	\$ 130,051

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.0 percent) or 1-percentage-point higher (8.0 percent) than the current discount rate:

Measurement Date	Net OPEB Liability		
	Discount Rate	Current Discount	Discount Rate
	- 1% (6.00%)	Rate (7.00%)	+ 1% (8.00%)
June 30, 2018	\$ 175,099	\$ 135,252	\$ 102,812
June 30, 2017	\$ 167,388	\$ 130,051	\$ 99,696

Valley Sanitary District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2019 and 2018

Note 11 - Other Postemployment Benefits (Continued)

Change in the Net OPEB Liability (Continued)

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using healthcare cost trend rates that is 1-percentage-point lower (4.0 percent decreasing to 3.0 percent) or 1-percentage-point higher (4.0 percent increasing to 5.0 percent) than the current healthcare cost trend rates:

Measurement Date	Net OPEB Liability		
	Healthcare Cost	Current Healthcare	Healthcare Cost
	Trend Rate - 1% (3.00%)	Cost Trend Rate Rate (4.00%)	Trend Rate + 1% (5.00%)
June 30, 2018	\$ 79,760	\$ 135,252	\$ 206,373
June 30, 2017	\$ 78,190	\$ 130,051	\$ 196,519

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the years ended June 30, 2019 and 2018, the District recognized OPEB expense in the amounts of \$32,863 and \$15,237, respectively. At June 30, 2019 and 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2019		2018	
	Deferred outflows of Resources	Deferred inflows of Resources	Deferred outflows of Resources	Deferred inflows of Resources
OPEB contribution after measurement date	14,136	\$ -	27,599	\$ -
Changes of assumptions	-	-	-	-
Difference between expected and actual experience	-	-	-	-
Projected earnings on pension plan investments under/(in excess of) actual earnings	-	(63)	-	-
Total	\$ 14,136	\$ (63)	\$ 27,599	\$ -

Deferred outflows of resources related to OPEB resulting from District's contributions subsequent to the measurement date in the amounts of \$14,136 and \$27,599 will be recognized as a reduction of the net OPEB liability in the years ended June 30, 2020 and 2019, respectively.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30,	Deferred Outflows/ (Inflows) of Resources
	2019
2020	\$ (16)
2021	(16)
2022	(16)
2023	(15)
2024	-
Thereafter	-
	<u>\$ (63)</u>

Valley Sanitary District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2019 and 2018

Note 12 – Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. Premiums are paid annually by the District. For the years ended June 30, 2019 and 2018, the District had insurance expenses in the amounts of \$293,286 and \$289,186 in premium payments, respectively.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. As of June 30, 2019 and 2018, there were no liabilities to be reported. During the past three fiscal years there have been no settlements or judgments that exceeded insured coverage. There have been no significant reductions in insured liability coverage from coverage in the prior year.

Note 13 – Commitments and Contingencies

Indio Terrace Assessment District No. 2

In 1965, the District received proceeds from the sale of bonds from Indio Terrace Assessment District No. 2. Under the covenants of this assessment district, as parcels within Indio Terrace are developed and connected to the District's system, the Valley Sanitary District is required to allow credits toward connection fees that are paid by the individual developers. As of June 30, 2019 and 2018, the total amount of unused credits were both in the amount of \$41,595. Estimated future revenue from connection fees based upon the current fee in effect is approximately \$162,000. Since no development occurred in the Indio Terrace Assessment District during the year, no connection fee income was reduced by these credits for both years ended June 30, 2019 and 2018.

Shadow Hills Assessment District

In September 1994, the District authorized oversize credits of \$343,403 against capital impact fees for developments occurring within Assessment District 90-1 that are benefiting from the sewer trunk line improvements installed in 1993. As of June 30, 2019 and 2018, credits of \$204,341 have been applied, leaving a balance of \$139,062 to be issued.

Pending Legal Actions

The District has not been named in any lawsuit. However, there could be pending litigation. While the outcome of these lawsuits is not presently determinable, in the opinion of management of the District, based in part on the advice of counsel, the resolution of these matters is not expected to have a material adverse effect on the financial position or results of operations of the District, or is adequately covered by insurance.

Construction Commitments

Outstanding construction commitments as of June 30, 2019:

	2019 Commitments
Projects:	
Sewer Siphon Replacement Design	\$ 400,000
Collection system design and program management	101,000
	<u>\$ 501,000</u>

Valley Sanitary District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2019 and 2018

Note 13 – Commitments and Contingencies (Continued)

Construction Commitments (Continued)

Outstanding construction commitments as of June 30, 2018:

	2018
	<u>Commitments</u>
Projects:	
Bathroom repair project	\$ 33,945
Collection system design and program management	245,172
Anti-climb fence	<u>300,000</u>
	<u>\$ 579,117</u>

**REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)**

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Valley Sanitary District
Required Supplementary Information (Unaudited)
Schedule of the District's Proportionate Share of the Net Pension Liability and Related Ratios
For the Years Ended June 30, 2019 and 2018

Last Ten Fiscal Years

California Public Employees' Retirement System ("CalPERS") Miscellaneous Plan

Measurement date	June 30, 2014 ¹	June 30, 2015	June 30, 2016	June 30, 2017	June 30, 2018
District's proportion of the net pension liability	0.02185%	0.02397%	0.02461%	0.02573%	0.02584%
District's proportionate share of the net pension liability	\$ 1,359,412	\$ 1,645,582	\$ 2,129,724	\$ 2,551,281	\$ 2,490,030
District's covered payroll	\$ 1,805,145	\$ 1,980,191	\$ 2,004,667	\$ 2,279,280	\$ 2,059,259
District's proportionate share of the net pension liability as a percentage of covered payroll	75.31%	83.10%	106.24%	111.93%	120.92%
Plan's proportionate share of the fiduciary net position as a percentage of the total pension liability	83.77%	81.08%	77.15%	77.13%	79.13%

¹ Historical information is presented only for measurement periods for which GASB 68 is applicable.

Valley Sanitary District
Required Supplementary Information (Unaudited)
Schedule of Contributions - Pension
For the Years Ended June 30, 2019 and 2018

Last Ten Fiscal Years

California Public Employees' Retirement System ("CalPERS") Miscellaneous Plan

Fiscal year end	2013-14 ¹	2014-15	2015-16	2016-17	2017-18
Actuarially determined contribution ²	\$ 340,629	\$ 279,922	\$ 203,392	\$ 303,301	\$ 323,626
Contribution in relation to the actuarially determined contribution ²	(1,126,986)	(279,922)	(203,392)	(303,301)	(323,626)
Contribution deficiency/(excess)	<u>\$ (786,357)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	<u>\$ 1,805,145</u>	<u>\$ 1,980,191</u>	<u>\$ 2,004,667</u>	<u>\$ 2,279,280</u>	<u>\$ 2,059,259</u>
Contributions as a percentage of covered payroll	<u>62.43%</u>	<u>14.14%</u>	<u>10.15%</u>	<u>13.31%</u>	<u>15.72%</u>

¹ Historical information is presented only for measurement periods for which GASB 68 is applicable.

² Employers are assumed to make contributions equal to the actuarially determined contributions. However, some employers may choose to make additional contributions towards their side fund or their unfunded liability. Employer contributions for such plans exceed the actuarially determined contributions. CalPERS has determined that employer obligations referred to as "side funds" are not considered separately financed specific liabilities.

Notes to Schedule:

Change in Benefit Terms: There were no changes to benefit terms.

Changes of Assumptions: In 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. There were no changes in the discount rate. In 2017, the accounting discount rate reduced from 7.65 percent to 7.15 percent. In 2016, there were no changes. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense.) In 2014, amounts reported were based on the 7.5 percent discount rate.

