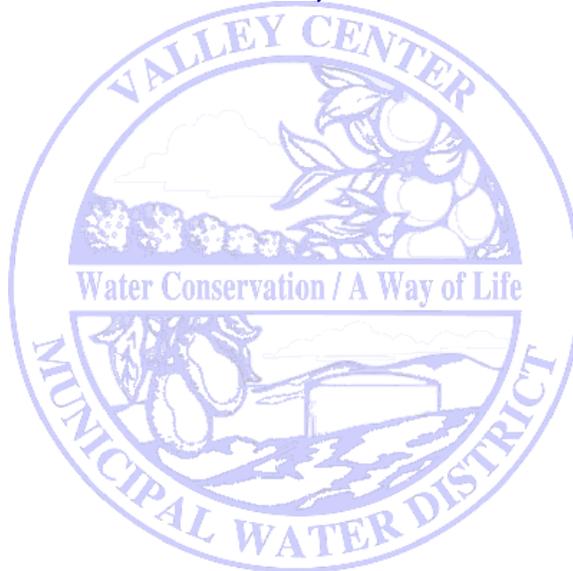


VALLEY CENTER MUNICIPAL WATER DISTRICT
Valley Center, California

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED
JUNE 30, 2001

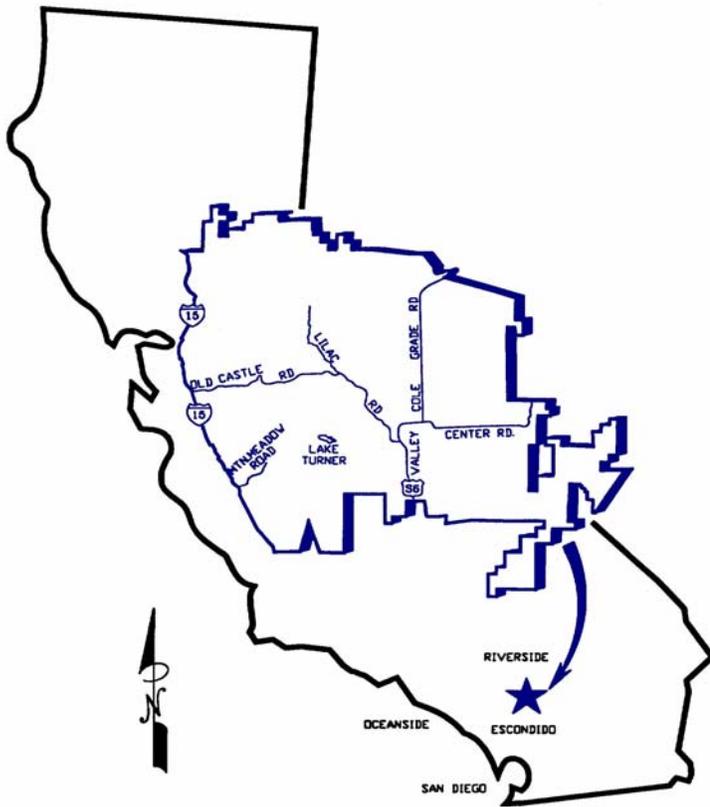
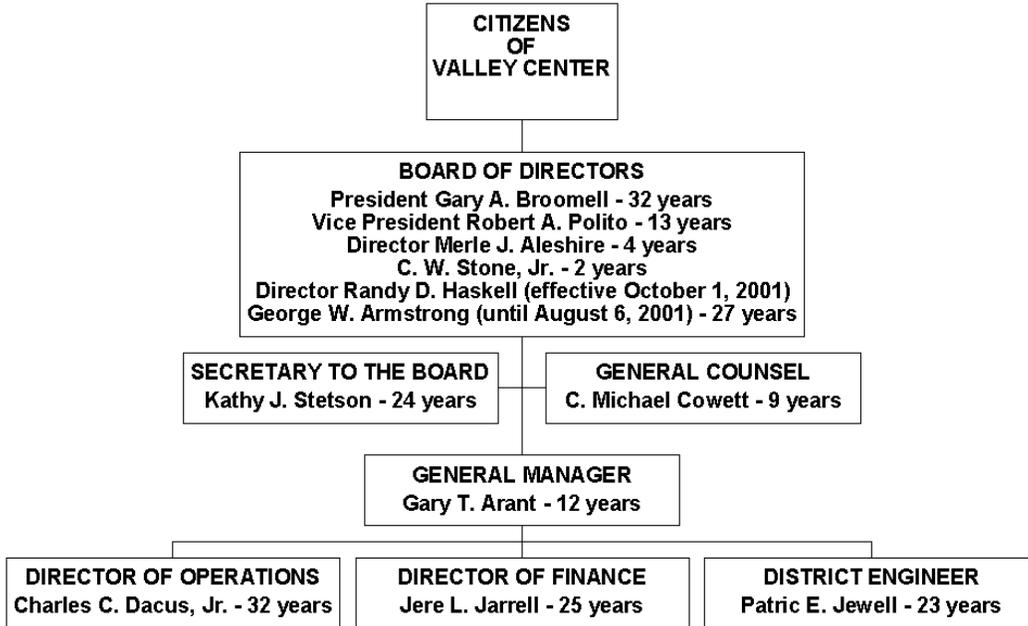


Prepared by :

The Finance Department
Jere L. Jarrell, Director of Finance
William J. Jeffrey, Manager of Accounting

VALLEY CENTER MUNICIPAL WATER DISTRICT

ORGANIZATION CHART With Years of Service



**VALLEY CENTER MUNICIPAL WATER DISTRICT
COMPREHENSIVE ANNUAL FINANCIAL REPORT
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Certificate of Achievement for Excellence in Financial Reporting

Presented to

Valley Center Municipal
Water District, California

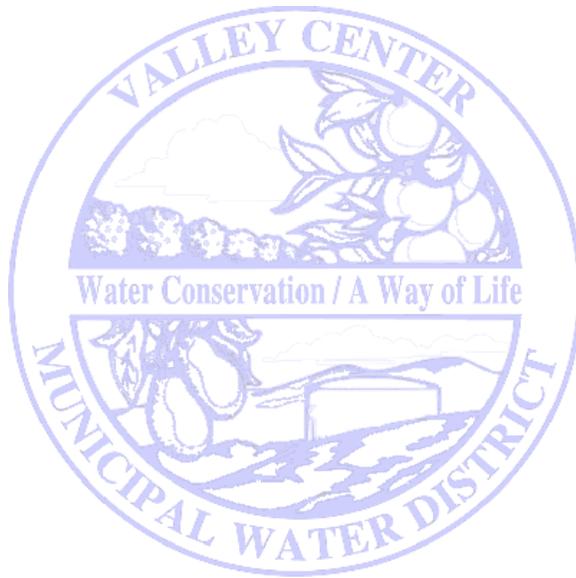
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2000

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Anne Spray Kinsey
President

Jeffrey L. Esdell
Executive Director



INTRODUCTORY SECTION

VALLEY CENTER MUNICIPAL WATER DISTRICT

A Public Agency Organized July 12, 1954

29300 Valley Center Road • P.O. Box 67 • Valley Center, CA 92082
(760) 749-1600 • TDD (760) 749-2665 • FAX (760) 749-6478 • www.vcmwd.org

December 1, 2001

Gary A. Broomell, President
Members of the Board of Directors
Valley Center Municipal Water District
29300 Valley Center Road
Valley Center, CA 92082

We are pleased to present the Valley Center Municipal Water District's Comprehensive Annual Financial Report for the year ended June 30, 2001.

The report was prepared by the District's Finance Department in accordance with generally accepted accounting principles. Responsibility for both the accuracy of the data presented and the completeness and fairness of the presentation, including all disclosures, rests with the District. We believe the data, as presented, are accurate in all material respects and that it is presented in a manner designed to set forth fairly the financial position and results of operations of the District. Included are all disclosures we believe are necessary to enhance the understanding of the financial condition of the District. The report is divided into three sections:

- I. The introductory section including this transmittal letter with other pertinent information to assist in understanding the financial condition of the District and the results of its operations for the year.
- II. The financial section including the independent auditor's report on the financial statements and supplemental schedules.
- III. The statistical section including a number of unaudited tables describing the financial history of the District for the past ten years as well as demographic and other miscellaneous information.

