

# Comprehensive Annual Financial Report Year Ended June 30, 2018





# **Valley Sanitary District**

Indio, California

## **Comprehensive Annual Financial Report**

*For the Year Ended June 30, 2018*

Prepared by:  
Administration and Finance Department



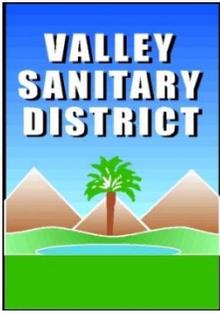
# Valley Sanitary District

## Table of Contents

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	<u>Page</u>
<b>Introductory Section (Unaudited):</b>	
Letter of Transmittal .....	i
Organizational Chart.....	v
List of Elected Officials.....	vi
Certificate of Achievement for Excellence in Financial Reporting.....	vii
<b>Financial Section:</b>	
<b>Independent Auditors' Report</b> .....	1
<b>Management's Discussion and Analysis (Required Supplementary Information) (Unaudited)</b> .....	5
<b>Basic Financial Statements:</b>	
Statement of Net Position.....	17
Statement of Revenues, Expenses, and Changes in Net Position.....	19
Statement of Cash Flows.....	20
Statement of Fiduciary Assets and Liabilities.....	22
Notes to the Basic Financial Statements .....	25
<b>Required Supplementary Information (Unaudited):</b>	
Schedule of the District's Proportionate Share of the Net Pension Liability and Related Ratios .....	51
Schedule of the District's Contributions .....	52
Schedule of Changes in Net Other Postemployment Liability and Related Ratios.....	53
Schedule of Contributions - Other Postemployment Benefits.....	54
<b>Supplementary Information:</b>	
Schedule of Operating Expenses.....	57
Statement of Changes in Fiduciary Assets and Liabilities – Agency Fund.....	58
<b>Statistical Section (Unaudited):</b>	
Table of Net Position by Component.....	62
Statements of Revenues, Expenses, and Changes in Net Position.....	64
Customer Type Equivalent Dwelling Unit (EDU) Summary .....	66
Annual Sewer Use Fee and Fiscal Year Revenue.....	67
Capacity Connection Fee and Fiscal Year Revenue .....	68
Principal Users.....	69
Ratios of Outstanding Debt by Type .....	70
Pledged Revenue Coverage .....	71
Principal Employers.....	72
Total Customers and Number of Permits Issued .....	73
Demographic and Economic Statistics .....	74
Operating Indicators .....	76
Capital Assets and Operating Information.....	78
Annual Flow Data (Million Gallons).....	80
Full-Time District Employees by Department.....	81

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November 13, 2018

Board of Directors  
Valley Sanitary District  
Indio, California

Subject: Comprehensive Annual Financial Report  
For the Year Ended June 30, 2018

## **Introduction**

It is our pleasure to submit the Comprehensive Annual Financial Report (CAFR) for the Valley Sanitary District (District) for the fiscal year ended June 30, 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. While both the U.S. and the California economy are currently doing well, with an economic expansion in its seventh year, the regional economy took longer to recover from the Great Recession. Indio has seen significant gains over the last three (3) years 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.

### **Major Initiatives**

During fiscal year 2018, the District completed or initiated a number of significant projects:

- ✓ **Requa Avenue Sewer Interceptor Project** – this District capital improvement project began in June 2016 to increase capacity to accommodate future development along Avenue 46 and Highway 111 and along Requa Avenue generally between Madison Street to the west and Fargo Street to the east. The Requa Interceptor project has constructed 4.2 miles of new gravity flow sewer pipeline and related utility improvements designed to collect and convey sanitary sewer flows within existing public right of way (ROW) through central Indio, California. This Project was completed in September 2017.
- ✓ **Shade structures** – the District built two (2) shade structures, one for the District vehicles and one for the two (2) Vector trucks, to help decrease wear on the vehicles as well as decrease time to cool the vehicles down before travel.
- ✓ **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.

### **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**

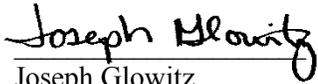
**During the past year, the District received the following awards:**

- ❖ Government Finance Officers Association (GFOA)—Excellence in Financial Reporting
- ❖ CWEA Colorado River Basin Section Maintenance Technician of the year-Andy Calhoun
- ❖ CWEA Colorado River Basin Section Engineering Achievement – Requa Interceptor Project
- ❖ CWEA Colorado River Basin Section Safety Plant of the Year
- ❖ CWEA Engineering Achievement for the Requa Interceptor Project – First Place
- ❖ CWEA Mechanical Technician Person of the Year – Andy Calhoun – Third Place
- ❖ American Public Works Association (APWA) Project of Merit Award – Requa Interceptor Project

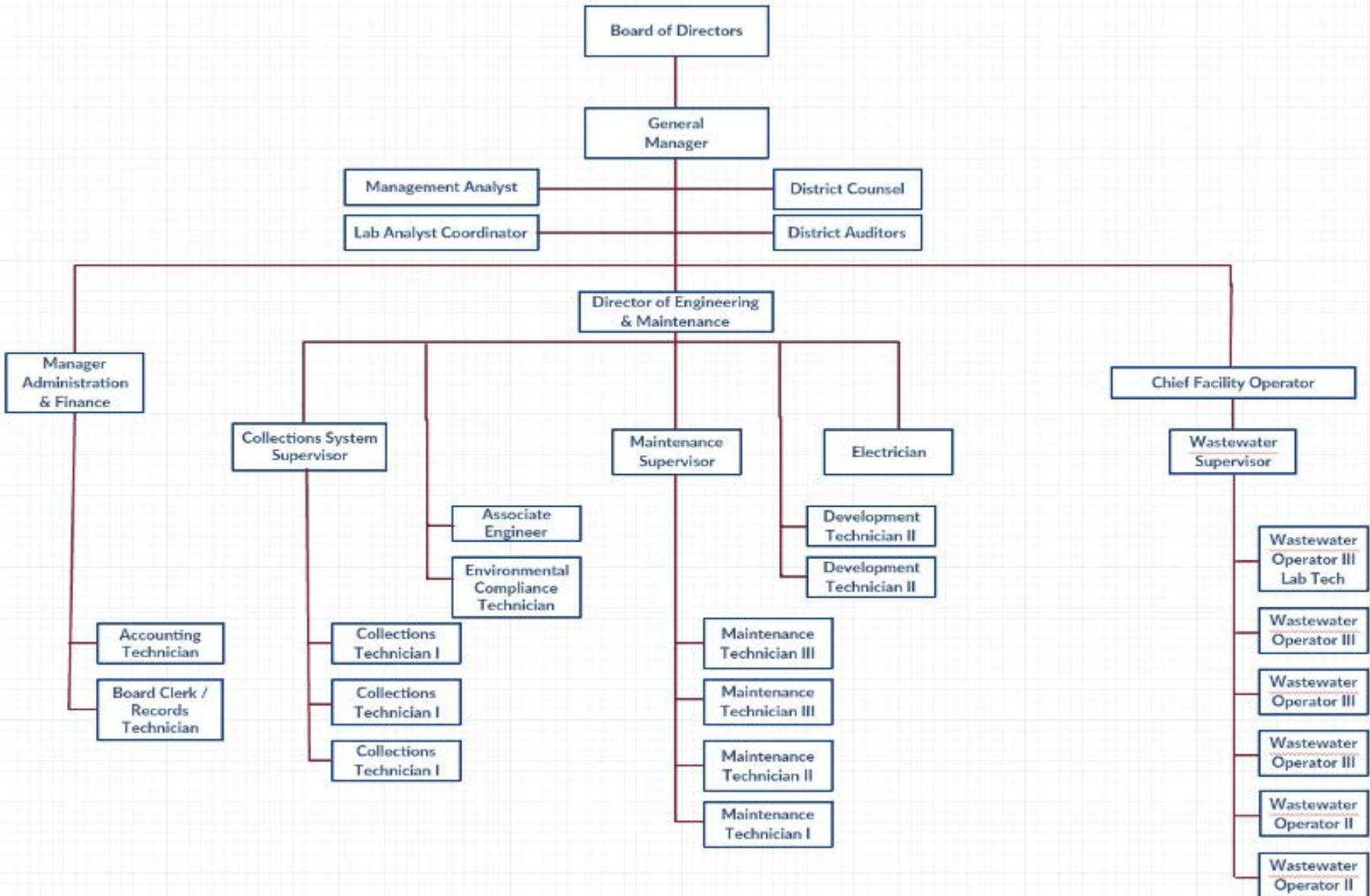
## Acknowledgements

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.

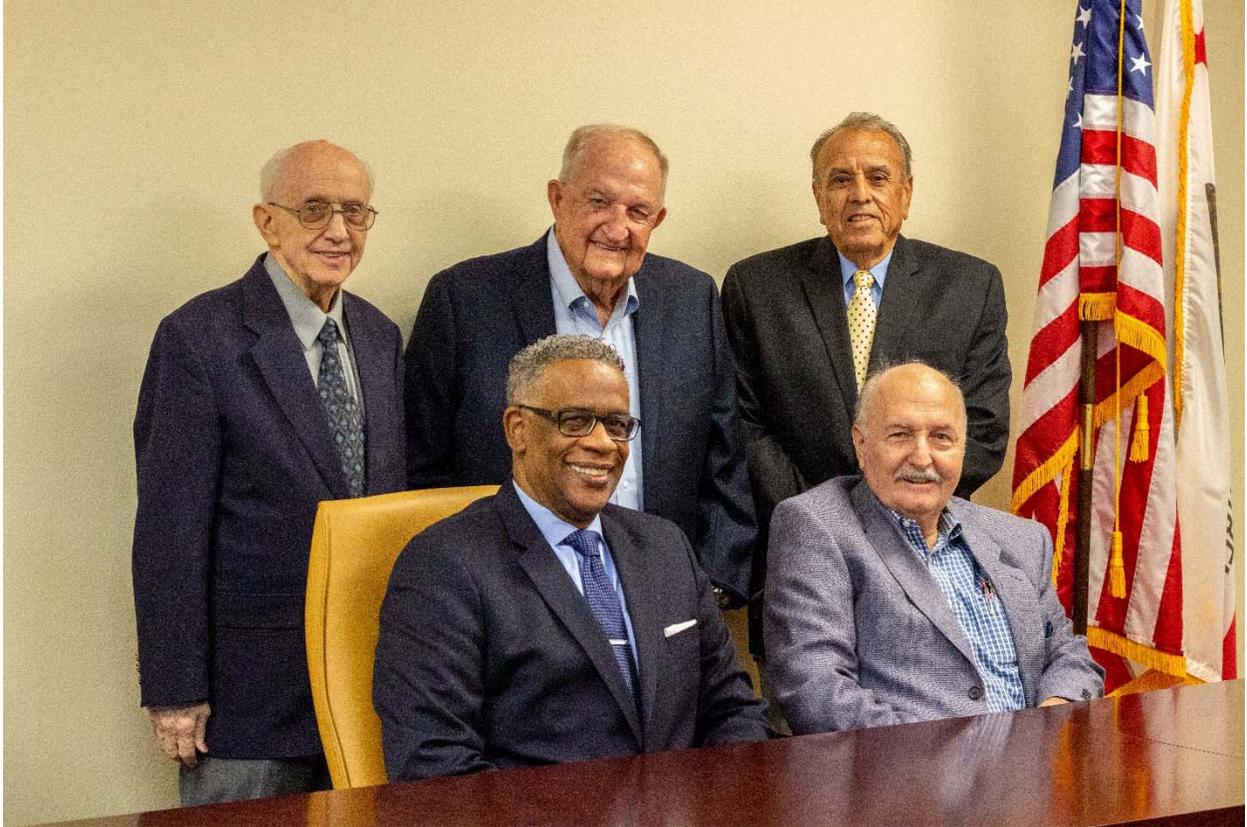
Respectfully submitted,

A handwritten signature in black ink that reads "Joseph Glowitz". The signature is written in a cursive style with a large, looping "G" at the end.