Valley Sanitary District
Required Supplementary Information (Unaudited)
Schedule of Contributions - Pension (Continued)
For the Years Ended June 30, 2019 and 2018

Last Ten Fiscal Years

California Public Employees' Retirement System ("CalPERS") Miscellaneous Plan

Fiscal year end	2018-19
Actuarially determined contribution ²	\$ 814,982
Contribution in relation to the actuarially determined contribution ²	(814,982)
Contribution deficiency/(excess)	\$ -
District's covered payroll ³	\$ 2,121,037
Contributions as a percentage of covered payroll	38.42%

¹ Historical information is presented only for measurement periods for which GASB 68 is applicable.

² Employers are assumed to make contributions equal to the actuarially determined contributions. However, some employers may choose to make additional contributions towards their side fund or their unfunded liability. Employer contributions for such plans exceed the actuarially determined contributions. CalPERS has determined that employer obligations referred to as "side funds" are not considered separately financed specific liabilities.

³ Payroll from prior year (2017-18) was assumed to increase by the 3.0 percent payroll growth assumption.

Notes to Schedule:

Change in Benefit Terms: There were no changes to benefit terms.

Changes of Assumptions: In 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. There were no changes in the discount rate. In 2017, the accounting discount rate reduced from 7.65 percent to 7.15 percent. In 2016, there were no changes. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense.) In 2014, amounts reported were based on the 7.5 percent discount rate.

Valley Sanitary District
Required Supplementary Information (Unaudited)
Schedule of Changes in Net Other Postemployment Liability and Related Ratios
For the Years Ended June 30, 2019 and 2018

Last Ten Fiscal Years

Other Postemployment Benefits ("OPEB")

Measurement period	June 30, 2017 ¹	June 30, 2018
Total OPEB liability		
Service cost	\$ 8,775	\$ 9,016
Interest	15,962	17,288
Changes of benefit terms	-	-
Differences between expected and actual experience	-	-
Changes of assumption	-	-
Benefit payments	(5,921)	(6,158)
Net change in total OPEB liability	18,816	20,146
Total OPEB liability, beginning	226,723	245,539
Total OPEB liability, ending (a)	245,539	265,685
OPEB fiduciary net position		
Contributions - employer	21,565	27,960
Net investment income	9,580	8,919
Benefit payments	(5,921)	(6,158)
Administrative expense	(80)	(193)
Other	-	(15,583)
Net change in plan fiduciary net position	25,144	14,945
Plan fiduciary net position, beginning	90,344	115,488
Plan fiduciary net position, ending (b)	115,488	130,433
Plan net OPEB liability - ending (a) - (b)	\$ 130,051	\$ 135,252
Plan's fiduciary net position as a percentage of the total OPEB liability	47.03%	49.09%
Covered payroll	\$ 2,279,280	\$ 2,059,259
Plan net OPEB liability as a percentage of covered payroll	5.71%	6.57%

¹ Historical information is presented only for measurement periods for which GASB 75 is applicable.

Valley Sanitary District
Required Supplementary Information (Unaudited)
Schedule of Contributions - Other Postemployment Benefits
For the Years Ended June 30, 2019 and 2018

Last Ten Fiscal Years

Other Postemployment Benefits ("OPEB")

Fiscal year end	2016-17 ¹	2017-18	2018-19
Actuarially determined contribution ²	\$ 15,225	\$ -	\$ -
Contribution in relation to the actuarially determined contribution ²	(21,565)	(27,599)	(14,136)
Contribution deficiency/(excess)	<u>\$ (6,340)</u>	<u>\$ (27,599)</u>	<u>\$ (14,136)</u>
Covered payroll	<u>\$ 2,279,280</u>	<u>\$ 2,059,259</u>	<u>\$ 2,121,037</u>
Contributions as a percentage of covered payroll	<u>0.95%</u>	<u>1.34%</u>	<u>0.67%</u>

¹ Historical information is presented only for measurement periods for which GASB 75 is applicable.

² The June 30, 2015 actuarial valuation provided the actuarially determined contributions for fiscal year ended June 30, 2017. There is no actuarially determined contribution for the years ended June 30, 2018 and 2019.

Notes to Schedule:

Valuation date:	June 30, 2017
Methods and assumptions used to determine contribution rates:	
Actuarial cost method:	Entry age actuarial cost method.
Inflation:	2.75% per year
Investment return/discount rate:	7.00% per year based on assumed long-term return on plan assets assuming 100% funding through CERBT. "Building Block Method" is used.
Healthcare cost trend:	4.00% per year
Payroll increase:	2.75% per year
Mortality:	2014 CalPERS active mortality for miscellaneous employees
Retirement rates:	Hired < 1/1/2013: 2009 CalPERS 2.5% @55 rates for miscellaneous employee Hired > 12/31/12: 2009 CalPERS 2.0% @62 rate for miscellaneous employees adjusted to reflect minimum retirement age of 62

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SUPPLEMENTARY INFORMATION

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Valley Sanitary District
Schedule of Operating Expenses
For the Year Ended June 30, 2019

	<u>General and Administrative</u>	<u>Sewage Collection</u>	<u>Sewage Treatment</u>	<u>Total</u>
Salaries and wages	\$ 533,508	\$ 1,257,468	\$ 777,369	\$ 2,568,345
Employee benefits	241,868	593,243	374,987	1,210,098
Directors' fees	40,500	-	-	40,500
Insurance	293,286	-	-	293,286
Memberships	24,979	3,491	1,633	30,103
Office expense	20,439	-	-	20,439
Permits	8,358	12,269	53,130	73,757
Operating supplies	5,224	25,233	91,901	122,358
Professional services	3,400	-	-	3,400
Repairs and maintenance	1,607	461,053	59,672	522,332
Travel and seminars	25,284	9,307	4,172	38,763
Utilities and telephone	16,989	9,685	530,348	557,022
Chemicals	-	-	321,488	321,488
Clothing	-	20,595	12,000	32,595
Certifications	120	1,867	1,647	3,634
Gas, oil, and fuel	-	-	33,621	33,621
County charges	18,608	-	-	18,608
Contractual services	511,738	950,497	95,944	1,558,179
Publication/legal notices	1,633	-	-	1,633
Small tools	37,752	13,539	1,485	52,776
Other expenses	19,318	8,807	2,284	30,409
Total	<u>\$ 1,804,611</u>	<u>\$ 3,367,054</u>	<u>\$ 2,361,681</u>	<u>\$ 7,533,346</u>

Note: The Schedule of Operating Expenses excludes depreciation expense.