REPORTING ENTITY

For reporting purposes, the financial statements present a combined report which includes all District activities for which the Board of Directors of Valley Center Municipal Water District is primarily financially accountable. The District has established various self-balancing groups of accounts or subfunds in order to enhance internal control and further the attainment of management objectives. The subfunds of the reporting entity are identified in the District's books and records as the General, Lower Moosa Sewer Treatment, Moosa Sewer Expansion and Reclamation, Skyline Ranch Sewer, Woods Valley Ranch Sewer, Improvement District U-12, and Community Facilities District subfunds.

The General subfund accounts for all activity related to water operations as well as the general operations of the District. Lower Moosa Sewer Treatment and Skyline Ranch Sewer Treatment subfunds account for the sewer collection and treatment operations for these two facilities which service separate and limited areas of the District. The Moosa Sewer Expansion and Reclamation subfund accounts for the modification and upgrade of the Moosa Sewer facility. The Woods Valley Ranch Sewer subfund presently is used to account for the expansion of the proposed sewer system in the west end of the valley. The Improvement District U-12 and the Community Facilities District subfunds account for the tax revenues that finance specific debt, which was issued to benefit these distinct service areas and which was paid in full during the year. Activities not included as a part of this report are limited to the employees' Retirement Plan 002, as further explained in Note 9 of the financial statements, and Assessment District No. 96-1, described in Note 12.

District policy requires that its financial statements be audited annually by a Certified Public Accountant selected by the Board. This requirement has been satisfied and the independent auditor's report is included in the financial section of this report.



RESOLUTION NO. 2001-40

**A RESOLUTION OF THE
BOARD OF DIRECTORS OF
THE VALLEY CENTER
MUNICIPAL WATER
DISTRICT
HONORING AND
COMMEMORATING THE
SERVICE AND
CONTRIBUTIONS OF**

**GEORGE W. ARMSTRONG
DIRECTOR, DIVISION II**

WHEREAS, George W. Armstrong was a member of the Valley Center Municipal Water District Board of Directors from January 1975, until August of 2001; and

WHEREAS, during his tenure on the Valley Center Municipal Water District Board of Directors, George W. Armstrong served as Board President and Board Vice President, as well as a member of the Association of California Water Agencies (ACWA) Board of Directors, Executive Committee, and Board of Directors of the ACWA Joint Powers Insurance Authority (ACWA-JPIA); and

WHEREAS, with his passing on August 20, 2001, George W. Armstrong left a long and distinguished record of service to the Valley Center Municipal Water District, the community of Valley Center, and the greater California Water Community through his work with ACWA and ACWA-JPIA; and

WHEREAS, throughout his life, he maintained a tireless commitment to the ideals of community and public service which stood him apart from many of his peers, and

WHEREAS, his interest, effort and support will be sincerely missed by the Board and staff of the Valley Center Municipal Water District, and the citizens of Valley Center, whom he so proudly served.

NOW, THEREFORE, BE IT RESOLVED, that the Board of Directors does thank and honor George Wood Armstrong for his countless hours of service and numerous valuable contributions to the Valley Center Municipal Water District, the Valley Center Community and the water interests of California.

Passed and Adopted at a regular meeting of the Board of Directors of the Valley Center Municipal Water District held on the 4th day of September 2001

**DISTRICT FORMATION
AND ORGANIZATION**

Valley Center Municipal Water District was founded on July 12, 1954, pursuant to the California Municipal Water District Law of 1911. Located in northern San Diego County, the District provides water and sewer services to its domestic, agricultural and commercial customers. The District covers 100 square miles of which approximately 58% receives water services. Historically, 75-90% of water sold has been used to irrigate avocado and citrus groves as well as other agricultural purposes.

A five-member Board of Directors, elected by geographic division, governs the District. The Board manages through an appointed general manager and three department heads. There are currently 64 employees working for the District.

As a member of the San Diego County Water Authority (SDCWA) and the Metropolitan Water District of Southern California (MWD), Valley Center Municipal Water District imports 100% of its water from the Authority for resale to District customers. The District billed 7,458 customers for 42,003 acre feet of water during the year ended June 30, 2001. The cost to purchase this water from the Authority was \$19.4 million or 61% of District water operating expenses.

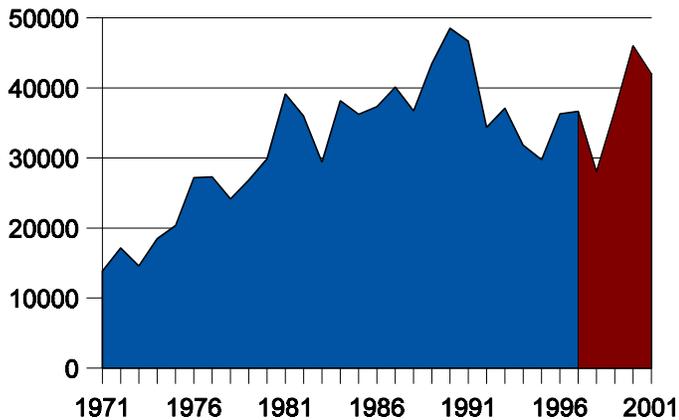
In its 47 years of existence, the District has constructed a water system consisting of seven aqueduct connections, 41 reservoirs, 26 pumping stations and 264 miles of water main. In 1989-90, its peak year, the District sold 48,075 acre feet of water, a quantity sufficient to meet the water usage needs of a city of approximately 200,000 people. Although usage declined in the 1990's, usage is again approaching those levels, and the District remains the second largest water retailer of imported water within the San Diego County Water Authority behind only the City of San Diego. The District is also the largest retail purchaser of agricultural water within the Metropolitan Water District's service area.

CURRENT ECONOMIC CONDITIONS AND OUTLOOK

New meter sales in the District continue to climb in 2000-01. Residential meters grew 3.4% and this trend is expected to continue. The District currently has service availability letters for more than 1,100 connections in process. We continue to see an increase in new connections. The District's total active meters increased in 2000-01 by 173 meters to 7,458.

WATER SALES

In Acre Feet - Last 30 Years



Water sales for 2000-01 were down 4,000 acre feet or 9% from our near-record sales in 1999-2000. A milder summer is responsible for the decline. In the last five years, our water sales have ranged from 27,997 acre feet in 1997-98 to 46,017 acre feet during the dry *El Niño* of 1999-2000. This wide fluctuation of water sales, resulting primarily from weather conditions, illustrates the influence of agriculture on total water demand.

Water delivered to agricultural users represented 82% of the District's total water sold in fiscal year 2000-01 compared to 89% a decade earlier. A major factor in this decline in agriculture in the District was the dramatic rise in the wholesale price of water from 1990-91 to 1993-94, forcing a 131% increase in retail water rates over the same period.

In May of 1994, Metropolitan Water District implemented the Interim Agricultural Water Program (IAWP), which provides a \$137 per acre foot discount to qualifying agricultural water users. This discount totaled a direct savings to the District's agricultural customers

of \$4.3 million in 2000-01. Since June 1994, this discount has saved these customers nearly \$30 million. In addition, on January 1, 1999, the San Diego County Water Authority established a special agricultural rate with a \$5 per acre foot discount. Except for the effects of weather, these discounts have stabilized agricultural water sales. An increase in different agricultural products, including cut flowers and exotic fruits, has also been noted. However, other factors, including fruit price volatility and increasing populations in Southern California, will continue to impact the future of farming within the District.

It is anticipated that the special agricultural water rates will continue to stabilize agricultural water use over its remaining term. The long-term benefit will hinge on if, and in what form, the program is extended beyond the interim period which ends in 2002. Metropolitan is in the process of revising its rate structure and the current proposal continues a comparable agricultural rate discount.

Energy - The most significant and detrimental financial event in the past year was the dismal failure of energy deregulation in California. Beginning in June 2000, market forces pushed power costs up by several hundred percent. The District has been proactive in developing solutions to minimize these increased costs, including installing more efficient pump motors, rebuilding electrical control panels, and pumping at off peak hours whenever possible. In addition, pumping is done at off peak hours whenever possible. However, the District was required to raise water pumping and sewer rates by over 70% during the past year to cover these costs. While energy costs stabilized during the summer of 2001, and anticipated power outages did not occur, energy will continue to play a significant role in the near future.