Joseph Glowitz  
General Manager



## **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:**

**Douglas A. York, President**

**Mike Duran, Vice President**

**Merritt W. Wiseman, Secretary/Treasurer**

**Dennis M. Coleman, Director**

**William R. Teague, Director**



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, 2017**

*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 year ended June 30, 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.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year 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 the District's Contributions, the Schedule of Changes in Net Other Postemployment Liability and Related Ratios, and the Schedules of Contributions – Other Postemployment Benefits on pages 5 through 12 and 49 through 56 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 audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Introductory Section, the Schedule of Operating Expenses, the Statement of Changes in Fiduciary Assets and Liabilities – Agency Funds and the Statistical Section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Operating Expenses and the Statement of Changes in Fiduciary Assets and Liabilities – Agency Fund, are the responsibility of management and were derived from and relates 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 audit 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 Schedule of Operating Expenses and the Statement 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 audit 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 November 5, 2018 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.

A handwritten signature in black ink that reads "The Perini Group, LLP". The signature is written in a cursive, flowing style.

Santa Ana, California  
November 5, 2018

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

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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 year ended June 30, 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 of the District exceeded its liabilities by \$95.5 million as of June 30, 2018. Of this amount, \$41.8 million as of June 30, 2018 may be used to meet the District's ongoing obligations to citizens and creditors.
- The District's total net position increased \$4.1 million, from \$91.4 million to \$95.5 million or 4.5%. This is primarily due to a decrease in operating expenses, and an increase in operating revenues.
- Current assets increased by 12.7% as of June 30, 2018. The difference is due in part to an increase in cash and investments, interest receivable, and inventories of materials.
- Noncurrent assets increased by 3.8% as of June 30, 2018. The increase is due to an increase in capital assets, and investment in EVRA.
- The District's total liabilities increased 18.8% as of June 30, 2018. The key factor in the increase 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 serves 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.

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

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**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.

**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 starting on page 23 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 49 of this report.

**Supplementary Information.** The Schedule of Operating Expenses presents the functional expenses by activity and is presented as supplementary information which can be found starting on page 55 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 exceeded liabilities by \$95.5 million as of June 30, 2018.

The largest portion of the District's net position during June 30, 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.

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

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**DISTRICT'S NET POSITION**

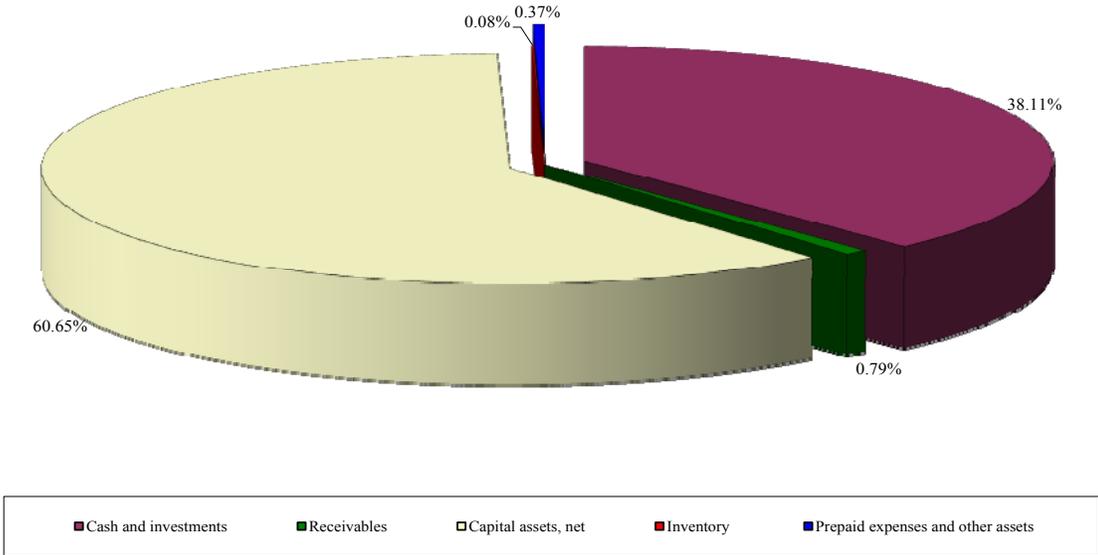
At the end of the current fiscal year, the District is able to report positive balances in all three categories of net position. The same situation held true for the prior fiscal years.

	2018	2017 (As Restated)
Current assets	\$ 45,967,003	\$ 40,799,967
Capital assets	71,121,573	68,563,395
Noncurrent assets	105,000	80,000
Total assets	\$ 117,088,576	\$ 109,443,362
Deferred outflows of resources	\$ 1,412,197	\$ 1,391,743
Current liabilities	\$ 1,501,395	\$ 2,686,023
Noncurrent liabilities	21,433,407	16,623,511
Total liabilities	\$ 22,934,802	\$ 19,309,534
Deferred inflows of resources	\$ 55,671	\$ 92,817
Net position:		
Net investment in capital assets	\$ 51,797,220	\$ 61,242,162
Restricted	1,958,648	1,413,000
Unrestricted	41,754,432	28,777,592
Total net position	\$ 95,510,300	\$ 91,432,754

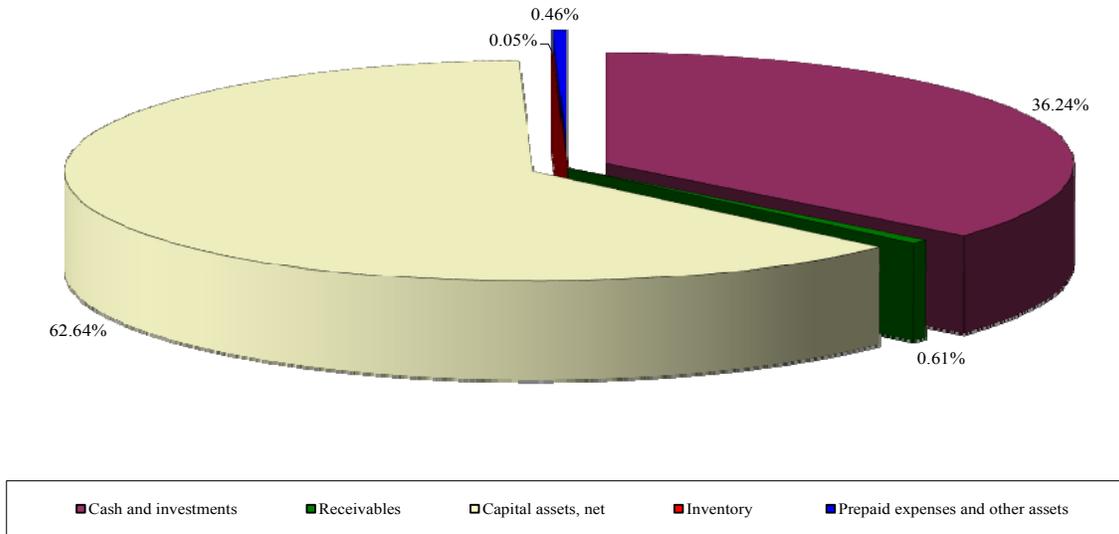
**Valley Sanitary District  
Management's Discussion and Analysis  
(Required Supplementary Information) (Unaudited) (Continued)**

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**Assets 2018**



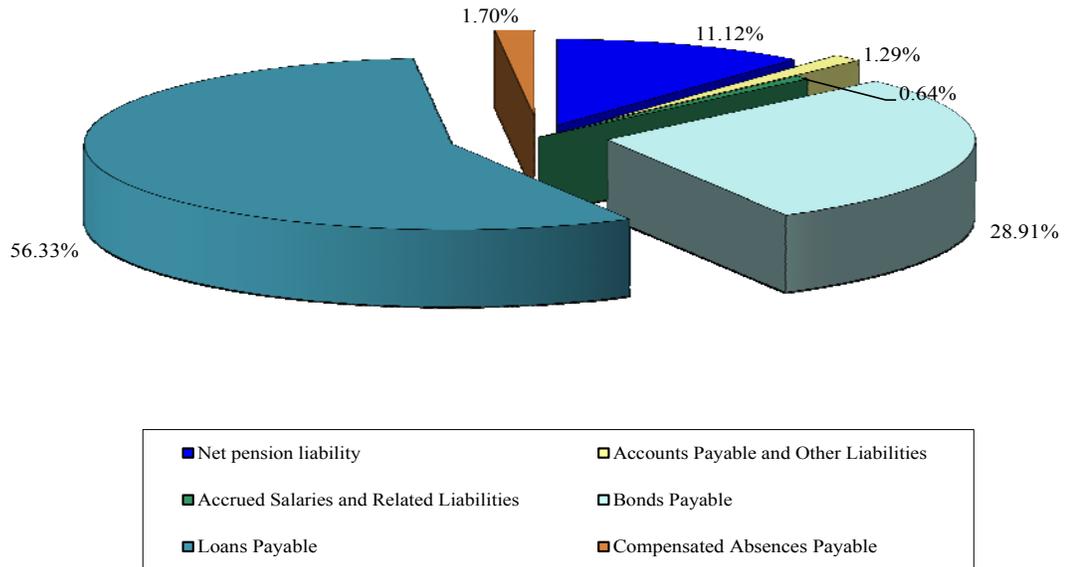
**Assets 2017**



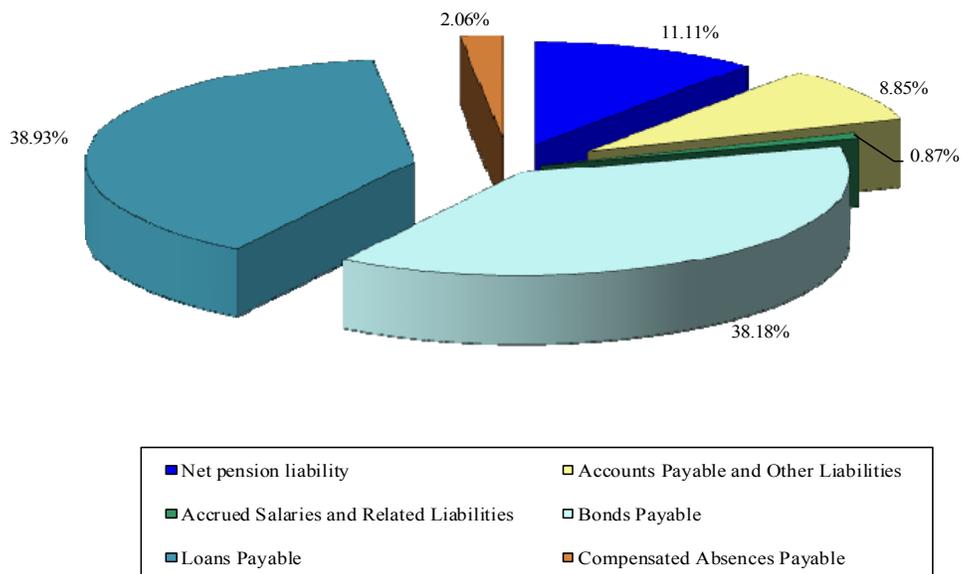
**Valley Sanitary District  
Management's Discussion and Analysis  
(Required Supplementary Information) (Unaudited) (Continued)**