Valley Sanitary District
Schedule of Operating Expenses
For the Year Ended June 30, 2018

	<u>General and Administrative</u>	<u>Sewage Collection</u>	<u>Sewage Treatment</u>	<u>Total</u>
Salaries and wages	\$ 468,204	\$ 1,224,605	\$ 791,776	\$ 2,484,585
Employee benefits	246,494	637,405	423,987	1,307,886
Directors' fees	30,500	-	-	30,500
Insurance	289,186	-	-	289,186
Memberships	23,525	2,455	1,260	27,240
Office expense	12,422	-	-	12,422
Permits	4,461	11,201	49,164	64,826
Operating supplies	12,795	20,034	81,712	114,541
Professional services	4,300	-	-	4,300
Repairs and maintenance	19,171	498,493	81,268	598,932
Travel and seminars	17,585	10,220	5,937	33,742
Utilities and telephone	18,162	10,271	511,169	539,602
Chemicals	-	-	292,045	292,045
Clothing	-	17,388	10,569	27,957
Certifications	175	2,485	795	3,455
Gas, oil, and fuel	-	-	34,849	34,849
County charges	19,767	-	-	19,767
Contractual services	417,438	154,881	120,537	692,856
Publication/legal notices	2,550	-	-	2,550
Small tools	42,994	8,287	3,033	54,314
Other expenses	22,985	6,542	5,466	34,993
Total	<u>\$ 1,652,714</u>	<u>\$ 2,604,267</u>	<u>\$ 2,413,567</u>	<u>\$ 6,670,548</u>

Note: The Schedule of Operating Expenses excludes depreciation expense

Valley Sanitary District
Schedules of Changes in Fiduciary Assets and Liabilities - Agency Fund
For the Years Ended June 30, 2019 and 2018

	Balance July 1, 2018	Additions	Deletions	Balance June 30, 2019
ASSETS				
Cash and investments	\$ 631,153	\$ 654,420	\$ (618,789)	\$ 666,784
Cash with fiscal agent	624,042	12,523	(13,431)	623,134
Assessment receivable	18,596	627,252	(630,719)	15,129
Interest receivable	2,699	8,084	(6,741)	4,042
Total assets	<u>\$ 1,276,490</u>	<u>\$ 1,302,279</u>	<u>\$ (1,269,680)</u>	<u>\$ 1,309,089</u>
LIABILITIES				
Due to bondholders	\$ 1,276,490	\$ 1,302,279	\$ (1,269,680)	\$ 1,309,089
Total liabilities	<u>\$ 1,276,490</u>	<u>\$ 1,302,279</u>	<u>\$ (1,269,680)</u>	<u>\$ 1,309,089</u>

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
ASSETS				
Cash and investments	\$ 643,371	\$ 669,315	\$ (681,533)	\$ 631,153
Cash with fiscal agent	668,747	5,542	(50,247)	624,042
Assessment receivable	5,550	627,835	(614,789)	18,596
Interest receivable	1,310	2,700	(1,311)	2,699
Total assets	<u>\$ 1,318,978</u>	<u>\$ 1,305,392</u>	<u>\$ (1,347,880)</u>	<u>\$ 1,276,490</u>
LIABILITIES				
Due to bondholders	\$ 1,318,978	\$ 1,305,392	\$ (1,347,880)	\$ 1,276,490
Total liabilities	<u>\$ 1,318,978</u>	<u>\$ 1,305,392</u>	<u>\$ (1,347,880)</u>	<u>\$ 1,276,490</u>

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**STATISTICAL SECTION
(UNAUDITED)**

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Valley Sanitary District
Statistical Section
(Unaudited)

This part of Valley Sanitary District's Comprehensive Annual Financial Report (CAFR) presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the District's overall financial health.

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Operating Information - These schedules contain service and infrastructure data to help the reader understanding how the information in the District's financial report relates to the services the District provides and the activities it performs.

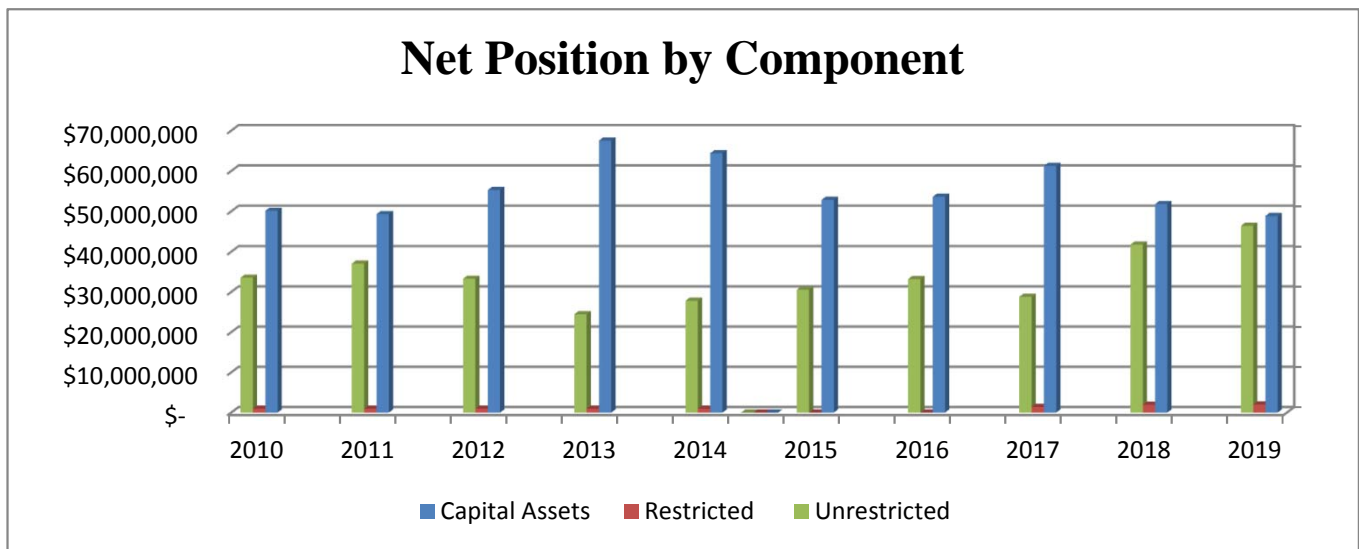
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Valley Sanitary District
Net Position By Component
Last Ten Fiscal Years

	Fiscal Year Ended June 30				
	2019	2018	2017	2016	2015
			As Restated		As Restated
<u>NET POSITION:</u>					
Net investment in					
Capital Assets	\$ 48,843,501	\$ 51,797,220	\$ 61,242,162	\$ 53,603,070	\$ 52,839,192
Restricted	2,005,722	1,958,648	1,413,000	-	-
Unrestricted	46,401,215	41,754,432	28,777,592	33,187,943	30,548,647
TOTAL NET POSITION	\$ 97,250,438	\$ 95,510,300	\$ 91,432,754	\$ 86,791,013	\$ 83,387,839

Valley Sanitary District
Net Position By Component (Continued)
Last Ten Fiscal Years

	Fiscal Year Ended June 30				
	2014	2013	2012	2011	2010
	As Restated	As Restated	As Restated		
NET POSITION:					
Net investment in					
Capital Assets	\$ 64,388,904	\$ 67,535,369	\$ 55,265,910	\$ 49,305,860	\$ 50,121,414
Restricted	964,900	964,900	967,394	967,394	967,394
Unrestricted	27,817,622	24,444,820	33,266,658	37,028,724	33,546,254
TOTAL NET POSITION	\$ 93,171,426	\$ 92,945,089	\$ 89,499,962	\$ 87,301,978	\$ 84,635,062