EFFORTS AND ACCOMPLISHMENTS

Strategic Plan Specific Goals - Throughout the year, significant progress was made on the ten 2001 and 2002 Strategic Plan Specific Goals, which had been adopted by the Board of Directors prior to the start of fiscal year 2000-01, as follows:



1. **Full Development of the Geographical Information System (GIS)** - Not scheduled for completion until June 2002, work continued on development of the District's geographical information system (GIS), including modifications to the format of District's map products and the integration the Water System Master Plan data to enhance the dissemination of water facility and project data through GIS. Development of a GIS plan is underway to identify other features that would be useful to District staff in day to day engineering and field operations activities.
2. **Supervisory Control And Data Acquisition (SCADA) System** - Targeted for full installation by June 2003, this year saw progress on developing a pilot program for the Lilac Pump Station using technology similar to that previously installed at the Lower Moosa Canyon Water Reclamation Facility. The pilot SCADA system will include an integration of the sewer information with the water information to make it available not only at the treatment plant and operation center, but also from dial up access and the District's local area network. The experience gains in installing and operating these pilot facilities will help to confirm the over all system design and develop user understanding of and confidence in the system. After completion of the pilot program and time devoted to operation confirmation, a systematic integration plan for full replacement of the existing tone system will be developed and implementation in the following years.
3. **Gaseous Chlorine Removal** - Scheduled for completion by June 2002, the process was fully completed in fiscal year 2000-01. All facilities that previously used gaseous chlorine are now using safer, but equally effective, sodium hypochlorite for disinfection.
4. **Lake Turner Emergency Storage and Recreational Use Options** - During the year, it was determined that Lake Turner will remain an emergency supply supplemental to that coming from the regional emergency storage system, and progress was made on developing a recreational concept involving four established youth-oriented groups.
5. **CalPERS As an Option for District Employees** - During the year, the California Public Employees' Retirement System (CalPERS) was evaluated, approved, and implemented as a replacement for the District's previous defined contribution retirement program, effective June 3, 2001.
6. **Corporate Facility Master Plan** - A future corporate facility needs assessment and evaluation of site alternatives was completed and submitted for Board review. Property acquisition was tabled by the Board because of sensitivity of the effect of high energy costs on our customers.
7. **Sewer Collection System Evaluation** - On June 30, 2001, the evaluation of our sewer collection system was 85% complete, with several problem areas in critical areas of the system identified and repaired as a result of the project.
8. **Remote/Electronic Bill Payment Systems Installed** - As a result of this effort, District customers now have the option of paying bills electronically or with credit cards.
9. **Evaluation of Remote Meter Reading Technologies** - Because of the topography and the rural nature of the District's service area, remote meter reading technologies were determined not to be cost effective at this time. Staff will continue to evaluate evolving technologies.
10. **Ergonomic Evaluation fo All Work Stations** - Originally scheduled for completion by June 2002, the ergonomic evaluation and implementation was fully completed by June 2001.

PERFORMANCE MEASUREMENT STANDARDS - RESULTS FOR YEAR ENDED JUNE 30, 2001

1. CUSTOMER SATISFACTION - *Our standard will be that our service "meets" or "exceeds expectations" 95% of the time, based upon the "Customer Comment Cards" responses.*

Survey responses show we met or exceeded expectations 98% of the time.

2. WATER LOSS - *Our standard for unaccounted water loss will be at or below our five-year running average, with a goal of reducing water loss to 5% or less.*

Water loss for 2000-01 was approximately 5.7% which exceeded the 5-year average of 5.3%. However, the loss for the 15 months ended September 30, 2001, was 4.9%.

3. OPERATING RESERVES - *Operating Reserves shall be equal to one year's operating and maintenance expenses (excluding wholesale water and power purchases).*

Our Operating Reserve was fully funded.

4. LOCAL SHARE OF TOTAL WATER COMMODITY COSTS - *We will hold the local share of total commodity costs equal to, or less than the current portion, which is 11.57% of total costs.*

The temporary reduction in the commodity rate raised the local share to 11.61%. As the rate was reduced we will consider this standard to have been met.

5. PUMP EFFICIENCY - *Through ongoing testing, adjusting, and maintenance, we will maintain pump efficiency at or above 95% of the "wire to water" design point efficiency.*

In recent testing it was determined that in pumps representing 90% of the electrical power usage by the District, the "wire to water" efficiency was 94%. In response, the District will be performing more detailed efficiency testing, and more intensified pump and motor maintenance and, where appropriate, replacement, to reach the 95% goal.

6. WATER SERVICE RELIABILITY AT 99%, WITH A GOAL OF 100% - *We will strive to maintain water service to all customers 100% of the time, but not less, on average, than at a 99% reliability level. This will be measured based upon total hours of service interruption against all service hours in a given measurement period.*

Reliability was better than 99%.

7. COMPLIANCE WITH ALL STATE & FEDERAL

REGULATIONS - *100% of the time.*

100% except that the Maximum Contaminant Level (MCL) for total coliform bacteria was exceeded during one month in a limited portion of our service area. This unusual situation was the result of warm temperatures and a lower than normal chlorine residual. Accordingly, the chlorine residual was increased and subsequent water samples indicated no further violation of the total coliform MCL. No precautionary measures were required.

It should be noted that, on an ongoing basis, there are literally hundreds of compliance points associated with the myriad of state and federal regulations which apply to the District, including water quality, wastewater treatment quality, hazardous materials management, air quality, financial reporting, communications, and safety. The two bacteriological samples which led to the incidence of noncompliance referred to above were among the 312 individual samples taken during the year, which indicates a compliance factor of 99.4%. However, given the importance of water quality and the public's confidence in all aspects of its water supplier's operations, the standard of "100% compliance, 100% of the time" is still important and is maintained as a goal.

8. LOST-TIME ACCIDENTS GOAL OF "0" DAYS, BUT NOT MORE THAN 2% OF TOTAL WORK HOURS - *While our goal will be zero, our maximum acceptable level of lost time will be 2% of the total labor hours in a given measurement period.*

As of June 2001, we have gone over three years with no lost time accidents.

9. RETURN ON INVESTMENTS - *While seeking to preserve capital and maintain a level of liquidity necessary to meet cash flow requirements, our rate of return, on an annualized basis, shall be at least equal to the average rate of return on one year U.S. Treasury Bills.*

Our yields exceeded the standard by 0.411%.

10. PROJECT ACTUAL COST - *±10% of Engineer's estimate.*

Five projects were bid with aggregate results 1.7% lower than estimated.

Economic Study Group (ESG) and SDCWA Rate Alternatives Analysis - With the County Water

Authority's Emergency Storage Project cost allocation issues finally resolved toward the end of fiscal year 1999-2000, attention was then focused on the allocation of transportation, customer service, and supply costs, with discussions fully underway at the start of 2000-01. Throughout the year, the seven inland North San Diego County Water Districts, known as the Economic Study Group, continued to work with the San Diego County Water Authority Board and staff on evaluating and developing refinements to the rate model developed by the SDCWA staff known as "COSAM" (Cost Of Service Allocation Model). At the end of 2000-01, the ESG members and the SDCWA were still involved in that process.

Metropolitan Water District Strategic Planning Process - Throughout 2000-01, staff continued to monitor the MWD strategic planning process with specific interest on proposed modifications to the MWD Rate Structure. Staff continued to coordinate with the members of and consultants to the Avocado Commission's Southern California Agricultural Water Team, as well as senior members of the MWD Management Team, on aspects of the new rate structure and extension of the Interim Agricultural Water Program and the current pricing support it affords the District's interruptible agricultural customers, which was indeed enacted by the MWD Board of Directors.

PLANNING AND CONSTRUCTION PROJECTS

Transmission and Distribution Facilities Improvements - The \$1.9 million, 3.0 million gallon Via Cantamar Reservoir was complete during the year. The District's Master Plan had identified the three million gallons of storage as a requirement to meet the water demands and reliability in that system in the District's West area. The project included replacing and upsizing a portion of 12" tar wrapped steel line originally installed over

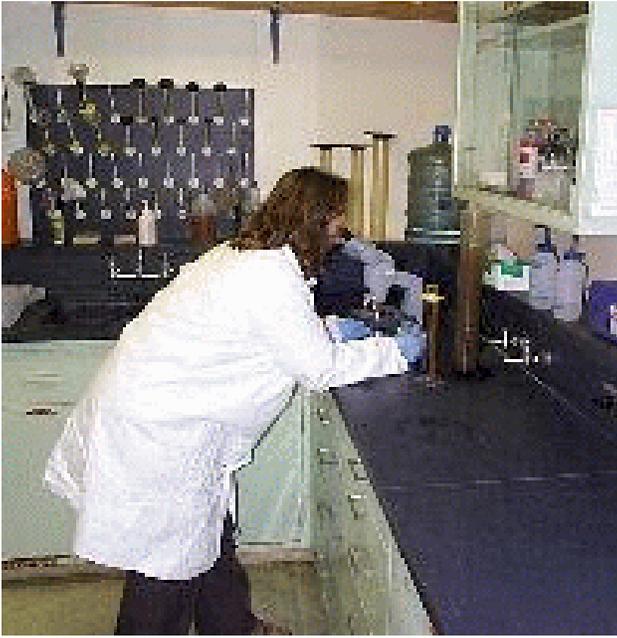
40 years ago.