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**Liabilities 2018**



**Liabilities 2017**



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

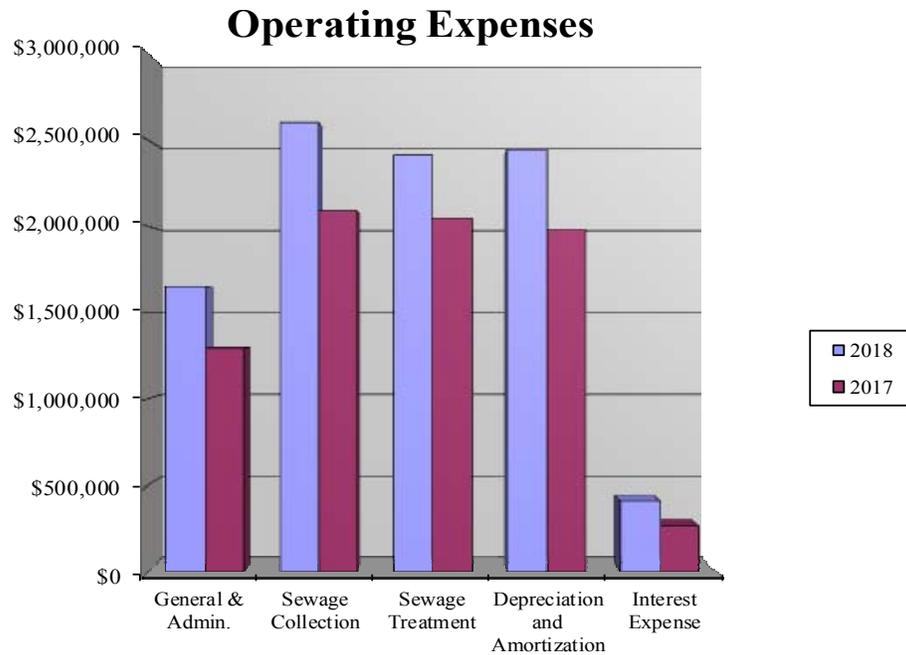
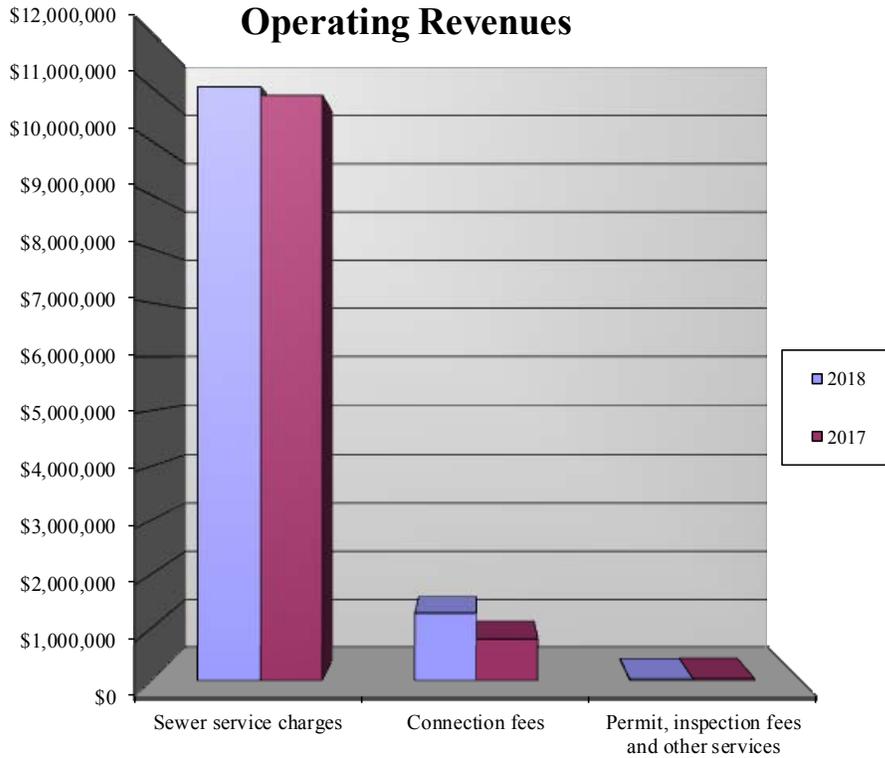
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Changes in the District's net position reflect an increase of \$4,077,546 for the year ended June 30, 2018. The District's operating revenue increased in the current year by \$633,328 due to an increase in sewer connection fees, while the District's operating expenses increased by \$1,233,955 due to an increase in salaries, employee benefits, repairs & maintenance and new equipment.

**DISTRICT'S CHANGES IN NET POSITION**

	2018	2017
Revenues:		
Sewer service charges	\$ 11,004,428	\$ 10,846,682
Connection fees	1,272,580	791,280
Permits & inspections	17,885	22,442
Other operating	10,139	11,300
Nonoperating	1,300,428	945,393
Total Revenues	\$ 13,605,460	\$ 12,617,097
Expenses:		
Depreciation & nonoperating	\$ 2,857,366	\$ 2,407,296
Administrative	1,652,714	1,297,345
Sewage collection	2,604,267	2,091,041
Sewage treatment	2,413,567	2,048,207
Total Expenses	\$ 9,527,914	\$ 7,843,889
Increase in net position	\$ 4,077,546	\$ 4,773,208
Beginning net position, restated (Note 14)	91,432,754	86,659,546
Ending net position	\$ 95,510,300	\$ 91,432,754

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



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

**Capital Asset Administration**

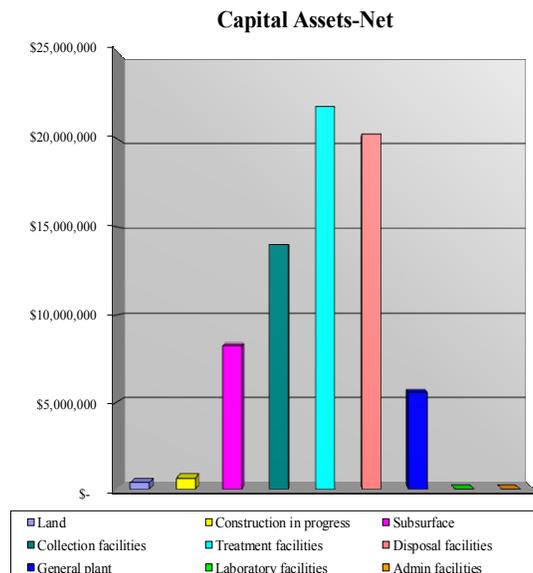
The District's capital assets (net of accumulated depreciation) as of June 30, 2018 were \$71,016,573. This includes land, buildings, system improvements, machinery, and equipment. The increase in the District's capital assets is due in part to the Requa Avenue Sewer Interceptor Project, purchase of a new Caterpillar Wheel Loader, shade structures to protect District vehicles, manhole rehabilitation, security lights and cameras, and the perimeter fence extension.

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

- **Requa Interceptor Construction Project completed December 2017**
- **Decommissioning of the Biological Treatment System completed July 2017**
- **Shade Structures for District vehicles completed December 2017**
- **Purchase of Caterpillar Wheel Loader November 2017**

**DISTRICT'S CAPITAL ASSETS**  
 Net of Accumulated Depreciation

	June 30, 2018	June 30, 2017
Land	\$ 448,364	\$ 448,364
Construction in progress	722,597	10,638,233
Subsurface	8,271,735	8,475,134
Collection facilities	13,950,048	794,946
Treatment facilities	21,784,467	22,643,828
Disposal facilities	20,234,467	20,858,204
General plant	5,590,486	4,693,588
Laboratory facilities	3,847	4,354
Admin facilities	10,166	6,744
Total	\$ 71,016,573	\$ 68,563,395



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  
(Required Supplementary Information) (Unaudited) (Continued)**

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**Long-term Debt Administration**

At the end of June 30, 2018, the District had total long-term debt of \$19,550,876. 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 executed an 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 \$12,746,147. 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, 2018, the outstanding balance of the SWRCB revolving fund loan was in the amount of \$12,920,155.

**DISTRICT’S OUTSTANDING DEBT**

	2018	2017
Revenue refunding bond	\$ 5,835,000	\$ 6,425,000
Bond premium	795,721	896,233
CWSRF loan	12,920,155	7,463,459
Total	\$ 19,550,876	\$ 14,784,692

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 298 new connections in fiscal year 2017/2018 and over 185 in fiscal year 2016/2017.

The annual sewer use fee of \$313 per equivalent dwelling unit (EDU) remained the same for fiscal year 2017/2018 as fiscal year 2016/2017. The connection capacity charge of \$4,265 per EDU for the fiscal year 2017/2018 remained the same as fiscal year 2016/2017.

The fiscal year operating budget for 2018/2019 is \$9.5 million and is supplemented with \$5.1 million in capital improvement projects, to produce a total financial program of \$14.6 million. This represents an increase of about \$917,000 over the 2017/2018 operating budget and a decrease of about \$248,000 from the 2017/2018 capital improvement plan.

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

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**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**  
**Statement of Net Position**  
**June 30, 2018**

	<b>Business-type Activities</b>
<b>ASSETS</b>	
<b>Current assets:</b>	
Cash and investments	\$ 44,623,883
Accounts receivable, net	743,465
Interest receivable	179,074
Inventories of materials	89,972
Prepaid items	330,609
<b>Total current assets</b>	<b>45,967,003</b>
<b>Noncurrent assets:</b>	
Capital assets, net	71,016,573
Investment in joint venture	105,000
<b>Total noncurrent assets</b>	<b>71,121,573</b>
<b>Total assets</b>	<b>117,088,576</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred loss on refunding, net	331,523
Deferred outflows of resources related to pension	1,053,075
Deferred outflows of resources related to other postemployment benefit	27,599
<b>Total deferred outflows of resources</b>	<b>1,412,197</b>
<b>LIABILITIES</b>	
<b>Current liabilities:</b>	
Accounts payable	143,179
Accrued payroll and related liabilities	147,907
Interest payable	22,516
Compensated absences, due within one year	230,824
Bonds payable, due within one year	620,000
Loans payable, due within one year	333,718
<b>Total current liabilities</b>	<b>1,498,144</b>
<b>Noncurrent liabilities:</b>	
Compensated absences, due in more than one year	158,168
Bonds payable, due in more than one year	6,010,721
Loans payable, due in more than one year	12,586,437
Aggregate net pension liability	2,551,281
Net other postemployment benefit liabilities	130,051
<b>Total noncurrent liabilities</b>	<b>21,436,658</b>
<b>Total liabilities</b>	<b>22,934,802</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows of resources related to pension	55,671
<b>Total deferred inflows of resources</b>	<b>55,671</b>
<b>NET POSITION</b>	
Net investment in capital assets	51,797,220
Restricted for debt service	1,958,648
Unrestricted	41,754,432
<b>Total net position</b>	<b>\$ 95,510,300</b>

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

	<b>Business-type Activities</b>
<b>OPERATING REVENUES:</b>	
Sewer service charges	\$ 11,004,428
Connection fees	1,272,580
Permit and inspection fees	17,885
Other services	10,139
<b>Total operating revenues</b>	<b>12,305,032</b>
<b>OPERATING EXPENSES:</b>	
General and administrative	1,652,714
Sewage collection	2,604,267
Sewage treatment	2,413,567
Depreciation	2,444,764
<b>Total operating expenses</b>	<b>9,115,312</b>
<b>NET OPERATING INCOME</b>	<b>3,189,720</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>	
Property taxes	794,367
Homeowners' tax relief	5,978
Investment income	479,862
Interest expenses	(412,602)
Other revenues	245
Gain on disposal of assets	19,976
<b>Total nonoperating revenues (expenses)</b>	<b>887,826</b>
<b>CHANGE IN NET POSITION</b>	<b>4,077,546</b>
<b>NET POSITION:</b>	
Beginning of year, as restated (Note 14)	91,432,754
End of year	<b>\$ 95,510,300</b>

**Valley Sanitary District**  
**Statements of Cash Flows**  
**For the Year Ended June 30, 2018**

	<b>Business-type Activities</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Cash receipts from customers	\$ 12,228,601
Cash payments to suppliers and vendors for goods and services	(4,409,614)
Cash payments to employees for services	(3,532,618)
Cash payment to joint venture	(25,000)
<b>Net cash provided by operating activities</b>	<b>4,261,369</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>	
Property taxes	794,367
Homeowners' tax relief	5,978
<b>Net cash provided by noncapital financing activities</b>	<b>800,345</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Acquisition of capital assets	(4,904,622)
Proceeds from sale of assets	26,656
Principal paid on bonds payable	(590,000)
Interest paid on bonds payable	(299,687)
Issuance of loans payable	5,282,688
<b>Net cash (used in) capital and related financing activities</b>	<b>(484,965)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Interest on investments	373,733
<b>Net cash provided by investing activities</b>	<b>373,733</b>
<b>Net increase in cash and cash equivalents</b>	<b>4,950,482</b>
<b>CASH AND CASH EQUIVALENTS:</b>	
Beginning of year	39,673,401
End of year	<b>\$ 44,623,883</b>

See accompanying Notes to the Basic Financial Statements.