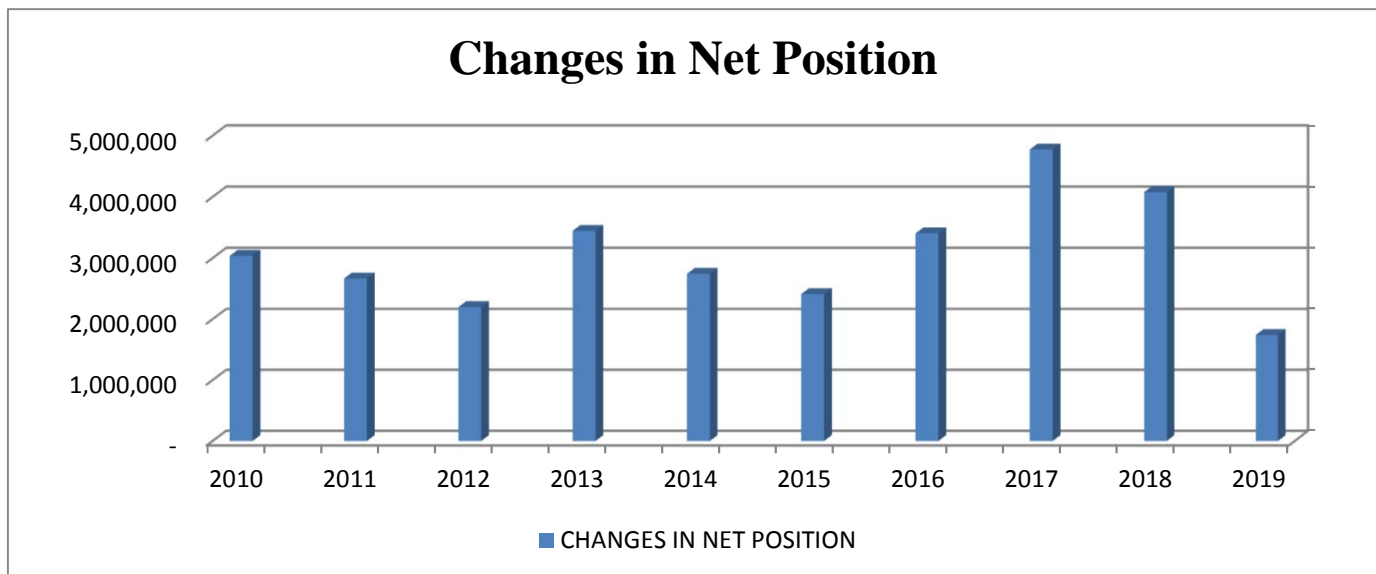


Valley Sanitary District
Statements of Revenues, Expenses, and Changes in Net Position
Last Ten Fiscal Years

	Fiscal Year Ended June 30				
	2019	2018	2017	2016	2015
					As Restated
OPERATING REVENUES:					
Sewer service charges	\$ 11,139,580	\$ 11,004,428	\$ 10,846,682	\$ 9,347,928	\$ 9,218,538
Connection fees	1,010,031	1,272,580	791,280	1,446,315	897,863
Permits and inspection fees	25,390	17,885	22,442	21,735	17,264
Other services	10,950	10,139	11,300	7,495	27,425
TOTAL OPERATING REVENUES	12,185,951	12,305,032	11,671,704	10,823,473	10,161,090
OPERATING EXPENSES:					
General and administrative	1,804,611	1,652,714	1,297,345	1,744,274	1,819,626
Sewage collection	3,367,054	2,604,267	2,091,041	856,871	866,622
Sewage treatment	2,361,681	2,413,567	2,048,207	3,104,860	3,140,480
Sewage disposal	-	-	-	-	-
Total administrative and plant	7,533,346	6,670,548	5,436,593	5,706,005	5,826,728
Other Operating Expenses					
Depreciation	2,451,371	2,444,764	1,980,043	2,309,350	2,334,398
TOTAL OPERATING EXPENSES	9,984,717	9,115,312	7,416,636	8,015,355	8,161,126
NET OPERATING INCOME	2,201,234	3,189,720	4,255,068	2,808,118	1,999,964
NON-OPERATING REVENUES (EXPENSES)					
Property taxes	862,297	794,367	761,756	709,233	745,800
Homeowner's tax relief	5,873	5,978	6,203	6,343	6,461
Investment income	1,193,840	479,862	170,869	142,649	75,611
Bond issue cost	-	-	-	-	(193,516)
Interest expense	(428,612)	(412,602)	(267,220)	(279,125)	(175,454)
Amortization	-	-	-	-	-
Gain (loss) on disposed assets	(2,120,122)	19,976	(160,033)	12,188	(46,408)
Other revenues	25,628	245	6,565	3,768	310
TOTAL NON-OPERATING REVENUES (EXPENSES)	(461,096)	887,826	518,140	595,056	412,804
CHANGES IN NET POSITION	1,740,138	4,077,546	4,773,208	3,403,174	2,412,768
NET POSITION, beginning of the year	95,510,300	91,564,221	86,791,013	83,387,839	94,251,725
Prior period adjustments	-	(131,467)	-	-	(13,276,654)
NET POSITION, end of the year	\$ 97,250,438	\$ 95,510,300	\$ 91,564,221	\$ 86,791,013	\$ 83,387,839

Valley Sanitary District
Statements of Revenues, Expenses, and Changes in Net Position (Continued)
Last Ten Fiscal Years

	Fiscal Year Ended June 30				
	2014	2013	2012	2011	2010
	As Restated	As Restated	As Restated		
OPERATING REVENUES:					
Sewer service charges	\$ 9,187,360	\$ 9,053,022	\$ 8,808,414	\$ 8,385,726	\$ 8,605,117
Connection fees	1,998,788	548,527	192,763	723,985	304,428
Permits and inspection fees	40,202	12,017	7,362	28,544	25,880
Other services	46,100	7,039	11,173	4,726	24,710
TOTAL OPERATING REVENUES	11,272,450	9,620,605	9,019,712	9,142,981	8,960,135
OPERATING EXPENSES:					
General and administrative	1,997,332	1,403,644	1,559,137	1,501,410	1,440,724
Sewage collection	855,884	917,799	846,598	809,998	788,124
Sewage treatment	3,631,992	2,588,299	2,147,581	2,019,251	1,875,514
Sewage disposal	-	338	317,791	551,369	307,380
Total administrative and plant	6,485,208	4,910,080	4,871,107	4,882,028	4,411,742
Other Operating Expenses					
Depreciation	2,335,264	1,841,601	1,835,054	1,870,504	1,870,268
TOTAL OPERATING EXPENSES	8,820,472	1,841,601	1,835,054	6,752,532	6,282,010
NET OPERATING INCOME	2,451,978	2,868,924	2,313,551	2,390,449	2,678,125
NON-OPERATING REVENUES (EXPENSES)					
Property taxes	605,711	899,670	585,004	585,628	662,348
Homeowner's tax relief	6,604	6,690	6,851	7,183	7,268
Investment income	52,007	75,110	123,009	154,896	183,210
Bond issue cost	-	-	-	-	-
Interest expense	(402,257)	(422,157)	(638,155)	(458,830)	(476,411)
Amortization	-	-	(205,908)	(21,966)	(21,966)
Gain (loss) on disposed assets	14,176	-	-	-	(1,809)
Other revenues	14,735	16,890	13,632	9,556	6,117
TOTAL NON-OPERATING REVENUES (EXPENSES)	290,976	576,203	(115,567)	276,467	358,757
CHANGES IN NET POSITION	2,742,954	3,445,127	2,197,984	2,666,916	3,036,882
NET POSITION, beginning of the year	92,945,089	89,499,962	87,301,978	84,635,062	81,598,180
	(1,436,318)				
NET POSITION, end of the year	\$ 94,251,725	\$ 92,945,089	\$ 89,499,962	\$ 87,301,978	\$ 84,635,062