The Oak Glen Road 16" pipeline replacement and the McNally Road 12" loop were completed. Plans were completed for McNally Road 16" and Couser Canyon Road 8" line replacements. These water mains were tar wrapped steel pipes that were selected for replacement due to their poor condition and wet environment.

Plans were completed to replace two more under ground pressure reducing valve stations to improve access and safety. In addition, work continues on the design of the new VC#8 Aqueduct Connection which will replace VC#7 to eliminate a long tunnel under the Interstate 15 freeway. Progress was made on the Water System Master Plan, looking for increased replacement of tar wrapped steel pipelines where corrosion failure is becoming more likely.

Central Valley Sewer - Design continued, but slowly, for the Orchard Run and Live Oak Ranch subdivisions small wastewater treatment and reclamation facilities in the west and east ends, respectively, of the central Valley Center area. The county-approved Woods Valley Ranch facility was on hold for the year. Investigation of the expansion of these plants, and of other potential facilities, to provide necessary capacity for nearby areas continues.





Lower Moosa Canyon Water Reclamation Facility - The Lower Moosa Canyon Water Reclamation Facility provides sewer service to the Interstate 15 corridor area of the District, from the Lawrence Welk development on the southern end, east to Hidden Meadows, and north to Circle R Drive. Currently, the capacity of the plant is 0.5 million gallons per day (m.g.d.) and easily accommodates the existing average daily flow rate of approximately 0.25 m.g.d. Ultimate capacity requirements for the service area are projected at 1.0 m.g.d. (5,000 Equivalent Dwelling Units). Timing for further expansion depends on the growth rate in the service area.

The year saw the upgrade of several components at the plant to improve operational efficiency, and reliability of the existing equipment. Additional upgrade projects will continue through the first half of 2001-2002.

Expansion of the facility to 1.0 m.g.d. may require the effluent be treated to full Title 22 standards for use as irrigation. The District has contracts for the use of reclaimed water on the Lawrence Welk and Castle Creek Golf Courses as a fail safe disposal area. Because the golf courses are irrigated with private well water, the District will seek additional customers for the reclaimed water that would reduce imported water demands and generate higher returns to help offset the cost of plant operation and production of reclaimed water. Future developments in the vicinity of the plant will be required to provide on-site facilities suitable for the use of

reclaimed water.

ACCOUNTING SYSTEM

District records are maintained on an enterprise basis, as it is the intent of the Board of Directors that the costs of providing water and sewer to the customers of the District are financed primarily through user charges. Revenues and expenses are recognized on the accrual basis in that both revenues and expenses are recognized in the accounting period they are earned or incurred. Fixed assets are recorded in the subfund purchasing the asset.

INTERNAL CONTROLS

Valley Center Municipal Water District operates within a system of internal accounting controls established and continually reviewed by management to provide reasonable assurance that assets are adequately safeguarded and transactions are recorded correctly according to District policies and procedures. When establishing or reviewing control, management must consider the cost of the control and the value of the benefit derived from its utilization. Management normally maintains or implements only those controls whose value adequately exceeds their cost.

All internal control evaluations occur within the above framework. Management believes the District's internal accounting controls, procedures and policies adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

In addition, the District maintains controls to provide for compliance with all finance related legal and contractual provisions. Management believes the activities reported within the presented comprehensive financial annual report comply with these finance related legal and contractual provisions, including bond covenants and fiduciary responsibilities.



BUDGETING CONTROLS

The District is not legally required to adopt and adhere to a budget or report on compliance with any prepared budgets. However, the Board of Directors approves a budget annually to be used solely as a management tool. Depending upon the timing and level of the demand for water services, the revenues and expenditures may vary significantly and cannot be strictly controlled by means of detailed and rigid appropriations. Therefore, the annual budgets must be viewed as estimates only. Budget appropriations for major capital projects continue from year to year until the project is completed.

CASH MANAGEMENT

Cash temporarily idle during the year was invested in government securities, the State of California Local Agency Investment Fund (LAIF), and other money market instruments in accordance with the Board of Directors adopted investment policy. The average monthly percentage of inactive funds invested was approximately 100%. The amount of investment income recorded by all funds in the District in 2000-01, was \$1,665,958, up \$389,803 from the income reported in the prior year. The average yield on the District's investments increased from 5.7% for 1999-2000 to 6.2% for 2000-01, reflecting market conditions.

DEBT ADMINISTRATION

At June 30, 2001, the District had \$4.1 million in long-term debt, further described as follows:

District-wide revenue bonds	\$ 960,000
Note payable for Moosa Expansion	\$ 1,500,000
Retiree's health benefits plan liability	\$ 1,608,315
Annexation fees payable	<u>9,898</u>
Total long-term debt	<u>\$ 4,078,213</u>

The District had no general obligation bonded debt at June 30, 2001. As the District has issued no bonded debt for public placement since 1968, it is not rated by any investment rating service.

RISK MANAGEMENT ACTIVITIES

Since 1979, the District has been a member of the Association of California Water Agencies Joint Powers Insurance Authority (JPIA). The JPIA provides joint protection coverage for losses in excess of District deductible for general, auto and public liability, and workers' compensation coverage. Property and fidelity coverage is purchased through sources provided by the JPIA. Risk management is more thoroughly discussed in Note 13 to the financial statements.



ANALYSIS OF SUBFUNDS

General Subfund:

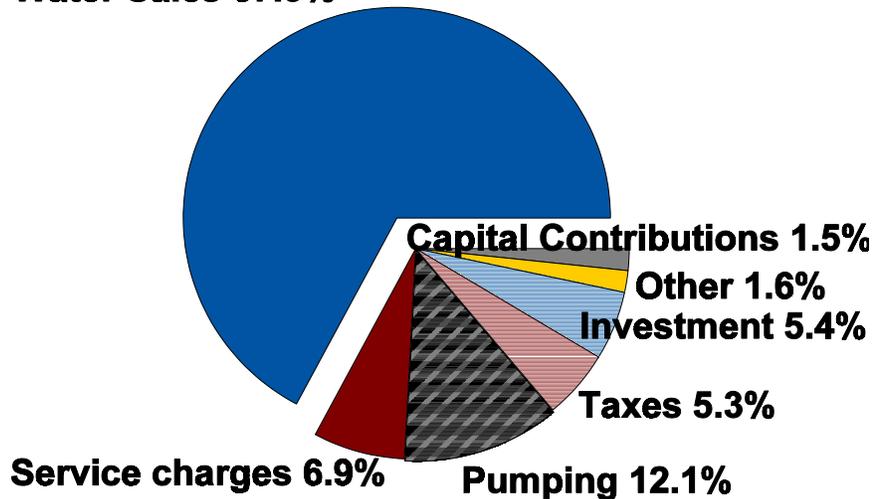
General Subfund Revenues for the year ended June 30, 2001, totaled \$30,486,332, which is a 7% decrease from the prior year. Details of this increase in revenues are as follows:

- ▶ Water sales decreased by 11%, or \$2,517,931, from the prior year. There was a 9% decrease in the volume of water sold and a 0.4% decrease in agricultural water rates during the year. In 2000-01, 42,003 acre feet of water were billed compared to 46,017 acre feet in the prior year. In addition, the District rebated \$544,111 to its customers, which was the approximate refund received from its supplier in the prior year. Included in the water sales figures are meter charges of \$2,107,494 in 2000-01 and \$2,059,993 in 1999-2000.
- ▶ Energy and pumping revenues increased 7%, or \$226,260, due to rate increases toward the end of the year which exceeded the reduction in the volume of water sold.
- ▶ Property taxes and assessments increased by 4%, or \$64,559, from 1999-2000 to 2000-01. This increase is due to an increase in assessed valuation in the District. The District has adopted San Diego County's alternative method of distribution of tax levies and collections under which the County advances 100% of the secured tax levies due to the District each year without consideration for delinquencies.
- ▶ Investment income increased 31%, or \$387,433, from the prior year. This increase is due to market conditions, including unrealized appreciation on investments. Yields increased from 5.7% to 6.2% during the course of the year. Interest income includes interest earned by the general subfund from advances to the sewer subfunds.
- ▶ Other revenues increased \$28,051 in 2000-01. The District also received reimbursements from the Federal and State Office of Emergency Services of \$2,095 and \$1,085 in 2001 and 2000 for flood damage that occurred in early 1998.