**Valley Sanitary District**  
**Statements of Cash Flows (Continued)**  
**For the Year Ended June 30, 2018**

	<b>Business-type Activities</b>
<b>RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Net operating income	\$ 3,189,720
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation	2,444,764
Other nonoperating revenues	245
Changes in operating assets and liabilities	
Accounts receivable	(76,676)
Inventories of materials	(36,897)
Prepaid items	3,148
Investment in joint venture	(25,000)
Pension related deferred outflows of resources	(56,297)
OPEB related deferred outflows of resources	(6,034)
Accounts payable	(1,528,289)
Accrued payroll and related liabilities	(19,645)
Compensated absences	(5,753)
Net pension liability	421,557
Other postemployment benefits liability	(6,328)
Pension related deferred inflows of resources	(37,146)
<b>Net cash provided by operating activities</b>	<b>\$ 4,261,369</b>
<b>NONCASH ITEMS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Amortization of deferred loss on refunding	\$ 41,877
Amortization of premium	\$ (100,512)
Increase in loans payable attributed to accrued interest	\$ 174,008

See accompanying Notes to the Basic Financial Statements.

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

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	<u><b>Fiduciary Fund</b></u>
<b>ASSETS</b>	
Cash and investments	\$ 631,153
Cash with fiscal agent	624,042
Assessment receivable	18,596
Interest receivable	2,699
<b>Total assets</b>	<u><u>\$ 1,276,490</u></u>
<b>LIABILITIES</b>	
Due to bondholders	\$ 1,276,490
<b>Total liabilities</b>	<u><u>\$ 1,276,490</u></u>

See accompanying Notes to the Basic Financial Statements.

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

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**Valley Sanitary District**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2018**

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**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 Year Ended June 30, 2018**

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**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 assets from operations as "operating income" in the statement of revenues, expenses, and changes in net assets. 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 for which the District acts as an agent for its debt service activities.

**Accounting Changes**

GASB has issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee services. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

GASB has issued Statement No. 85, *Omnibus 2017* (GASB 85). This Statement establishes accounting and financing reporting requirements for blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits).

**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 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 Year Ended June 30, 2018**

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**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.

**Restricted Cash and Investments**

Cash and investments with fiscal agents are restricted due to limitations on their use by bond covenants or donor limitations. Fiscal agents acting on behalf of the District hold investment funds arising from the proceeds of long-term debt issuances. The funds may be used for specific capital outlays or for the payment of certain bonds, and have been invested only as permitted by specific State statutes or applicable District ordinance, resolution or bond indenture.

**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 Year Ended June 30, 2018**

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**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:

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 Year Ended June 30, 2018**

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**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:

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 straight-line 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, 2018.

**Valley Sanitary District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2018**

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**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 Year Ended June 30, 2018**

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**Note 3 – Cash and Investments**

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

	Business-Type Activities	Fiduciary Fund	Total
Cash and investments	\$ 44,623,883	\$ 631,153	\$ 45,255,036
Cash and investments with fiscal agent	-	624,042	624,042
<b>Total cash and investments</b>	<b>\$ 44,623,883</b>	<b>\$ 1,255,195</b>	<b>\$ 45,879,078</b>

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

Cash on hand	\$ 500
Demand deposits	1,733,244
Investments	44,145,334
<b>Total cash and investments</b>	<b>\$ 45,879,078</b>

**Demand Deposits**

At June 30, 2018, the carrying amount of cash deposit was \$1,733,244, 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 Year Ended June 30, 2018**

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**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, 2018, the District had \$42,514,996 invested in LAIF, which had invested 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, 2018, the District had \$1,006,296 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, 2018, 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 Year Ended June 30, 2018**

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**Note 3 – Cash and Investments (Continued)**

**Disclosures Relating to Custodial Credit Risk (Continued)**

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

	Legal Rating	AAA	Not Rated	Total
Local Agency Investment Fund	N/A	\$ -	\$ 42,514,996	\$ 42,514,996
CalTrust Medium Trust Fund	N/A	-	1,006,296	1,006,296
Held by bond trustee:				
Money market mutual fund	N/A	624,042	-	624,042
<b>Total investments</b>		<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, 2018, the accounts receivable was as follows:

Direct billing, connection fee and reimbursement receivables	\$ 403,114
Property taxes and sewer use receivable from County of Riverside	<u>340,351</u>
Total accounts receivables	<u><u>743,465</u></u>

**Valley Sanitary District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2018**

**Note 5 – Capital Assets**

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

	July 1, 2017	Additions	Deletions	Reclassification	June 30, 2018
<b>Capital assets, not depreciated</b>					
Land	\$ 448,364	\$ -	\$ -	\$ -	\$ 448,364
Construction in progress	10,638,233	528,696		(10,444,332)	722,597
<b>Total capital assets, not depreciated</b>	<b>11,086,597</b>	<b>528,696</b>	<b>-</b>	<b>(10,444,332)</b>	<b>1,170,961</b>
<b>Capital assets, being depreciated</b>					
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
<b>Total capital assets, being depreciated</b>	<b>94,491,125</b>	<b>4,375,926</b>	<b>(523,756)</b>	<b>10,444,332</b>	<b>108,787,627</b>
<b>Less accumulated depreciation</b>					
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)
<b>Total accumulated depreciation</b>	<b>(37,014,327)</b>	<b>(2,444,764)</b>	<b>517,076</b>	<b>-</b>	<b>(38,942,015)</b>
<b>Total capital assets, being depreciated, net</b>	<b>57,476,798</b>	<b>1,931,162</b>	<b>(6,680)</b>	<b>10,444,332</b>	<b>69,845,612</b>
<b>Total capital assets, net</b>	<b>\$ 68,563,395</b>	<b>\$ 2,459,858</b>	<b>\$ (6,680)</b>	<b>\$ -</b>	<b>\$ 71,016,573</b>

**Valley Sanitary District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 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 the year ended June 30, 2018, the District made contribution to the JPA in the amount of \$25,000. As of June 30, 2018, the District reported investments in joint venture in the amount of \$105,000. Copies of the annual financial report for the JPA may be obtained from the finance department of the City of Indio.

	June 30, 2017*
Total Asset	\$ 127,553
Total Liabilities	13,685
Total Net Position	<u>\$ 113,868</u>
Operating Expenses	<u>\$ (36,315)</u>
Nonoperating Revenues	<u>\$ 50,000</u>

\*This statement was the latest statement available.

**Note 7 – Compensated Absences**

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

Year Ended	Beginning Balance	Additions	Deletions	Ending Balance	Due within One Year	Due in More Than One Year
June 30, 2018	<u>\$ 394,745</u>	<u>\$ 338,605</u>	<u>\$ (344,358)</u>	<u>\$ 388,992</u>	<u>\$ 230,824</u>	<u>\$ 158,168</u>

**Note 8 – Long-term Debt**

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
<b>Total long-term debt</b>	<u>\$ 14,784,692</u>	<u>\$ 5,456,696</u>	<u>\$ (690,512)</u>	<u>\$ 19,550,876</u>	<u>\$ 953,718</u>	<u>\$ 18,597,158</u>

**Valley Sanitary District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2018**

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**Note 8 – Long-term Debt (Continued)**

**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 balance as of June 30, 2018 was \$5,835,000.

Future debt service requirements are as follows:

Year Ending June 30,	Principal	Interest	Total
2019	\$ 620,000	\$ 270,188	\$ 890,188
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
2024-2026	2,415,000	245,500	2,660,500
Total	<u>\$ 5,835,000</u>	<u>\$ 1,270,687</u>	<u>\$ 7,105,687</u>

**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 \$12,746,147. 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, 2018, the outstanding balance of the SWRCB revolving fund loan was in the amount of \$12,920,155, which included accrued interest in the amount of \$174,008.

**Valley Sanitary District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 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
2019	\$ 333,718	\$ 219,642	\$ 553,360
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
2024-2028	1,878,104	888,696	2,766,800
2029-2033	2,043,265	723,535	2,766,800
2034-2038	2,222,948	543,852	2,766,800
2039-2043	2,418,433	348,367	2,766,800
2044-2048	2,631,110	135,690	2,766,800
	<u>\$ 12,920,155</u>	<u>\$ 3,680,645</u>	<u>\$ 16,600,800</u>

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. As of June 30, 2018, the reserve requirement was \$553,360. The balance held in the reserve at June 30, 2018 was \$1,059,648. 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, 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 2<sup>nd</sup> and September 2<sup>nd</sup> of each year commencing from March 2, 2006. The bonds mature September 2<sup>nd</sup> 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, 2018, the outstanding balance of the bonds was \$5,690,000.

**Valley Sanitary District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2018**

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**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, 2016 and 2015 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, 2016 valuation date, the following employees were covered by the benefit terms:

	<b>Classic</b>	<b>PEPRA</b>
Active employees	18	7
Transferred and terminated employees	19	2
Retired Employees and Beneficiaries	8	-
Total	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 average of the member's three (3) year compensation. Retirement benefits for classic miscellaneous employees are calculated as 2.5% of the average final three (3) year compensation. 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 Year Ended June 30, 2018**

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**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, 2017 (the measurement date), the active employee contribution rate for miscellaneous plan and PEPRA miscellaneous plan is 8.000% and 6.500% 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***

For the measurement period ended June 30, 2017 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2016 total pension liability determined in the June 30, 2016 actuarial accounting valuation. The June 30, 2017 total pension liability was 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	2.75%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table <sup>1</sup>	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power Applies 2.75%

<sup>1</sup>The mortality table used 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.

All other actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be accessed on the CalPERS’ website at [www.calpers.ca.gov](http://www.calpers.ca.gov) under Forms and Publications.

**Valley Sanitary District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2018**

**Note 10 – Pension Plans (Continued)**

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

Change of Assumption

In 2017, the accounting discount rate reduced from 7.65 percent to 7.15 percent.

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. To determine whether the municipal bond rate should be used in the calculation of the discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. The tests revealed the assets would not run out. Therefore, the current 7.15 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.15 percent is applied to all plans in the Public Employees Retirement Fund (“PERF”). The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in detailed report called “GASB Crossover Testing Report” that can be obtained at CalPERS website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which 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, staff took into account both short-term and long-term market return expectations as well as the expected pension fund (PERF) cash flows. Taking into account historical returns of all the Public Employees Retirement F asset classes (which includes the agent plan and two cost-sharing plans or PERF A, B, and C funds), expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each PERF fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the Board effective on July 1, 2014.

Asset Class	New Strategic Allocation	Real Return Years 1-10 <sup>1</sup>	Real Return Years 11+ <sup>2</sup>
Global Equity	47.00%	4.90%	5.38%
Global Fixed Income	19.00%	0.80%	2.27%
Inflation Sensitive	6.00%	0.60%	1.39%
Private Equity	12.00%	6.60%	6.63%
Real Estate	11.00%	2.80%	5.21%
Infrastructure and Fore:	3.00%	3.90%	5.36%
Liquidity	2.00%	-0.40%	-0.90%

<sup>1</sup>An expected inflation of 2.5% used for this period

<sup>2</sup>An expected inflation of 3.0% used for this period.

**Valley Sanitary District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2018**

**Note 10 – Pension Plans (Continued)**

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

*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 liability of the Plan as of the measurement date at June 30, 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 - 1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate + 1% (8.15%)
	June 30, 2017	\$ 3,977,073	\$ 2,551,281

*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: 6/30/16 (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

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 period ended June 30, 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, 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, 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, 2017 less the sum of all additional side fund (or unfunded liability) contributions made by all employers during the measurement period (2016-2017).

**Valley Sanitary District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2018**

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**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)***

- (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 contributions during measurement period.

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

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

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

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, 2017 is 3.8 years, which was obtained by dividing the total service years of 490,088 (the sum of remaining service lifetimes of the active employees) by 130,595 (the total number of participants: active, inactive, and retired).

**Valley Sanitary District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 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)***

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

	<b>Deferred outflows of Resources</b>	<b>Deferred inflows of Resources</b>
Pension contribution after measurement date	\$ 323,626	\$ -
Changes of assumptions	429,970	-
Difference between expected and actual experience	-	(49,994)
Projected earnings on pension plan investments under/ (in excess of) actual earnings	105,270	-
Adjustment due to differences in proportions	194,209	-
Employer's actual contributions in excess of/(under) employer's proportionate share of contribution	-	(5,677)
Total	\$ 1,053,075	\$ (55,671)

Deferred outflows of resources related to pensions resulting from District's contributions subsequent to the measurement date in the amount of \$323,626 will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

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

Year Ended June 30,	<b>Deferred Outflows/ (Inflows) of Resources</b>
2019	\$ 234,820
2020	307,307
2021	194,150
2022	(62,499)
2023	-
Thereafter	-
	\$ 673,778

***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.

**Valley Sanitary District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2018**

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**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*

\* 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	32

*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 year ended June 30, 2018, the average contribution rate was not applicable. Employees are not required to contribute to the plan.