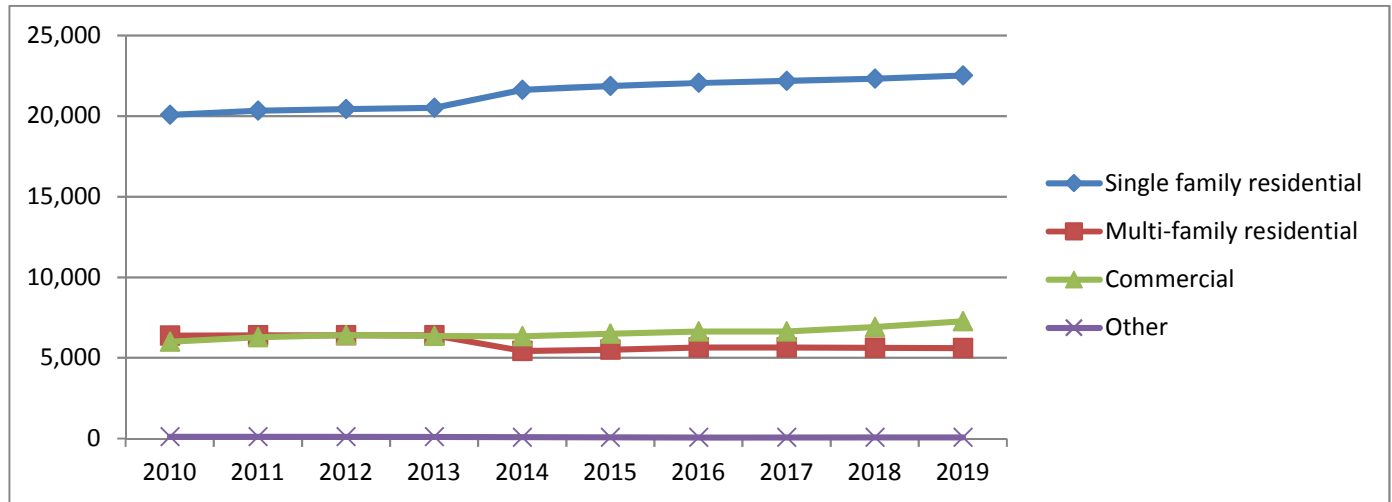
Valley Sanitary District

Customer Type Equivalent Dwelling Unit (EDU) Summary

Last Ten Fiscal Years

Customer Type	Fiscal Year Ended June 30									
	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Single family residential	22,516	22,321	22,180	22,061	21,863	21,623	20,514	20,433	20,326	20,072
Multi-family residential	5,613	5,623	5,635	5,643	5,513	5,431	6,389	6,389	6,394	6,387
Commercial	7,267	6,913	6,633	6,629	6,504	6,344	6,353	6,409	6,275	5,994
Other	67	66	63	62	62	59	103	103	103	103
Total	35,463	34,923	34,511	34,395	33,942	33,457	33,359	33,334	33,098	32,556

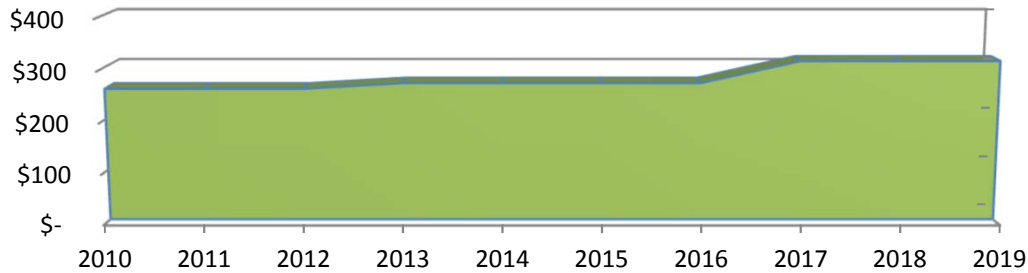
Source: Valley Sanitary District



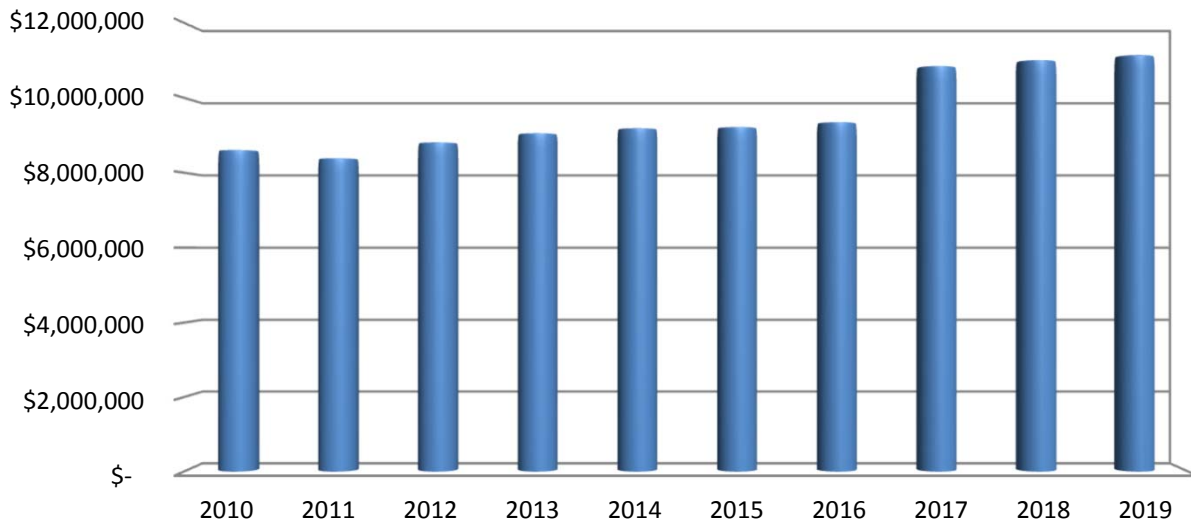
Valley Sanitary District
Annual Sewer Use Fee and Fiscal Year Revenue
Last Ten Fiscal Years

Fiscal Year Ended June 30	Annual fee / EDU	Revenue
2019	\$ 313	\$ 11,139,580
2018	313	11,004,428
2017	313	10,846,682
2016	270	9,347,928
2015	270	9,218,538
2014	270	9,187,360
2013	270	9,053,022
2012	259	8,808,414
2011	259	8,385,726
2010	259	8,605,117

Source: Valley Sanitary District



Annual Sewer Use Fee
 (Per Equivalent Dwelling Unit)