GENERAL SUBFUND REVENUE

Fiscal Year 2000-01

Water Sales 67.3%



General subfund expenses for the year ended June 30, 2001, totaled \$32,009,907, an increase of 8% or \$2,314,349. Certain significant expenses are as follows:

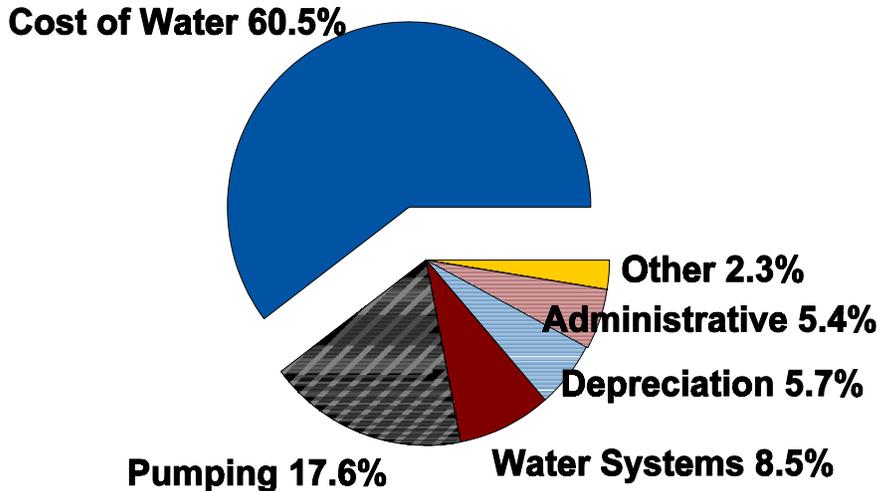
- ▶ The cost of water sold decreased 4% due a decrease in water deliveries caused by weather conditions. In 1999-2000, the District purchased 48,550 acre feet of water at an average price of \$417 per acre foot. In the current year, the District purchased 44,598 acre feet of water at an average price of \$434 per acre foot, a increase of 4.1% or \$17 per acre foot. Cost of water sold includes Metropolitan Water District’s readiness-to-serve charge which is based on historical water purchases. The District’s readiness-to-serve charge was \$1,170,305 (\$26 per acre foot sold) for 2000-01 and \$1,169,400 (\$24 per acre foot) for 1999-2000.

Excluding the readiness-to-serve charge, the price of water purchased for delivery to agricultural customers was \$374 per acre foot compared to \$521 per acre foot for other users in 2000-01. This cost reduction for agricultural water is passed through to the District’s qualified agricultural customers.

- ▶ Energy and other pumping costs associated with the distribution of water for the District increased 77%, or \$2,444,964, due to the large increase in power rates.

GENERAL SUBFUND EXPENSES

Fiscal Year 2000-01



- ▶ Water systems operations and maintenance expenses increased 15%, or \$360,667, from the prior year. Increases included increased system maintenance.
- ▶ Depreciation expense in 2000-01 increased 8%, or \$130,346, from the prior year due to plant additions.
- ▶ General and administrative expenses increased 14% or \$206,531. Most of this increase is related to the cost of an additional administrative assistant, legal fees regarding energy deregulation, and increased insurance costs.
- ▶ Interest expense continued to decline due to the decline in principal balances and lower interest rates.

**GENERAL SUBFUND
REVENUES AND EXPENSES**

	<u>2001 Amount</u>	<u>2000 Amount</u>	Increase (Decrease) From <u>2000</u>	<u>Percent Change</u>
REVENUES:				
Water sales	\$ 20,510,665	\$ 23,028,596	\$ (2,517,931)	(10.9) %
Meter service charges	2,107,494	2,079,908	27,586	1.3
Pumping and energy charges	3,680,327	3,454,067	226,260	6.6
Property taxes and assessments	1,619,182	1,554,623	64,559	4.2
Investment income	1,632,522	1,245,089	387,433	31.1
Customer fees and charges	383,382	381,585	1,797	0.5
Other revenues	93,306	65,255	28,051	43.0
Capital contributions	459,454	919,201	(459,747)	(50.0)
Total revenues	<u>30,486,332</u>	<u>32,728,324</u>	<u>(2,241,992)</u>	<u>(6.9)</u>
EXPENSES:				
Cost of water sold	19,374,345	20,266,611	(892,266)	(4.4)
Energy and other pumping costs	5,633,409	3,188,445	2,444,964	76.7
Water systems operation & maint.	2,714,061	2,353,394	360,667	15.3
Depreciation	1,812,100	1,681,754	130,346	7.8
General and administrative	1,738,603	1,532,072	206,531	13.5
Engineering	673,504	604,677	68,827	11.4
Interest	53,544	56,496	(2,952)	(5.2)
Other expenses	10,341	12,109	(1,768)	(14.6)
Total expenses	<u>32,009,907</u>	<u>29,695,558</u>	<u>2,314,349</u>	<u>7.8</u>
Net income (loss)	<u>\$ (1,523,575)</u>	<u>\$ 3,032,766</u>	<u>\$ (4,556,341)</u>	<u>(150.2) %</u>

General Subfund Retained Earnings:

At June 30, 2001, the retained earnings of the General subfund amounted to \$47,042,239. All of this was appropriated for rate stabilization, capital construction, and operating expenses. The amount appropriated for operating expenses equaled 100% of the annual budget.

Sewer Treatment Subfunds:

The Lower Moosa Sewer Treatment subfund serves 2,049 customers in a limited geographic area on the west side of the District. The revenue from sewer charges was \$560,664 for 2000-01, an increase of \$82,435 from the prior year. The monthly sewer service charge increased \$1.50 per unit on January 1, 2001, and an additional \$4.00 per unit on March 1, 2001 because of the increase in energy costs. At that time, 31% of the sewer service charge was designated for energy costs.

LOWER MOOSA REVENUES & EXPENSES

	2001 Amount	2000 Amount	Change From 2000	% Chg.
REVENUES:				
Sewer charges	\$ 560,664	\$ 478,299	\$ 82,365	17.2 %
Investment	31,475	28,355	3,120	11.0
Capital contrib.	32,519	198,121	(165,602)	(83.6)
Total revenues	<u>624,658</u>	<u>704,775</u>	<u>(80,117)</u>	<u>(11.4)</u>
EXPENSES:				
Energy & pump	170,332	56,341	113,991	202.3
Operations	334,644	219,831	114,813	52.2
Depreciation	388,832	381,887	6,945	1.8
Administrative	67,065	55,098	11,967	21.7
Interest	63,750	63,750	0	0.0
Total expenses	<u>1,024,623</u>	<u>776,907</u>	<u>247,716</u>	<u>31.9</u>
Net loss	<u>\$(399,965)</u>	<u>\$(72,132)</u>	<u>\$(327,833)</u>	<u>454.5 %</u>

Assessment District No. 96-1 issued bonds in February 1997 under the Improvement Act of 1915 to fund part of the expansion of the Moosa facility. These bonds are not a general obligation of the District and are not presented in this report.

The Skyline Ranch Sewer Treatment subfund serves 222 customers in a single mobile home park on the east side of the District. The agreement between the District and the park requires the park to pay the full cost of maintenance, operation and replacement of the facilities. Net income in one year is used to reduce rates in the subsequent year.

SKYLINE RANCH REVENUES & EXPENSES

	2001 Amount	2000 Amount	Change From 2000	% Chg.
Total revenues	85,821	53,395	32,426	60.7
Total expenses	<u>72,329</u>	<u>73,868</u>	<u>(1,539)</u>	<u>(2.1)</u>
Net income	<u>\$ 13,492</u>	<u>\$(20,473)</u>	<u>\$ 33,965</u>	<u>(165.9%)</u>

The Woods Valley Ranch Sewer subfund presently is used to account for the expansion of the proposed developer-constructed sewer system. Other proposed sewer systems are currently accounted for as developer projects.

Debt Service Subfunds

General obligation bonds and bank loans were issued to finance certain facility improvements in improvement districts. These debts were funded through tax or special assessment revenues on property within the specific area's boundaries. All such improvement district bonds and Community Facilities District loans were fully paid by June 30, 2000, and the subfunds are being used to clear remaining receivables.





CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) has awarded a Certificate of Achievement for Excellence in Financial Reporting to Valley Center Municipal Water District for its comprehensive annual financial report for the fiscal year ended June 30, 2000. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. The report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. Valley Center Municipal Water District has received a Certificate of Achievement for the last nine consecutive years (fiscal years ended 1992 through 2000). We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA.