***Net OPEB Liability***

The District’s net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017.

**Valley Sanitary District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2018**

**Note 11 – Other Postemployment Benefits (Continued)**

*Net OPEB Liability (Continued)*

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%
	100.00%	

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 Year Ended June 30, 2018**

**Note 11 - Other Postemployment Benefits (Continued)**

***Change in the Net OPEB Liability***

	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, 2017	\$ 167,388	\$ 130,051	\$ 99,696

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

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 are 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	Cost Trend Rate	Trend Rate
	- 1% (3.00%)	Rate (4.00%)	+ 1% (5.00%)
June 30, 2017	\$ 78,190	\$ 130,051	\$ 196,519

**Valley Sanitary District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2018**

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**Note 11 - Other Postemployment Benefits (Continued)**

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

For the year ended June 30, 2018, the District recognized OPEB expense of \$15,237. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

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

Deferred outflows of resources related to OPEB resulting from District's contributions subsequent to the measurement date in the amount of \$323,626 will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019.

**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 year ended June 30, 2018, the District had insurance expenses in the amount of \$289,186 in premium payments.

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, 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 – Commitment 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, 2018, the total amount of unused credits was \$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 the year ended June 30, 2018.

**Valley Sanitary District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2018**

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**Note 13 – Commitment and Contingencies (Continued)**

*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, 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, 2018:

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

**Note 14 – Prior Period Adjustment**

Beginning net position at July 1, 2017 for Business-type Activities was restated from \$91,564,221 to \$91,432,754 as result of GASB Statement No. 75 implementation.

**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 Year Ended June 30, 2018**

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**Last Ten Fiscal Years**

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

Measurement date	June 30, 2014 <sup>1</sup>	June 30, 2015	June 30, 2016	June 30, 2017
District's proportion of the net pension liability	0.02185%	0.02397%	0.02461%	0.02573%
District's proportionate share of the net pension liability	\$ 1,359,412	\$ 1,645,582	\$ 2,129,724	\$ 2,551,281
District's covered payroll	\$ 1,805,145	\$ 1,980,191	\$ 2,004,667	\$ 2,279,280
District's proportionate share of the net pension liability as a percentage of covered payroll	75.31%	83.10%	106.24%	111.93%
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%

<sup>1</sup> Historical information is presented only for measurement periods for which GASB 68 is applicable.

**Valley Sanitary District**  
**Required Supplementary Information (Unaudited)**  
**Schedule of the District's Contributions**  
**For the Year Ended June 30, 2018**

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**Last Ten Fiscal Years**

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

Fiscal year end	2013-14 <sup>1</sup>	2014-15	2015-16	2016-17	2017-18
Actuarially determined contribution <sup>2</sup>	\$ 340,629	\$ 279,922	\$ 203,392	\$ 172,649	\$ 227,343
Contribution in relation to the actuarially determined contribution <sup>2</sup>	<u>(1,126,986)</u>	<u>(279,922)</u>	<u>(203,392)</u>	<u>(303,301)</u>	<u>(323,626)</u>
Contribution deficiency/(excess)	<u>\$ (786,357)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (130,652)</u>	<u>\$ (96,283)</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>\$ 2,347,658</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>13.79%</u>

<sup>1</sup> Historical information is presented only for measurement periods for which GASB 68 is applicable.

<sup>2</sup> 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:** The figures above do not include any liability impact that may have resulted from plan changes which occurred after the June 30, 2016 valuation date. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

**Changes of Assumptions:** 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 Year Ended June 30, 2018**

Last Ten Fiscal Years

**Other Postemployment Benefits ("OPEB")**

	<u>June 30, 2017<sup>1</sup></u>
Measurement period	
<b>Total OPEB liability</b>	
Service cost	\$ 8,775
Interest	15,962
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes of assumption	-
Benefit payments	<u>(5,921)</u>
<b>Net change in total OPEB liability</b>	18,816
<b>Total OPEB liability, beginning</b>	<u>226,723</u>
<b>Total OPEB liability, ending (a)</b>	<u><u>245,539</u></u>
<b>OPEB fiduciary net position</b>	
Contributions - employer	21,565
Net investment income	9,580
Benefit payments	(5,921)
Administrative expense	<u>(80)</u>
<b>Net change in plan fiduciary net position</b>	25,144
<b>Plan fiduciary net position, beginning</b>	<u>90,344</u>
<b>Plan fiduciary net position, ending (b)</b>	<u><u>115,488</u></u>
<b>Plan net OPEB liability - ending (a) - (b)</b>	<u><u>\$ 130,051</u></u>
<b>Plan's fiduciary net position as a percentage of the total OPEB liability</b>	<u><u>47.03%</u></u>
<b>Covered payroll</b>	<u><u>\$ 2,279,280</u></u>
<b>Plan net OPEB liability as a percentage of covered payroll</b>	<u><u>5.71%</u></u>

<sup>1</sup> 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, 2018**

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**Last Ten Fiscal Years**

**Other Postemployment Benefits ("OPEB")**

	2016-17 <sup>1</sup>	2017-18
Fiscal year end		
Actuarially determined contribution <sup>2</sup>	\$ 15,225	\$ -
Contribution in relation to the actuarially determined contribution <sup>2</sup>	(21,565)	(27,599)
Contribution deficiency/(excess)	\$ (6,340)	\$ (27,599)
Covered payroll	\$ 2,279,280	\$ 2,347,658
Contributions as a percentage of covered payroll	0.95%	1.18%

<sup>1</sup> Historical information is presented only for measurement periods for which GASB 75 is applicable.

<sup>2</sup> 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 year ended June 30, 2018.

**Notes to Schedule:**

Valuation date:	June 30, 2015
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% @60 rate for miscellaneous employees adjusted to reflect minimum retirement age of 52

**SUPPLEMENTARY INFORMATION**

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**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	\$ 791,777	\$ 2,484,586
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	-	-	292,044	292,044
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	417,439	154,881	120,537	692,857
Publication/legal notices	2,550	-	-	2,550
Small tools	42,994	8,287	3,033	54,314
Other expenses	22,984	6,542	5,466	34,992
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**  
**Statement of Changes in Fiduciary Assets and Liabilities - Agency Fund**  
**For the Year Ended June 30, 2018**

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
<b>ASSETS</b>				
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
<b>Total assets</b>	<b>\$ 1,318,978</b>	<b>\$ 1,305,392</b>	<b>\$ (1,347,880)</b>	<b>\$ 1,276,490</b>
<b>LIABILITIES</b>				
Due to bondholders	\$ 1,318,978	\$ 1,305,392	\$ (1,347,880)	\$ 1,276,490
<b>Total liabilities</b>	<b>\$ 1,318,978</b>	<b>\$ 1,305,392</b>	<b>\$ (1,347,880)</b>	<b>\$ 1,276,490</b>

**STATISTICAL SECTION  
(UNAUDITED)**

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# Valley Sanitary District

## Statistical Section

### (Unaudited)

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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.

#### Table of Contents

#### Page

**Financial Trends Information** - These schedules contain trend information to help the reader understand how the District's financial performance and well-being have changed over time.

1	Net Position by Component	62
2	Changes in Net Position	64

**Revenue Capacity Information** - These schedules contain trend information to help the reader understand the District's rates and revenues.

3	Customer Type Equivalent Dwelling Unit (EDU) Summary	66
4	Annual Sewer Use Fee and Fiscal Year Revenue	67
5	Capacity Connection Fee and Fiscal Year Revenue	68
6	Principal Users	69

**Debt Capacity Information** - These schedules present information to help the reader assess the affordability of the District's current levels of outstanding debt and the District's ability to issue additional debt in the future.

7	Ratios of Outstanding Debt by Type	70
8	Pledged Revenue Coverage	71

**Demographic and Economic Information** - These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place.

9	Principal Employers	72
10	Total Customers and Number of Permits Issued	73
11	Demographic and Economic Statistics	74

**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.

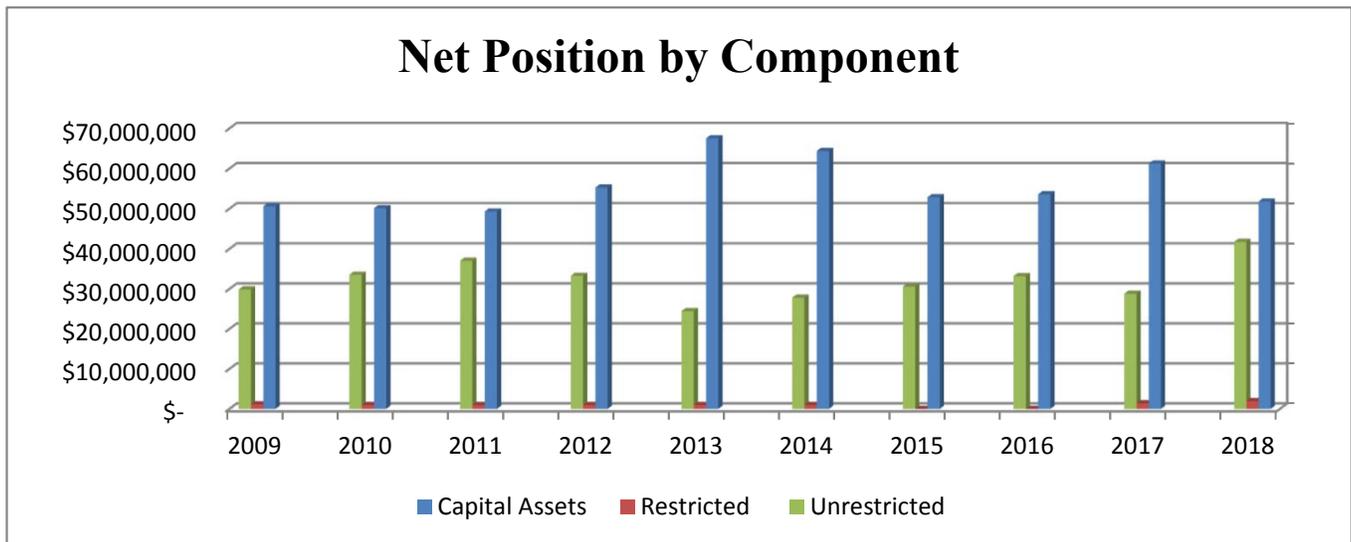
12	Operating indicators	76
13	Capital Assets and Operating Information	78
14	Annual Flow Data	80
15	Full-time District Employees by Department	81

**Valley Sanitary District**  
**Table of Net Position By Component**  
**Last Ten Fiscal Years**

	Fiscal Year Ended June 30				
	2018	2017	2016	2015	2014
		As Restated		As Restated	As Restated
<b><u>NET POSITION:</u></b>					
Net investment in					
Capital Assets	\$ 51,797,220	\$ 61,242,162	\$ 53,603,070	\$ 52,839,192	\$ 64,388,904
Restricted	1,958,648	1,413,000	-	-	964,900
Unrestricted	41,754,432	28,777,592	33,187,943	30,548,647	27,817,622
<b>TOTAL NET POSITION</b>	<b><u>\$ 95,510,300</u></b>	<b><u>\$ 91,432,754</u></b>	<b><u>\$ 86,791,013</u></b>	<b><u>\$ 83,387,839</u></b>	<b><u>\$ 93,171,426</u></b>

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

	Fiscal Year Ended June 30				
	2013	2012	2011	2010	2009
	As Restated	As Restated			
<b><u>NET POSITION:</u></b>					
Net investment in					
Capital Assets	\$ 67,535,369	\$ 55,265,910	\$ 49,305,860	\$ 50,121,414	\$ 50,601,844
Restricted	964,900	967,394	967,394	967,394	1,138,044
Unrestricted	24,444,820	33,266,658	37,028,724	33,546,254	29,858,292
<b>TOTAL NET POSITION</b>	<b><u>\$ 92,945,089</u></b>	<b><u>\$ 89,499,962</u></b>	<b><u>\$ 87,301,978</u></b>	<b><u>\$ 84,635,062</u></b>	<b><u>\$ 81,598,180</u></b>