Annual Sewer Use Fee Revenue

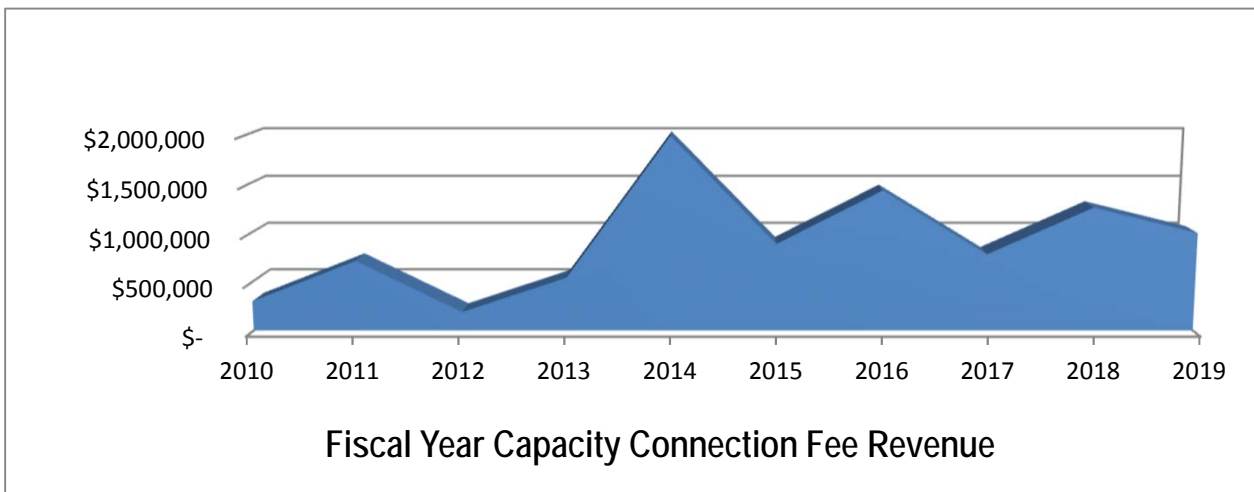
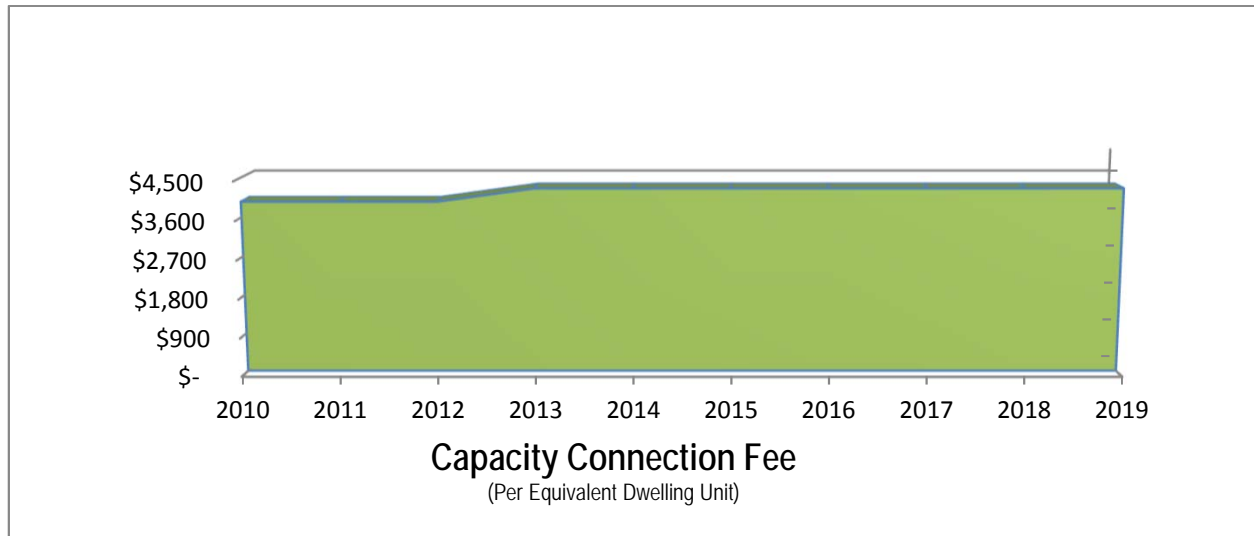
Valley Sanitary District

Capacity Connection Fee and Fiscal Year Revenue

Last Ten Fiscal Years

Fiscal Year Ended June 30	Fee / EDU	Revenue
2019	\$ 4,265	\$ 1,010,031
2018	4,265	1,272,580
2017	4,265	791,280
2016	4,265	1,446,315
2015	4,265	897,863
2014	4,265	1,998,788
2013	4,265	548,527
2012	3,957	192,763
2011	3,957	723,985
2010	3,957	304,428

Source: Valley Sanitary District



**Valley Sanitary District
Principal Users
Current Year and Nine Years Ago**

	Year Ended June 30			Year Ended June 30		
	2019			2010		
Principal Users	Amount Billed	Rank	Percent of District Total \$	Amount Billed	Rank	Percent of District Total \$
Desert Sands Unified School District	\$ 251,026	1	2.25%	\$ 231,287	1	2.69%
Forager Project Inc	99,221	2	0.89%	-		0.00%
The Wells Mobile Home Association	93,900	3	0.84%	77,700	3	0.90%
Smoketree Polo Club Apartments	90,144	4	0.81%	74,592	4	0.87%
Fantasy Springs Casino	88,892	5	0.80%	73,556	5	0.85%
Sunrise Point Apartments	85,136	6	0.76%	70,448	6	0.82%
Casa Monroe Apartments	70,738	7	0.64%	87,801	2	1.02%
Indio Palms Apartments	69,486	8	0.62%	60,347	8	0.70%
Clark Construction	67,295	9	0.60%	-		0.00%
Del Mar Apartments	58,844	10	0.53%	48,692	9	0.57%
Bermuda Palms Mobile Estates				-		0.00%
Arabian Gardens Mobile Estates				48,174	10	0.56%
Fred Young Housing				67,599	7	0.79%
Total	\$ 974,682			\$ 840,196		
District total customer charges			\$ 11,139,580			\$ 8,605,117

Source: Valley Sanitary District

Valley Sanitary District
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years

Fiscal Year Ended June 30	Business-Type Activities			Total				
	Certificates of Participation (1) (net of amortization)	Wastewater Revenue Refunding Bonds Series 2015 (2) (net of amortization)	State Water Resource Control Board Revolving Fund Loan	Debt	Population (3)	Personal Income (3)	Percentage of Personal Income	Debt Per Capita
2019	\$ -	\$ 5,910,209	\$ 12,586,437	\$18,496,646	89,863	\$ 24,398	0.84%	206
2018	-	6,630,721	12,920,155	19,550,876	89,127	24,994	0.88%	219
2017	-	7,321,233	7,643,459	14,964,692	88,485	23,103	0.73%	169
2016	-	7,986,745	-	7,986,745	86,544	22,336	0.41%	92
2015	-	8,637,257	-	8,637,257	84,201	20,607	0.50%	103
2014	9,379,080	-	-	9,379,080	82,398	21,702	0.52%	114
2013	9,920,254	-	-	9,920,254	81,393	20,645	0.59%	122
2012	10,436,428			10,436,428	77,165	19,748	0.68%	135
2011	11,403,307			11,403,307	83,675	22,350	0.61%	136
2010	11,916,864			11,916,864	82,230	19,855	0.73%	145

Sources: (1) Valley Sanitary District
(2) Valley Sanitary District - Refinancing of Certificates of Participation
(3) CA Department of Finance

**Valley Sanitary District
Pledged Revenue Coverage
Last Ten Fiscal Years**

Fiscal Year Ended June 30	Revenue & Expenses			Debt Service			
	Net Revenues	Operating Expenses (1)	Net Available Revenues	Principal (2)	Interest	Total	Coverage Ratio (3)
2019	\$ 14,273,589	\$ 7,533,346	6,740,243	\$ 953,718	\$ 489,831	\$ 1,443,549	5
2018	13,192,858	6,670,548	6,522,310	590,000	299,688	889,688	7
2017	12,189,844	5,436,593	6,753,251	565,000	327,938	892,938	8
2016	11,418,529	5,706,005	5,712,524	550,000	338,653	888,653	6
2015	10,573,894	5,826,728	4,747,166	-	415,378	415,378	11
2014	11,563,426	6,485,208	5,078,218	570,000	402,257	972,257	5
2013 As Restated	10,196,808	4,910,080	5,286,728	550,000	422,157	972,157	5
2012 As Restated	8,904,145	4,871,107	4,033,038	525,000	440,705	965,705	4
2011	9,419,448	4,882,028	4,537,420	505,000	458,830	963,830	5
2010	9,318,892	4,411,742	4,907,150	495,000	476,412	971,412	5

Notes:

(1) Excludes Depreciation

(2) Due to refinancing of the COPs, no principal payment was due in fiscal year 2014/2015. Costs to refinance are included in interest.

(3) The coverage ratio is a measure of the District's liquidity and how many times the District's revenues will cover their annual bond expense.