COMPENSATION PLANS

Currently, the District does not participate in Social Security. However, effective June 3, 2001, the District provides a defined benefit pension plan for its employees through the California Public Employees' Retirement System (CalPERS). The District contributes a specified percentage of covered employees' payroll which is invested by CalPERS. Upon retirement, District employees are entitled to a specified retirement benefit. The plan is more fully described in Note 10 to the financial statements.

Prior to joining CalPERS, the District provided a defined contribution retirement plan for its employees. The plan was fully funded with the District contributing 19% of eligible payroll. This plan was terminated on June 2, 2001, with all employees becoming fully vested at that time. The first in a series of liquidating distributions was made on June 12, 2001, to the participants, and the District expects the plan to be completely liquidated by June 2, 2002. The plan is more fully described in Note 9 to the financial statements.

The District also offers its employees a deferred compensation plan under Internal Revenue Code section 457. At June 30, 2001, the plan had assets of \$2,039,122 and 64 participants.

ACKNOWLEDGMENTS

The preparation of this report could not have been accomplished without the contribution of the Finance Department staff. Special thanks are extended to the members of the District's Board of Directors for their continued interest and support in all aspects of financial management.

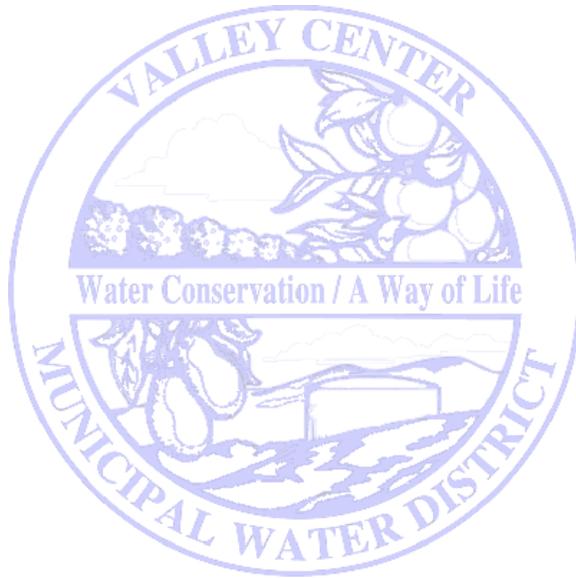
Respectfully Submitted:



Gary T. Tran
General Manager



Jere L. Jarrell
Director of Finance



FINANCIAL SECTION





CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Valley Center Municipal Water District
Valley Center, California

We have audited the accompanying balance sheets of Valley Center Municipal Water District as of June 30, 2001 and 2000, and the related statements of revenues, expenses, and changes in retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Valley Center Municipal Water District at June 30, 2001 and 2000, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in note 2 to the financial statements, the District adopted the provisions of Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. This results in a change to the District's method of accounting for capital contributions.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The combining information in Schedules 1 and 2 has been subjected to the auditing procedures applied in the audits of the financial statements and is presented for purposes of additional analysis of the financial statements rather than to present financial position and results of operations of the District's individual accounting subfunds. Accordingly, we do not express an opinion on the financial position and results of operations of the District's individual accounting subfunds. However, in our opinion, the combining information in Schedules 1 and 2 is fairly presented in all material respects in relation to the financial statements taken as a whole.

The statistical information as listed in the table of contents is not a required part of the basic financial statements, and we did not audit and do not express an opinion on such information.

November 6, 2001

VALLEY CENTER MUNICIPAL WATER DISTRICT

Balance Sheets

June 30, 2001 and 2000

Assets

	<u>2001</u>	<u>2000</u>
Current assets:		
Cash and cash equivalents	\$ 9,484,794	8,191,621
Marketable securities	-	4,682,421
Accounts receivable - water and sewer, net	4,193,111	3,978,113
Interest receivable	333,207	372,083
Other receivables	190,867	53,712
Inventories	285,866	260,273
Prepaid expenses and deposits	181,822	140,825
Work in progress for others	<u>230,777</u>	<u>172,341</u>
Total current assets	<u>14,900,444</u>	<u>17,851,389</u>
Restricted assets:		
Cash and cash equivalents	3,181,826	764,973
Marketable securities	10,703,337	12,383,414
Other receivables	<u>26,371</u>	<u>29,946</u>
Total restricted assets	<u>13,911,534</u>	<u>13,178,333</u>
Utility plant, net	<u>46,333,386</u>	<u>45,064,466</u>
	<u>\$ 75,145,364</u>	<u>76,094,188</u>

See accompanying notes to financial statements.

Liabilities and Fund Equity

	<u>2001</u>	<u>2000</u>
Current liabilities (payable from current assets):		
Current installments of long-term debt	\$ 60,000	50,000
Accounts payable	5,138,215	4,640,764
Accrued payroll and compensated absences	1,009,097	895,852
Customer deposits	<u>554,737</u>	<u>412,955</u>
Total current liabilities (payable from current assets)	<u>6,762,049</u>	<u>5,999,571</u>
Current liabilities (payable from restricted assets):		
Customer deposits	<u>6,812</u>	<u>7,665</u>
Total current liabilities (payable from restricted assets)	<u>6,812</u>	<u>7,665</u>
Long-term debt, excluding current installments	<u>4,018,213</u>	<u>3,754,080</u>
Total liabilities	<u>10,787,074</u>	<u>9,761,316</u>
Fund equity:		
Contributed capital	14,401,673	14,589,162
Retained earnings	<u>49,956,617</u>	<u>51,743,710</u>
Total fund equity	<u>64,358,290</u>	<u>66,332,872</u>
	<u>\$ 75,145,364</u>	<u>76,094,188</u>

VALLEY CENTER MUNICIPAL WATER DISTRICT

Statements of Revenues, Expenses, and Changes in Retained Earnings

Years ended June 30, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Operating revenues:		
Water sales and pumping charges	\$ 26,298,486	28,562,571
Meter installation fees	147,515	171,129
Sewer charges	637,280	522,761
Other water operating revenues	<u>235,867</u>	<u>210,456</u>
Total operating revenues	<u>27,319,148</u>	<u>29,466,917</u>
Operating expenses:		
Cost of water sold	19,374,345	20,266,611
Energy and pumping costs	5,808,455	3,249,934
Water systems operations	2,714,061	2,353,394
Sewer collection and treatment	387,476	275,825
Engineering	673,504	604,677
Depreciation	2,273,538	2,136,247
General and administrative	<u>1,815,537</u>	<u>1,594,982</u>
Total operating expenses	<u>33,046,916</u>	<u>30,481,670</u>
Net operating loss	<u>(5,727,768)</u>	<u>(1,014,753)</u>
Nonoperating revenues (expenses):		
Investment income	1,665,958	1,276,155
Property taxes and assessments	1,620,418	1,644,952
Capital contributions	501,139	1,134,538
Other nonoperating revenues	93,306	65,255
Interest expense	(117,294)	(121,885)
Other nonoperating expenses	<u>(10,341)</u>	<u>(12,281)</u>
Net nonoperating revenues	<u>3,753,186</u>	<u>3,986,734</u>
Net income (loss) (as restated for 2000)	(1,974,582)	2,971,981
Adjustment for capital contributions and depreciation on contributed assets closed to contributed capital	<u>187,489</u>	<u>(450,926)</u>
Net income (loss) closed to retained earnings	(1,787,093)	2,521,055
Retained earnings, beginning of year	<u>51,743,710</u>	<u>49,222,655</u>
Retained earnings, end of year	\$ <u>49,956,617</u>	<u>51,743,710</u>

See accompanying notes to financial statements.