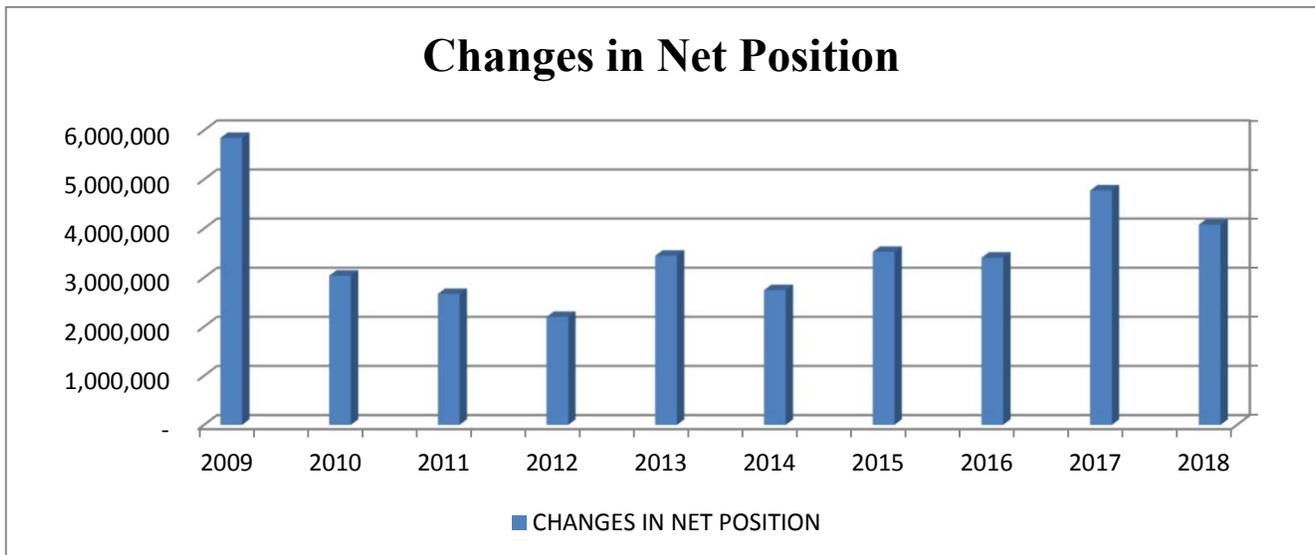


**Valley Sanitary District**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**Last Ten Fiscal Years**  
**Changes in Net Position**

	Fiscal Year Ended June 30				
	2018	2017	2016	2015	2014
		As Restated		As Restated	As Restated
<b>OPERATING REVENUES:</b>					
Sewer service charges	\$ 11,004,428	\$10,846,682	\$ 9,347,928	\$ 9,218,538	\$ 9,187,360
Connection fees	1,272,580	791,280	1,446,315	897,863	1,998,788
Permits and inspection fees	17,885	22,442	21,735	17,264	40,202
Other services	10,139	11,300	7,495	27,425	46,100
<b>TOTAL OPERATING REVENUES</b>	<b>12,305,032</b>	<b>11,671,704</b>	<b>10,823,473</b>	<b>10,161,090</b>	<b>11,272,450</b>
<b>OPERATING EXPENSES:</b>					
General and administrative	1,652,714	1,297,345	1,744,274	1,819,626	1,997,332
Sewage collection	2,604,267	2,091,041	856,871	866,622	855,884
Sewage treatment	2,413,567	2,048,207	3,104,860	3,140,480	3,631,992
Sewage disposal	-	-	-	-	-
<b>Total administrative and plant</b>	<b>6,670,548</b>	<b>5,436,593</b>	<b>5,706,005</b>	<b>5,826,728</b>	<b>6,485,208</b>
<b>Other Operating Expenses</b>					
Depreciation	2,444,764	1,980,043	2,309,350	2,334,398	2,335,264
<b>TOTAL OPERATING EXPENSES</b>	<b>9,115,312</b>	<b>7,416,636</b>	<b>8,015,355</b>	<b>8,161,126</b>	<b>8,820,472</b>
<b>NET OPERATING INCOME</b>	<b>3,189,720</b>	<b>4,255,068</b>	<b>2,808,118</b>	<b>3,111,324</b>	<b>2,451,978</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>					
Property taxes	794,367	761,756	709,233	745,800	605,711
Homeowner's tax relief	5,978	6,203	6,343	6,461	6,604
Investment income	479,862	170,869	142,649	75,611	52,007
Bond issue cost	-	-	-	(193,516)	-
Interest expense	(412,602)	(267,220)	(279,125)	(175,454)	(402,257)
Amortization	-	-	-	-	-
Gain (loss) on disposed assets	19,976	(160,033)	12,188	(46,408)	14,176
Other revenues	245	6,565	3,768	310	14,735
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<b>887,826</b>	<b>518,140</b>	<b>595,056</b>	<b>412,804</b>	<b>290,976</b>
<b>CHANGES IN NET POSITION</b>	<b>4,077,546</b>	<b>4,773,208</b>	<b>3,403,174</b>	<b>3,524,128</b>	<b>2,742,954</b>
<b>NET POSITION, beginning of the year</b>	<b>91,432,754</b>	<b>86,791,013</b>	<b>83,387,839</b>	<b>94,251,725</b>	<b>-</b>
<b>Prior period adjustments</b>		<b>(131,467)</b>		<b>(13,276,654)</b>	<b>(1,436,318)</b>
<b>NET POSITION, end of the year</b>	<b>\$ 95,510,300</b>	<b>\$91,432,754</b>	<b>\$86,791,013</b>	<b>\$84,499,199</b>	<b>\$ 1,306,636</b>

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

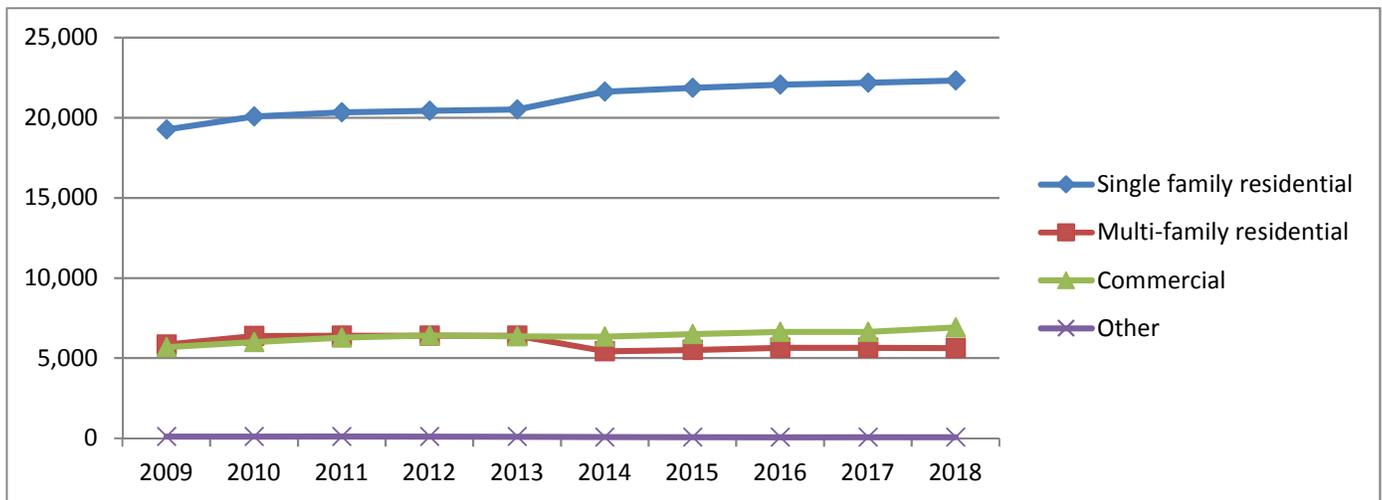
	Fiscal Year Ended June 30				
	2013	2012	2011	2010	2009
	As Restated	As Restated			
<b>OPERATING REVENUES:</b>					
Sewer service charges	\$ 9,053,022	\$ 8,808,414	\$ 8,385,726	\$ 8,605,117	\$ 9,022,142
Connection fees	548,527	192,763	723,985	304,428	648,882
Permits and inspection fees	12,017	7,362	28,544	25,880	24,834
Other services	7,039	11,173	4,726	24,710	10,063
<b>TOTAL OPERATING REVENUES</b>	<b>9,620,605</b>	<b>9,019,712</b>	<b>9,142,981</b>	<b>8,960,135</b>	<b>9,705,921</b>
<b>OPERATING EXPENSES:</b>					
General and administrative	1,403,644	1,559,137	1,501,410	1,440,724	1,394,303
Sewage collection	917,799	846,598	809,998	788,124	698,225
Sewage treatment	2,588,299	2,147,581	2,019,251	1,875,514	1,692,546
Sewage disposal	338	317,791	551,369	307,380	203,194
<b>Total administrative and plant</b>	<b>4,910,080</b>	<b>4,871,107</b>	<b>4,882,028</b>	<b>4,411,742</b>	<b>3,988,268</b>
<b>Other Operating Expenses</b>					
Depreciation	1,841,601	1,835,054	1,870,504	1,870,268	1,167,802
<b>TOTAL OPERATING EXPENSES</b>	<b>1,841,601</b>	<b>1,835,054</b>	<b>6,752,532</b>	<b>6,282,010</b>	<b>5,156,070</b>
<b>NET OPERATING INCOME</b>	<b>2,868,924</b>	<b>2,313,551</b>	<b>2,390,449</b>	<b>2,678,125</b>	<b>4,549,851</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>					
Property taxes	899,670	585,004	585,628	662,348	783,874
Homeowner's tax relief	6,690	6,851	7,183	7,268	7,460
Investment income	75,110	123,009	154,896	183,210	527,722
Bond issue cost	-	-	-	-	-
Interest expense	(422,157)	(638,155)	(458,830)	(476,411)	-
Amortization	-	(205,908)	(21,966)	(21,966)	(21,967)
Gain (loss) on disposed assets	-	-	-	(1,809)	(49,244)
Other revenues	16,890	13,632	9,556	6,117	46,233
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<b>576,203</b>	<b>(115,567)</b>	<b>276,467</b>	<b>358,757</b>	<b>1,294,078</b>
<b>CHANGES IN NET POSITION</b>	<b>3,445,127</b>	<b>2,197,984</b>	<b>2,666,916</b>	<b>3,036,882</b>	<b>5,843,929</b>
<b>NET POSITION, beginning of the year</b>	84,635,062	87,301,978	84,635,062	81,598,180	-
					(119,079)
<b>NET POSITION, end of the year</b>	<b>\$88,080,189</b>	<b>\$89,499,962</b>	<b>\$87,301,978</b>	<b>\$84,635,062</b>	<b>\$ 5,843,929</b>



## Valley Sanitary District Customer Type Equivalent Dwelling Unit (EDU) Summary Last Ten Fiscal Years

Customer Type	Fiscal Year Ended June 30									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Single family residential	22,321	22,180	22,061	21,863	21,623	20,514	20,433	20,326	20,072	19,263
Multi-family residential	5,623	5,635	5,643	5,513	5,431	6,389	6,389	6,394	6,387	5,846
Commercial	6,913	6,633	6,629	6,504	6,344	6,353	6,409	6,275	5,994	5,688
Other	66	63	62	62	59	103	103	103	103	103
<b>Total</b>	<b>34,923</b>	<b>34,511</b>	<b>34,395</b>	<b>33,942</b>	<b>33,457</b>	<b>33,359</b>	<b>33,334</b>	<b>33,098</b>	<b>32,556</b>	<b>30,900</b>