Source: Valley Sanitary District

Valley Sanitary District
Principal Employers
Current Year and Nine Years Ago

	Fiscal Year Ended June 30			Fiscal Year Ended June 30		
	2019			2010		
	Number of	Rank	Percent of	Number of	Rank	Percent of
Employer (1) (2)	Employees		Total Employment	Employees		Total Employment
Desert Sands Unified School District	2,850	1	7.09%	1,096	3	4.62%
County of Riverside	1,178	2	2.93%	1,301	1	5.49%
Fantasy Springs Casino	1,153	3	2.87%	1,200	2	5.06%
John F. Kennedy Memorial Hospital	750	4	1.87%	701	4	2.96%
Walmart Supercenter	258	5	0.64%	-	-	-
City of Indio	241	6	0.60%	267	5	1.13%
Riverside Superior Court	164	7	0.41%	175	6	0.74%
Granite Construction	175	8	0.44%	-	-	-
Cardena's Market	149	9	0.37%	-	0	-
Mathis Brothers	133	10	0.33%	105	8	0.44%
Jackalope Ranch	-	-	0.00%	-	-	-
Super Target	-	-	0.00%	-	-	-
Home Depot	-	-	0.00%	125	9	0.53%
PHB Contracting Inc.	-	-	0.00%	113	10	0.48%
Tidwell Concrete Construction	-	-	0.00%	105	7	0.44%
Total Employment Listed	7,051		17.54%	5,188		21.89%
Total City Employment (3)	40,200			23,700		

"Total Employment" as used above represents the total employment of all employers located within the District.

Sources: (1) City Indio 2018 CAFR
(2) Valley Sanitary District
(3) State of California Employment Development Department

Valley Sanitary District
Total Customers and Number of Permits Issued
Last Ten Fiscal Years

Fiscal Year Ended June 30	Total Customers	Number of Permits Issued
2019	27,849	67
2018	27,668	71
2017	27,535	87
2016	27,417	86
2015	27,164	69
2014	26,908	83
2013	26,807	45
2012	26,762	44
2011	26,648	46
2010	26,414	60

Source: Valley Sanitary District

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Valley Sanitary District
Demographic and Economic Statistics
Last Ten Fiscal Years

Fiscal Year Ended June 30	Population (1)	Median Age (2)	Average Household Size (1)	Median Household Income (1)	Per Capita Personal Income (1)	Unemployment Rate (3)
2019	89,863	43.50	3.19	\$ 56,961	\$ 24,398	5.40%
2018	89,127	40.50	3.19	56,571	24,994	5.80%
2017	88,485	33.90	3.30	54,179	23,103	5.10%
2016	86,544	34.00	3.25	53,183	22,336	7.20%
2015	84,201	33.10	3.25	50,068	20,607	6.50%
2014	82,398	31.40	3.25	50,528	21,702	10.70%
2013	81,393	32.60	3.60	47,642	20,645	11.10%
2012	77,165	34.30	3.23	41,082	19,748	14.00%
2011	83,675	29.30	3.12	53,824	22,350	15.90%
2010	82,230	28.80	3.18	47,708	19,855	14.50%

Sources: (1) California Home Town Locator
(2) City of Indio 2018 CAFR
(3) U.S. Census Bureau

Valley Sanitary District
Operating Indicators
Last Ten Fiscal Years

	Fiscal Year Ended June 30				
	2019	2018	2017	2016	2015
Equivalent Dwelling Units (EDU)	35,463	34,923	34,511	34,395	33,942
Rainfall (inches) (1)	6.14	2.19	6.46	2.90	2.70
Flow (MGD) (2)	5.49	5.44	5.31	5.30	5.57
CBOD (mg/L)	280.00	281.00	289.00	257.40	246.92
CBOD (PE) (3)	75,413	74,993	75,285	66,928	68,446
Suspended solids (mg/L)	279.00	266.00	262.00	234.20	192.08
Suspended solids (PE) (4)	63,872	60,342	68,252	51,755	45,096
Tonnage of biosolids produced	805	1,411	1,362	468	1,440
Tonnage of biosolids applied to land	1,438	-	1,162	-	1,440
Total waste treated (million gallons/year)	2,169	2,081	2,080	2,022	2,034

Notes:

(1) Annual rainfall for the Coachella Valley from www.desertweather.com

(2) Million gallons per day

(3) Carbonaceous Biochemical Oxygen Demand (CBOD) Population Equivalent (PE) based on a conversion factor of 0.17

(4) Suspended solids population equivalent based on a conversion factor of 0.20

Source: Valley Sanitary District

Valley Sanitary District
Operating Indicators (Continued)
Last Ten Fiscal Years

	Fiscal Year Ended June 30				
	2014	2013	2012	2011	2010
Equivalent Dwelling Units (EDU)	33,457	33,359	33,334	33,098	32,556
Rainfall (inches) (1)	0.92	2.02	1.75	5.43	5.83
Flow (MGD) (2)	5.97	6.18	6.10	6.12	6.32
CBOD (mg/L)	219.75	215.66	213.50	216.33	224.40
CBOD (PE) (3)	63,706	65,385	63,892	64,951	69,576
Suspended solids (mg/L)	188.25	219.83	171.66	176.08	173.08
Suspended solids (PE) (4)	47,083	57,263	44,937	44,936	45,614
Tonnage of biosolids produced	1,505	1,882	1,849	1,685	1,357
Tonnage of biosolids applied to land	1,200	718	2,007	1,117	1,075
Total waste treated (million gallons/year)	2,254	2,257	2,227	2,234	2,307

Notes:

(1) Annual rainfall for the Coachella Valley from www.desertweather.com

(2) Million gallons per day

(3) Carbonaceous Biochemical Oxygen Demand (CBOD) Population Equivalent (PE) based on a conversion factor of 0.17

(4) Suspended solids population equivalent based on a conversion factor of 0.20

Source: Valley Sanitary District

Valley Sanitary District
Capital Assets and Operating Information
Last Ten Fiscal Years

	Fiscal Year Ended June 30				
	2019	2018	2017	2016	2015
Sanitary Sewer Service Operations					
Equivalent Dwelling Units (EDUs)	35,463	34,923	34,511	34,395	33,942
Treatment Plant Operations					
Plant flow					
(Units = Million Gallons Per Day (mgd))					
Monthly average	167	165	161	161	170
Permit limitation (dry weather)	12.50	12.50	12.50	12.50	13.50
Annual rainfall (inches) (1)	6.14	2.19	6.46	2.90	2.70
Collection System Operations					
Sewer lines					
Length (ft)	1,341,120	1,351,680	1,335,840	1,336,682	1,323,035
Inspected (ft)	158,940	174,030	135,472	175,178	136,838
Cleaned (ft)	741,600	728,314	731,159	796,840	708,071

Notes:

(1) Annual rainfall for the Coachella Valley from www.desertweather.com

Source: Valley Sanitary District

Valley Sanitary District
Capital Assets and Operating Information (Continued)
Last Ten Fiscal Years

	Fiscal Year Ended June 30				
	2014	2013	2012	2011	2010
Sanitary Sewer Service Operations					
Equivalent Dwelling Units (EDUs)	33,457	33,359	33,334	33,098	32,556
Treatment Plant Operations					
Plant flow					
(Units = Million Gallons Per Day (mgd))					
Monthly average	182	188	186	186	192
Permit limitation (dry weather)	13.50	11.00	11.00	11.00	7.50
Annual rainfall (inches) (1)	0.92	2.02	1.75	5.43	5.83
Collection System Operations					
Sewer lines					
Length (ft)	1,298,880	1,288,320	1,276,660	1,275,836	1,275,836
Inspected (ft)	106,350	95,040	56,203	86,241	86,808
Cleaned (ft)	562,472	776,160	538,569	671,085	687,969