VALLEY CENTER MUNICIPAL WATER DISTRICT

Statements of Cash Flows

Years ended June 30, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Cash flows from operating activities:		
Net operating loss	\$ (5,727,768)	(1,014,753)
Adjustments to reconcile net operating loss to net cash from operating activities:		
Depreciation	2,273,538	2,136,247
Retirees' health benefits plan expense	330,550	290,998
Changes in:		
Receivables	(352,153)	(632,614)
Inventories	(25,593)	37,571
Prepaid expenses and deposits	(40,997)	9,952
Work in progress for others	(58,436)	(46,340)
Accounts payable	466,320	905,757
Accrued payroll and compensated absences	113,245	148,980
Customer deposits	135,632	138,051
Net cash provided (used) by operating activities	<u>(2,885,662)</u>	<u>1,973,849</u>
Cash flows from noncapital financing activities:		
Property taxes received	<u>1,619,507</u>	<u>1,546,718</u>
Cash flows from capital and related financing activities:		
Property taxes and assessments received	911	98,234
Acquisition and construction of utility plant	(3,253,266)	(2,471,759)
Principal paid on bonds and loans payable	(50,000)	(341,606)
Interest paid on bonds and loans payable	(117,294)	(128,369)
Capital contributions received	230,891	389,510
Proceeds from disposition of equipment	3,918	1,607
Lease income received	92,588	62,563
Other capital and related financing cash flows received (paid)	1,101	(10,509)
Net cash used by capital and related financing activities	<u>(3,091,151)</u>	<u>(2,400,329)</u>
Cash flows from investing activities:		
Purchases of marketable securities	(5,998,500)	(11,998,796)
Proceeds from maturities of marketable securities	12,700,000	6,566,162
Investment income received	1,365,832	1,226,295
Net cash provided (used) by investing activities	<u>8,067,332</u>	<u>(4,206,339)</u>
Net increase (decrease) in cash	3,710,026	(3,086,101)
Cash, beginning of year	<u>8,956,594</u>	<u>12,042,695</u>
Cash, end of year	<u>\$ 12,666,620</u>	<u>8,956,594</u>

Continued

VALLEY CENTER MUNICIPAL WATER DISTRICT

Statements of Cash Flows, Continued

Years ended June 30, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Cash, end of year:		
Cash and cash equivalents - current assets	\$ 9,484,794	8,191,621
Cash and cash equivalents - restricted assets	<u>3,181,826</u>	<u>764,973</u>
	<u>\$ 12,666,620</u>	<u>8,956,594</u>
Noncash capital and related financing activities:		
Customer contributions of utility plant	\$ <u>268,400</u>	<u>743,296</u>
Customer payments of annexation fees	\$ <u>1,848</u>	<u>1,732</u>
Noncash investing activities:		
Discount accretion and other investment income	\$ <u>300,126</u>	<u>49,860</u>

See accompanying notes to financial statements.

VALLEY CENTER MUNICIPAL WATER DISTRICT

Notes to Financial Statements

June 30, 2001 and 2000

(1) Summary of Significant Accounting Policies

(a) Description of Reporting Entity

The Valley Center Municipal Water District (the District) is a governmental corporation governed by an elected five-member board of directors. The District was incorporated July 12, 1954, under the provisions of the California Municipal Water District Act of 1911. The District's 100 square mile service area lies in northern San Diego County and the majority of its sales are to agricultural users. The District's offices are located in Valley Center, California.

In keeping its books and records, the District has established various self-balancing groups of accounts in order to enhance internal control and to further the attainment of other management objectives. These groups of accounts, which are subfunds of the reporting entity, are identified in the District's books and records as the General Fund, Lower Moosa Sewer Treatment Fund, Moosa Expansion and Reclamation Fund, Improvement District U-12 Fund, Community Facilities District No. 1 Fund, Skyline Ranch Sewer Fund and Woods Valley Ranch Sewer Fund. All significant intersubfund transactions and accounts are eliminated in the combination of the accounts of the subfunds for the financial statements of the reporting entity.

In addition to the above subfunds, the District has established the Assessment District No. 96-1 Lower Moosa Canyon Fund (AD 96-1) to account for the special assessment bonds described in Note 12. The financial position and results of operations of AD 96-1 are excluded from these financial statements.

(b) Basis of Accounting

The District's financial statements are prepared on the accrual basis of accounting with a "capital maintenance" measurement focus. Accordingly, all assets and liabilities are reflected within the balance sheet with the equity section representing "net total assets."

(c) Accounting and Financial Reporting Standards

The District applies all relevant pronouncements of the Governmental Accounting Standards Board (GASB) as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

(d) Cash and Cash Equivalents

Cash and cash equivalents include deposits in money market mutual funds (SEC registered), deposits in external investment pools, and marketable securities that mature within three months of purchase. Such marketable securities and deposits in money market funds are carried at fair value. Investment pool deposits are carried at the District's proportionate share of the fair value of each pool's underlying portfolio.

(e) Marketable Securities

Marketable securities are carried at fair value.

VALLEY CENTER MUNICIPAL WATER DISTRICT

Notes to Financial Statements, Continued

- (f) Water Sales
Water sales revenue is recorded when the service is rendered, including an estimated amount for unbilled service.
- (g) Allowance for Doubtful Accounts
The District recognizes bad debt expense relating to receivables when it is probable that the accounts will be uncollectible. Water and sewer accounts receivable at June 30, 2001 and 2000, have been reduced by an allowance for doubtful accounts of \$5,462 and \$3,042, respectively.
- (h) Inventories
Materials inventory is stated at the lower of current average cost or market. Water inventory is stated at cost.
- (i) Utility Plant and Depreciation
Assets acquired from District funds and contributed cash are recorded at cost. Contributions in kind are recorded at fair values based upon engineering estimates of costs to construct. Major additions and betterments are capitalized, and expenditures for repairs and maintenance are charged to operations. Depreciation on contributed assets is charged to operations and closed to contributed capital. Depreciation is computed using the straight-line method at rates recommended by the State Controller's Office, which are based upon the estimated useful lives of the assets. The ranges of the estimated useful lives of the assets are as follows:
- | | |
|--------------------------------------|-------------|
| Transmission and distribution system | 10-40 years |
| Treatment plants | 40 years |
| General plant | 3-40 years |
- (j) Restricted Assets
Amounts shown as restricted assets have been restricted by District Board of Directors action, by law, or by contractual obligations to be used for specified purposes, such as construction of utility plant and payment of certain employee benefits.
- (k) Capitalized Interest
Interest costs, less interest earned on related tax-exempt borrowings, are capitalized during the construction period of major utility plant additions. The capitalized interest is recorded as part of the asset to which it is related and is depreciated over the estimated useful life of the related asset. No interest was capitalized during the years ended June 30, 2001 and 2000.
- (l) Compensated Absences
Vested or accumulated vacation and sick leave is recorded as an expense and liability as benefits accrue to employees.
- (m) Retirees' Health Benefits Plan Expense
Expense is recognized on the pay-as-you-go basis, and is more fully described in Note 11.

VALLEY CENTER MUNICIPAL WATER DISTRICT

Notes to Financial Statements, Continued

(n) Capital Contributions

Capital contributions are recorded when capacity charges are collected, Federal and State construction grants are received, annexation fees are paid by property owners on behalf of the District, or the District accepts contributions of utility plant in kind. Capacity charges are paid by new customers prior to connecting to the District's system. Such charges are periodically adjusted based upon changes in construction costs and other factors, and are intended to compensate the District for a new customer's equitable share of current and future system capacity. Capital contributions are accounted for as nonoperating revenues and closed to contributed capital.

(o) Budgetary Information

The District prepares and adopts an annual budget for operations, debt service, and capital additions, but budgetary information is not presented because the District is not legally required to adopt and adhere to a budget.

(p) Property Tax Calendar

Property taxes, including assessments, are billed by San Diego County (County) to property owners. The District's property tax calendar for the fiscal year ended June 30, 2001, was as follows:

January 1, 2000	Lien date
December 10, 2000	Due date for first installment (50%)
April 10, 2001	Due date for final installment (50%)

The County collects the taxes from the property owners and remits the funds to the District intermittently during the year. The District has an arrangement with the County whereby the County remits taxes which are delinquent as of each June 30 to the District in exchange for the right to retain the delinquent taxes, penalties, and interest when these amounts are subsequently collected.

(2) Change in Accounting Principles

During the year ended June 30, 2001, the District adopted Government Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, which requires that capital contributions be recognized as revenues in determining net income, rather than as a direct addition to contributed capital in fund equity. In accordance with Statement No. 33, previously reported net income for the year ended June 30, 2000 has been restated as follows:

Net income as previously reported	\$ 1,837,443
Capital contributions	<u>1,134,538</u>
Net income as restated	\$ <u>2,971,981</u>

(3) Cash and Investments

(a) Authorized Investment Instruments

The District is legally empowered by statute and ordinance to invest in obligations of the United States, its agencies and instrumentalities, time certificates of deposit at commercial banks and savings and loans when insured or collateralized in accordance with law, the State of California Local Agency Investment Fund, the County of San Diego Investment Pool, bonds issued by the District and shares of beneficial interest issued by a diversified management company as authorized by Government Code Section 53601(k). Current policy provides that no investments with maturities greater than five years shall be acquired.