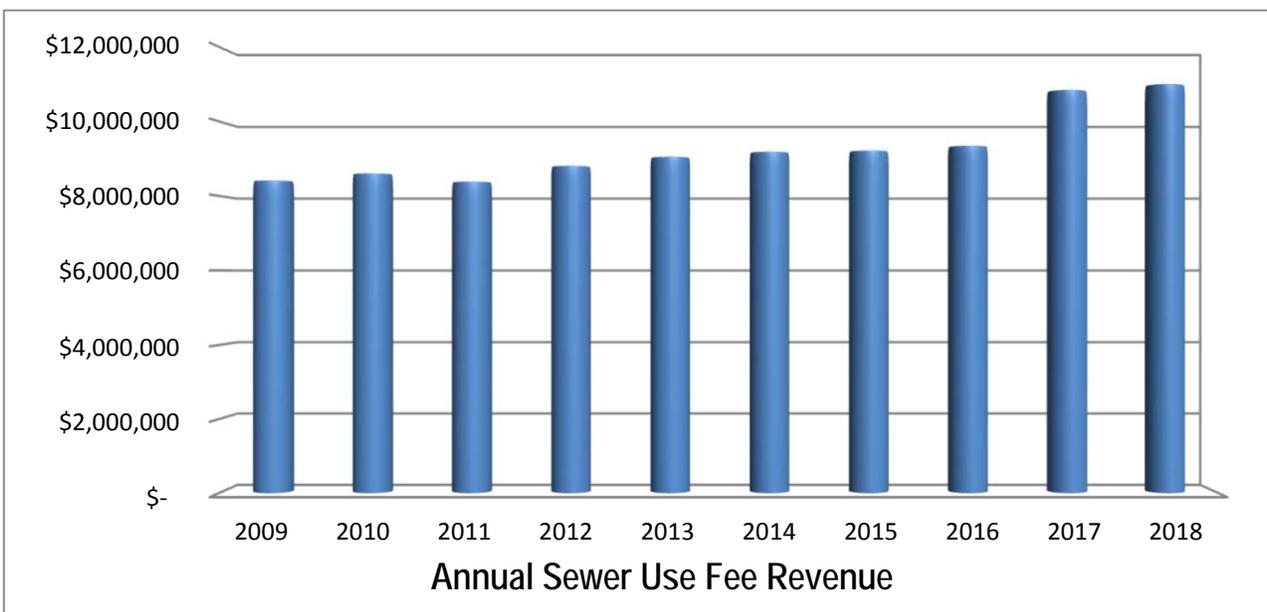
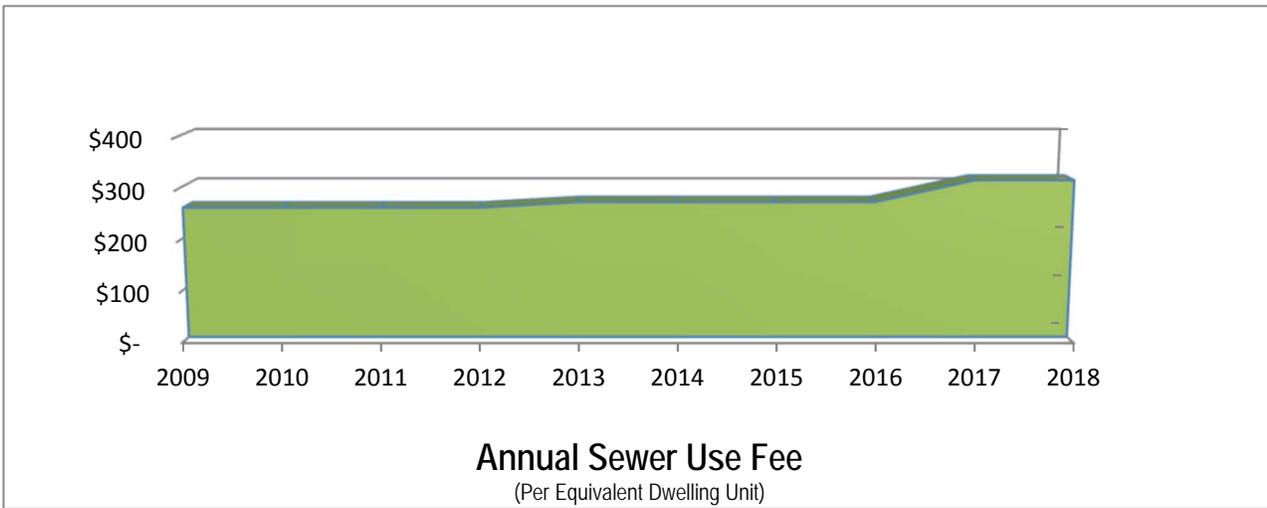
Source: Valley Sanitary District



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

Fiscal Year Ended June 30	Annual fee / EDU	Revenue
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
2009	259	8,414,713

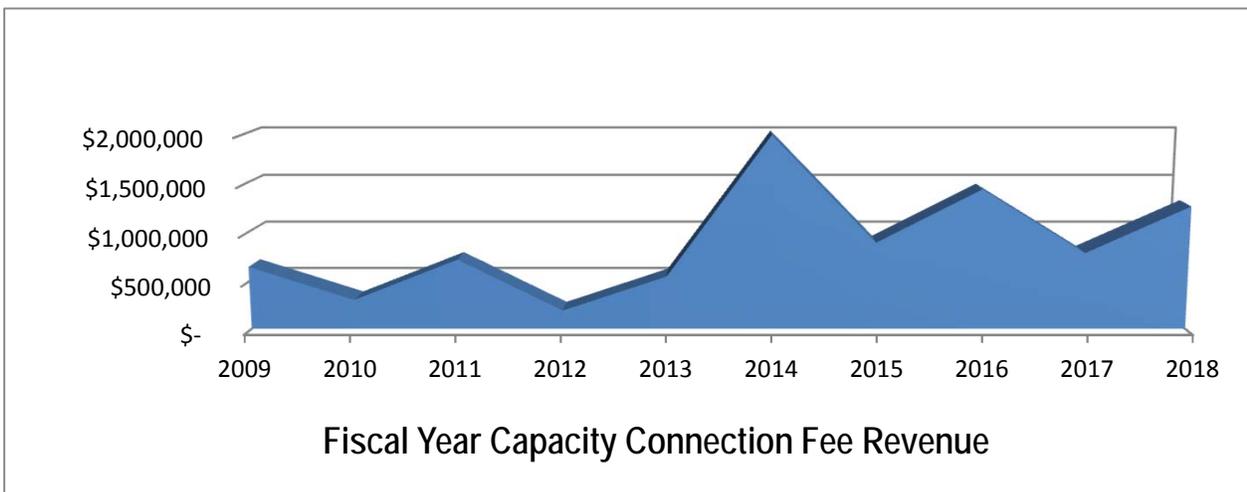
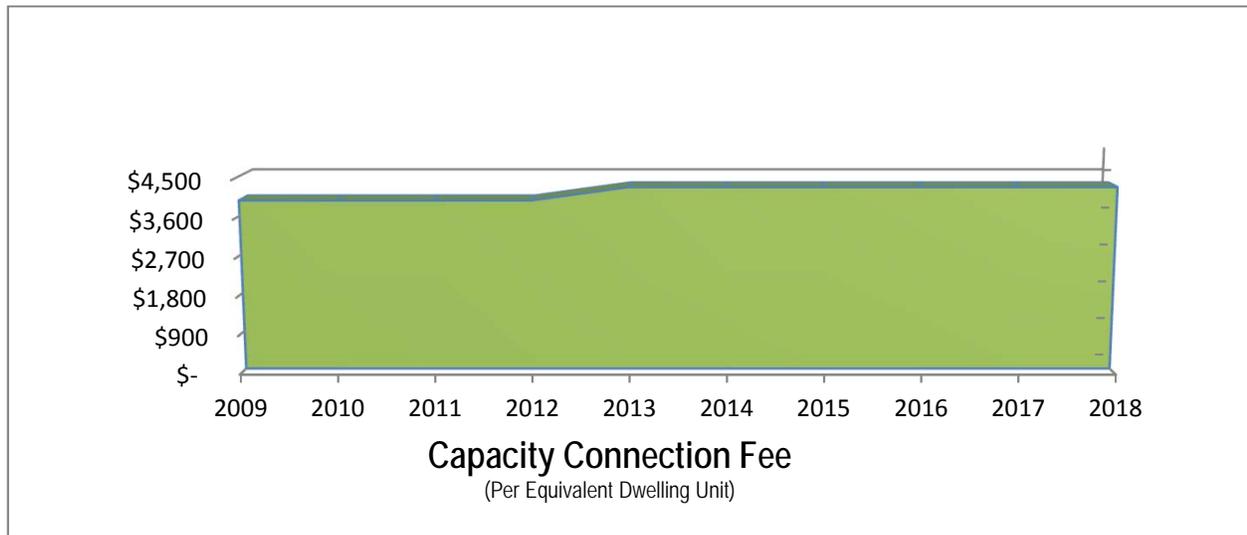
Source: Valley Sanitary District



## Valley Sanitary District Capacity Connection Fee and Fiscal Year Revenue Last Ten Fiscal Years

Fiscal Year Ended June 30	Fee / EDU	Revenue
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
2009	3,957	648,882

Source: Valley Sanitary District



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

Principal Users	Year Ended June 30 2018			Year Ended June 30 2009		
	Amount Billed	Rank	Percent of District Total \$	Amount Billed	Rank	Percent of District Total \$
Desert Sands Unified School District	\$ 245,705	1	2.23%	\$ 268,583	1	3.19%
The Wells Mobile Home Association	93,900	2	0.85%	77,700	3	0.92%
Smoketree Polo Club Apartments	90,144	3	0.82%	74,592	4	0.89%
Fantasy Springs Casino	88,892	4	0.81%	73,556	5	0.87%
Sunrise Point Apartments	85,136	5	0.77%	70,448	6	0.84%
Casa Monroe Apartments	70,738	6	0.64%	87,801	2	1.04%
Indio Palms Apartments	69,486	7	0.63%	60,347	8	0.72%
Del Mar Apartments	58,844	8	0.53%	48,692	9	0.58%
Arabian Gardens Mobile Home Park Partners LP	58,218	9	0.53%	48,174	10	0.57%
Bermuda Palms Mobile Estates	57,905	10	0.53%	-	-	0.00%
Indio Housing Development	-		0.00%	67,599	7	0.80%
<b>Total</b>	<b>\$ 918,968</b>			<b>\$ 877,492</b>		
<b>District total customer charges</b>			<b>\$ 11,004,428</b>			<b>\$ 8,414,713</b>

Source: Valley Sanitary District

**Valley Sanitary District**  
**Ratios of Outstanding Debt by Type**  
**Last Seven 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
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	88,058	23,607	0.72%	170
2016	-	7,986,745		7,986,745	86,544	22,336	0.41%	92
2015	-	8,637,257		7,986,745	84,201	20,607	0.46%	95
2014	9,379,080	-		8,637,257	82,398	21,702	0.48%	105
2013	9,920,254	-		9,379,080	81,393	20,645	0.56%	115
2012	10,436,428	-		9,920,254	77,165	19,748	0.65%	129

Notes:

*The District has elected to show only seven years of data for this schedule*

- 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			Coverage Ratio (3)
	Net Revenues	Operating Expenses (1)	Net Available Revenues	Principal (2)	Interest	Total	
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
2009	10,999,999	3,988,268	7,011,731	475,000	493,071	968,071	7

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 Five Years Ago**

	Fiscal Year Ended June 30			Fiscal Year Ended June 30		
	2018			2013		
Employer (1) (2)	Number of Employees	Rank	Percent of Total Employment	Number of Employees	Rank	Percent of Total Employment
Desert Sands Unified School District	2,677	1	7.08%	1,052	3	3.73%
County of Riverside	1,211	2	3.20%	1,283	1	4.55%
Fantasy Springs Casino	1,108	3	2.93%	1,100	2	3.90%
John F. Kennedy Memorial Hospital	750	4	1.98%	658	4	2.33%
Walmart Supercenter	258	5	0.68%	200	6	-
City of Indio	233	6	0.62%	235	5	0.83%
Riverside Superior Court	172	7	0.46%	191	7	0.68%
Super Target	-	-	0.00%	180	8	0.64%
Granite Construction	165	8	0.44%			
Mathis Brothers	132	9	0.35%	129	9	0.46%
Cardena's Market	132	10	0.35%			-
Jackalope Ranch	-	-	0.00%	107	10	0.38%
<b>Total Employment Listed</b>	<b>6,838</b>		<b>18.09%</b>	<b>5,135</b>		<b>18.21%</b>
<b>Total City Employment (3)</b>	<b>37,800</b>			<b>28,200</b>		