Notes:

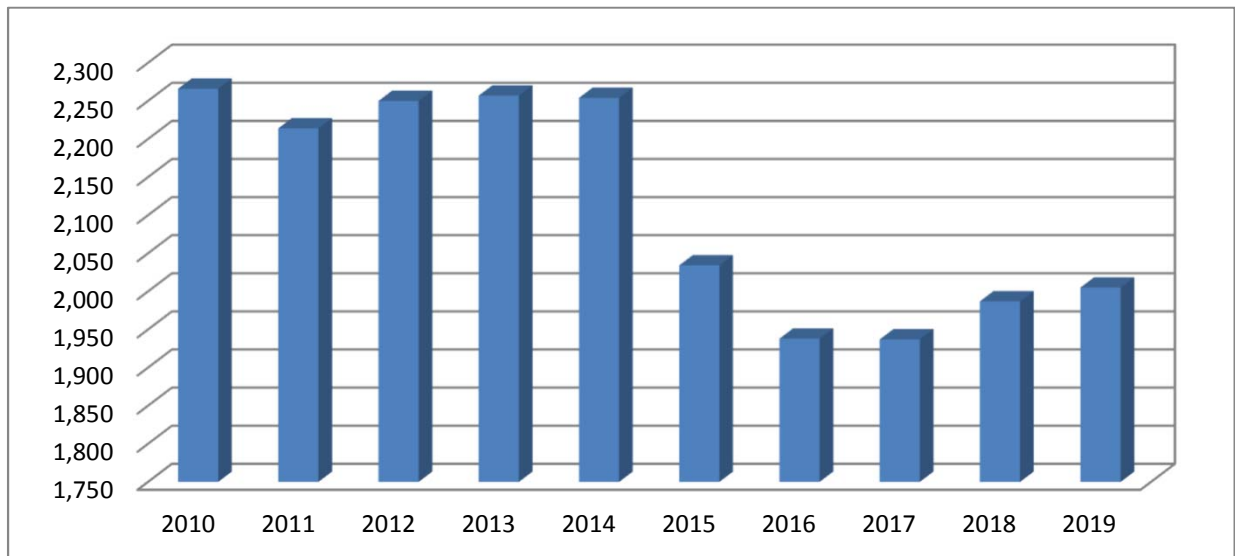
(1) Annual rainfall for the Coachella Valley from www.desertweather.com

Source: Valley Sanitary District

Valley Sanitary District
Annual Flow Data (Million Gallons)
Last Ten Fiscal Years

Fiscal Year Ended 6/30/2018	Annual Flow
2019	2,005
2018	1,987
2017	1,937
2016	1,938
2015	2,034
2014	2,254
2013	2,257
2012	2,250
2011	2,214
2010	2,266

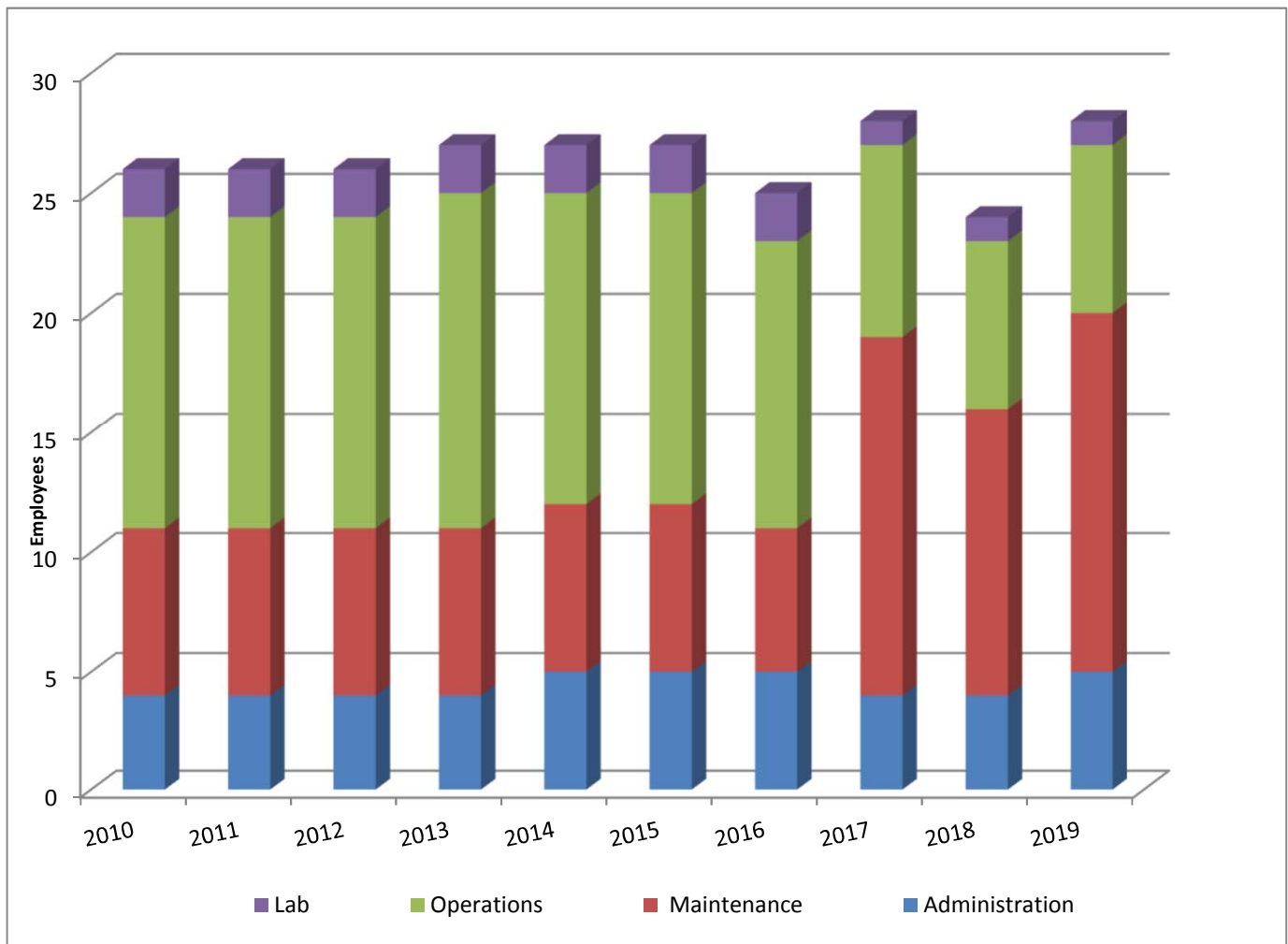
Source: Valley Sanitary District



Valley Sanitary District
Full-Time District Employees by Department
Last Ten Fiscal Years

Fiscal Year Ended June 30	Administration	Engineering & Maintenance	Operations	Lab	Total
2019	5	15	7	1	28
2018	4	12	7	1	24
2017	4	15	8	1	28
2016	5	6	12	2	25
2015	5	7	13	2	27
2014	5	7	13	2	27
2013	4	7	14	2	27
2012	4	7	13	2	26
2011	4	7	13	2	26
2010	4	7	13	2	26

Source: Valley Sanitary District



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Independent Auditors' Report

To the Board of Directors
of the Valley Sanitary District
Indio, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and fiduciary fund of the Valley Sanitary District, California (the "District"), as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 11, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To the Board of Directors
of the Valley Sanitary District
Indio, California
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Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

The Pw Group, LLP

Santa Ana, California
October 11, 2019