Notes:

*Top ten employers nine years prior to current year is not reported due to lack of past data reported online.*

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

Sources: (1) City Indio  
(2) State of California Employment Development Department

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

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<b>Fiscal Year Ended June 30</b>	<b>Total Customers</b>	<b>Number of Permits Issued</b>
2018	27,849	71
2017	27,535	87
2016	27,348	86
2015	27,094	69
2014	26,908	83
2013	26,807	45
2012	26,762	44
2011	26,648	46
2010	26,414	60
2009	26,028	124

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Source: Valley Sanitary District

**Valley Sanitary District**  
**Demographic and Economic Statistics**  
**Last Nine Fiscal Years**

<b>Fiscal Year Ended June 30</b>	<b>Population (1)</b>	<b>Median Age (2)</b>	<b>Average Household Size (1)</b>	<b>Median Household Income (1)</b>	<b>Per Capita Personal Income (1)</b>	<b>Unemployment Rate (3)</b>
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%

Notes:

*The District has elected to show only nine years of data for this schedule*

Sources:

- (1) California Home Town Locator
- (2) City of Indio 2017 CAFR
- (3) U.S. Census Bureau

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**Valley Sanitary District  
Operating Indicators  
Last Ten Fiscal Years**

	Fiscal Year Ended June 30				
	2018	2017	2016	2015	2014
Equivalent Dwelling Units (EDU)	34,923	34,511	34,395	33,942	33,457
Rainfall (inches) (1)	2.19	6.46	2.90	2.70	0.92
Flow (MGD) (2)	5.44	5.31	5.30	5.57	5.97
CBOD (mg/L)	281.00	289.00	257.40	246.92	219.75
CBOD (PE) (3)	74,993	75,285	66,928	68,446	63,706
Suspended solids (mg/L)	266.00	262.00	234.20	192.08	188.25
Suspended solids (PE) (4)	60,342	68,252	51,755	45,096	47,083
Tonnage of biosolids produced	1,411	1,362	796*	1,440	1,505
Tonnage of biosolids applied to land	0	1,162	0	1,440	1,200
<b>Total waste treated (million gallons/year)</b>	<b>2,081</b>	<b>2,080</b>	<b>2,022</b>	<b>2,034</b>	<b>2,254</b>

Notes:

(1) Annual rainfall for the Coachella Valley from [www.desertweather.com](http://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

\* inaccurate flow measurement

Source: Valley Sanitary District

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

	Fiscal Year Ended June 30				
	2013	2012	2011	2010	2009
Equivalent Dwelling Units (EDU)	33,359	33,334	33,098	32,556	30,900
Rainfall (inches) (1)	2.02	1.75	5.43	5.83	3.54
Flow (MGD) (2)	6.18	6.10	6.12	6.32	6.50
CBOD (mg/L)	215.66	213.50	216.33	224.40	229.08
CBOD (PE) (3)	65,385	63,892	64,951	69,576	73,049
Suspended solids (mg/L)	219.83	171.66	176.08	173.08	194.66
Suspended solids (PE) (4)	57,263	44,937	44,936	45,614	52,763
Tonnage of biosolids produced	1,882	1,849	1,685	1,357	1,169
Tonnage of biosolids applied to land	718	2,007	1,117	1,075	232
<b>Total waste treated (million gallons/year)</b>	<b>2,257</b>	<b>2,227</b>	<b>2,234</b>	<b>2,307</b>	<b>2,373</b>

Notes:

(1) Annual rainfall for the Coachella Valley from [www.desertweather.com](http://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**

	<b>Fiscal Year Ended June 30</b>				
	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Sanitary Sewer Service Operations</b>					
Equivalent Dwelling Units (EDUs)	34,923	34,511	34,395	33,942	33,457
<b>Treatment Plant Operations</b>					
Plant flow (Units = Million Gallons Per Day (mgd))					
Monthly average	165	161	161	170	182
Permit limitation (dry weather)	12.50	12.50	12.50	13.50	13.50
Annual rainfall (inches) (1)	2.19	6.46	2.90	2.70	0.92
<b>Collection System Operations</b>					
Sewer lines					
Length (ft)	1,351,680	1,335,840	1,336,682	1,323,035	1,298,880
Inspected (ft)	174,030	135,472	175,178	136,838	106,350
Cleaned (ft)	728,314	731,159	796,840	708,071	562,472

Notes:

(1) Annual rainfall for the Coachella Valley from [www.desertweather.com](http://www.desertweather.com)

Source: Valley Sanitary District

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

	<b>Fiscal Year Ended June 30</b>				
	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>Sanitary Sewer Service Operations</b>					
Equivalent Dwelling Units (EDUs)	33,359	33,334	33,098	32,556	30,900
<b>Treatment Plant Operations</b>					
Plant flow (Units = Million Gallons Per Day (mgd))					
Monthly average	188	186	186	192	198
Permit limitation (dry weather)	11.00	11.00	11.00	7.50	7.50
Annual rainfall (inches) (1)	2.02	1.75	5.43	5.83	3.54
<b>Collection System Operations</b>					
Sewer lines					
Length (ft)	1,288,320	1,276,660	1,275,836	1,275,836	1,273,917
Inspected (ft)	95,040	56,203	86,241	86,808	52,754
Cleaned (ft)	776,160	538,569	671,085	687,969	636,501

Notes:

(1) Annual rainfall for the Coachella Valley from [www.desertweather.com](http://www.desertweather.com)

Source: Valley Sanitary District

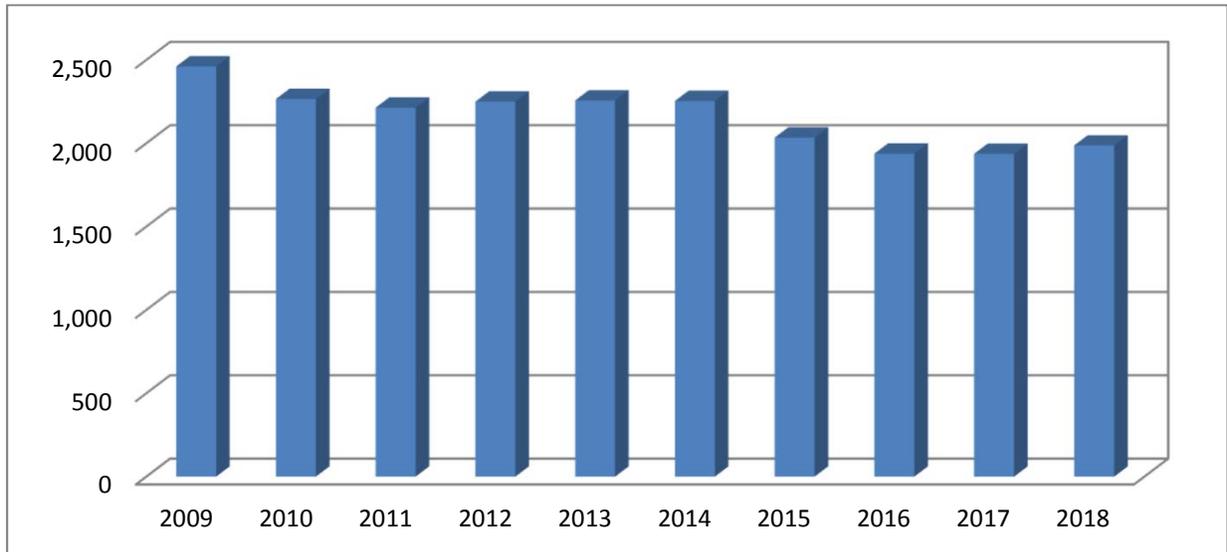
**Valley Sanitary District**  
**Annual Flow Data (Million Gallons)**  
**Last Ten Fiscal Years**

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<u>Fiscal Year</u> <u>Ended</u> <u>June 30</u>	<u>Annual Flow</u>
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
2009	2,461

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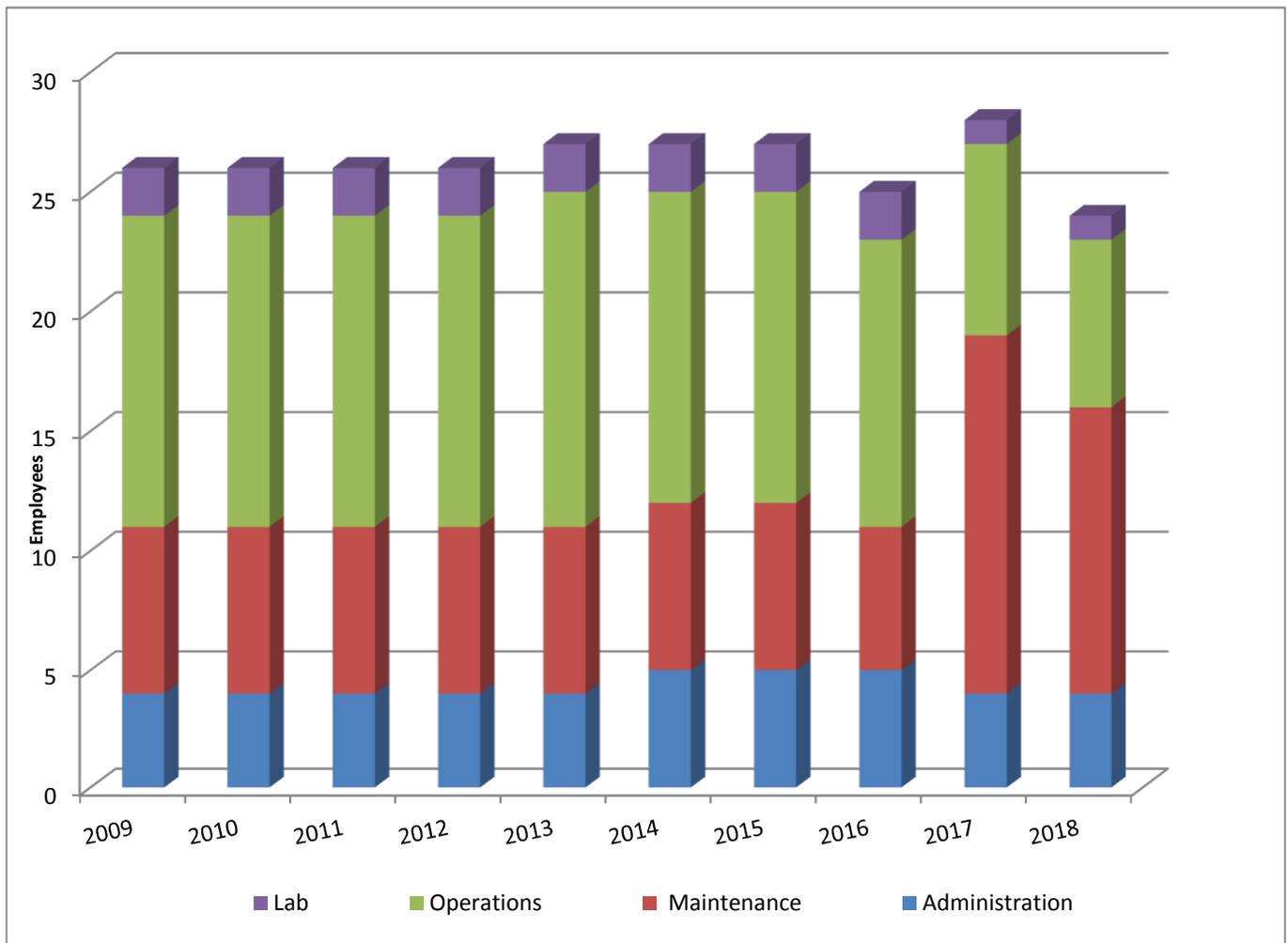
Source: Valley Sanitary District



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

Fiscal Year Ended June 30	Administration	Engineering & Maintenance	Operations	Lab	Total
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
2009	4	7	13	2	26

Source: Valley Sanitary District



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