VALLEY CENTER MUNICIPAL WATER DISTRICT

Notes to Financial Statements, Continued

(b) Cash

(i) Summary

Cash is summarized as follows at June 30:

	<u>2001</u>	<u>2000</u>
Cash and cash equivalents - current assets	\$ 9,484,794	8,191,621
Cash and cash equivalents - restricted assets	<u>3,181,826</u>	<u>764,973</u>
	<u>\$ 12,666,620</u>	<u>8,956,594</u>

Cash consisted of the following at June 30:

Deposits with financial institutions	\$ 209,103	171,571
Deposits with the State of California Local Agency Investment Fund	12,591,163	8,914,020
Petty cash	1,200	800
Outstanding checks	<u>(134,846)</u>	<u>(129,797)</u>
	<u>\$ 12,666,620</u>	<u>8,956,594</u>

(ii) Deposits with Financial Institutions

Deposits with financial institutions at June 30, 2001, are fully insured.

(iii) Deposits with State of California Local Agency Investment Fund

The total amount in the District's account with the State of California Local Agency Investment Fund (State LAIF) can be withdrawn on demand without penalty. Such a withdrawal would not include a pro rata share of any unrealized appreciation or uncollected income on the State LAIF's investments. The State LAIF is administered by the State of California, Office of the Treasurer, as provided by Section 16429 of the California Government Code.

(c) Marketable Securities

Marketable securities are summarized as follows at June 30:

	<u>2001</u>	<u>2000</u>
Marketable securities - current assets	\$ -	4,682,421
Marketable securities - restricted assets	<u>10,703,337</u>	<u>12,383,414</u>
	<u>\$ 10,703,337</u>	<u>17,065,835</u>

Marketable securities consisted of the following at June 30:

U.S. Treasury bills and notes	\$ 2,030,000	4,435,945
U.S. agency obligations	<u>8,673,337</u>	<u>12,629,890</u>
	<u>\$ 10,703,337</u>	<u>17,065,835</u>

VALLEY CENTER MUNICIPAL WATER DISTRICT

Notes to Financial Statements, Continued

The District's marketable securities are held by its broker and fully insured. The additional coverage beyond the \$500,000 Securities Investor Protection Corporation (SIPC) limit is subject to and follows the terms, conditions and limitations of SIPC coverage.

(4) Inventories

Inventories are as follows at June 30:

	<u>2001</u>	<u>2000</u>
Water inventory	\$ 106,331	79,789
Materials inventory	<u>179,535</u>	<u>180,484</u>
	\$ <u>285,866</u>	<u>260,273</u>

(5) Restricted Assets

Restricted assets are as follows at June 30:

	<u>2001</u>	<u>2000</u>
Restricted for construction:		
Cash and cash equivalents	\$ 3,181,826	764,973
Marketable securities	9,095,022	11,101,080
Other receivables	<u>26,371</u>	<u>29,946</u>
Total for construction	12,303,219	11,895,999
Restricted for employee benefits:		
Marketable securities	<u>1,608,315</u>	<u>1,282,334</u>
Total restricted assets	\$ <u>13,911,534</u>	<u>13,178,333</u>

(6) Utility Plant

Changes in utility plant for the year ended June 30, 2001, are as follows:

	<u>Balance</u> <u>June 30, 2000</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2001</u>
Land	\$ 1,139,059	222,174	-	1,361,233
Transmission and distribution system	68,755,705	3,156,246	67,219	71,844,732
General plant	3,549,069	577,367	7,295	4,119,141
Annexation fees	<u>786,185</u>	<u>-</u>	<u>-</u>	<u>786,185</u>
	74,230,018	3,955,787	74,514	78,111,291
Less accumulated depreciation	<u>33,088,555</u>	<u>2,273,538</u>	<u>64,175</u>	<u>35,297,918</u>
Net utility plant in service	41,141,463	1,682,249	10,339	42,813,373
Construction in progress	<u>3,923,003</u>	<u>2,959,836</u>	<u>3,362,826</u>	<u>3,520,013</u>
Net utility plant	\$ <u>45,064,466</u>	<u>4,642,085</u>	<u>3,373,165</u>	<u>46,333,386</u>

VALLEY CENTER MUNICIPAL WATER DISTRICT

Notes to Financial Statements, Continued

(7) Long-Term Debt

(a) Revenue Bonds Payable

On June 29, 1993, the District issued to a bank \$1,400,000 of water revenue bonds, the proceeds of which were used to pay off a previous loan which had been obtained to finance legally required water system improvements. Revenue bonds outstanding at June 30, 2001 and 2000, are \$960,000 and \$1,010,000, respectively. Varying amounts of principal plus interest currently at 4.18% are payable semiannually. The final maturity date for the currently outstanding bonds is July 1, 2012. Interest is payable at 62% of the bank's prime rate, but not to exceed 12%. The net water revenues of the District are pledged to pay the principal and interest on the bonds, and the bonds are subject to call and redemption prior to maturity on any date at par plus accrued interest to the redemption date.

Future debt service requirements at the current interest rate for the above bonds are as follows:

<u>Fiscal year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 60,000	19,437	79,437
2003	65,000	36,993	101,993
2004	70,000	34,172	104,172
2005	70,000	31,246	101,246
2006	80,000	28,216	108,216
2007 through 2011	450,000	88,411	538,411
2012 through 2013	<u>165,000</u>	<u>6,898</u>	<u>171,898</u>
	\$ <u>960,000</u>	<u>245,373</u>	<u>1,205,373</u>

(b) Loan Payable

Loan payable as follows at June 30:

	<u>2001</u>	<u>2000</u>
Municipal Finance Corporation original amount \$1,500,000, on December 28, 1998, to partially finance the Moosa expansion project. Interest at 4.25% payable semiannually and principal payable December 28, 2003, from assets restricted for that purpose and secured by capacity charges collected for the Moosa expansion.	\$ <u>1,500,000</u>	<u>1,500,000</u>

Future debt service requirements for the above loans are as follows:

<u>Fiscal year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ -	63,750	63,750
2003	-	63,750	63,750
2004	<u>1,500,000</u>	<u>31,875</u>	<u>1,531,875</u>
	\$ <u>1,500,000</u>	<u>159,375</u>	<u>1,659,375</u>

VALLEY CENTER MUNICIPAL WATER DISTRICT

Notes to Financial Statements, Continued

(c) Annexation Fees Payable

In 1960 and 1967, the District annexed certain uninhabited territory and thereby incurred annexation charges of \$786,185 payable to the Metropolitan Water District of Southern California (MWD) and the San Diego County Water Authority. The unpaid balances of such charges to MWD at June 30, 2001 and 2000, are \$9,898 and \$11,746, respectively. The charges are paid by property tax owners through property tax levies collected by the County of San Diego and remitted directly to MWD. The District accounts for the periodic reduction in the recorded annexation fee liability as a capital contribution.

(d) Retirees' Health Benefits Plan Liability

On January 16, 1995, the District's Board of Directors established the Valley Center Municipal Water District Retirees' Health Benefits Plan. Under the terms of the Plan, further described in Note 11, the District's liability, payable from assets restricted for that purpose, to employees or for the benefit of Plan participants at June 30, 2001 and 2000, was \$1,608,315 and \$1,282,334, respectively. The liability will become payable upon the sooner of Plan termination or the commencement of the payment of participants' health insurance premiums under the Plan.

(e) Summary

Long-term debt is summarized as follows at June 30:

	<u>2001</u>	<u>2000</u>
Revenue bonds payable	\$ 960,000	1,010,000
Loans payable	<u>1,500,000</u>	<u>1,500,000</u>
Total bonds and loans payable	2,460,000	2,510,000
Annexation fees payable	9,898	11,746
Retirees' health benefits plan liability	<u>1,608,315</u>	<u>1,282,334</u>
Total long-term debt	4,078,213	3,804,080
Less current installments of bonds payable from current assets	<u>(60,000)</u>	<u>(50,000)</u>
	 \$ <u>4,018,213</u>	 <u>3,754,080</u>

Future debt service requirements at the current interest rates for bonds and loan payable are as follows:

<u>Fiscal year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 60,000	83,187	143,187
2003	65,000	100,743	165,743
2004	1,570,000	66,047	1,636,047
2005	70,000	31,246	101,246
2006	80,000	28,216	108,216
2007 through 2011	450,000	88,411	538,411
2012 through 2013	<u>165,000</u>	<u>6,898</u>	<u>171,898</u>
	 \$ <u>2,460,000</u>	 <u>404,748</u>	 <u>2,864,748</u>

VALLEY CENTER MUNICIPAL WATER DISTRICT

Notes to Financial Statements, Continued

(8) Contributed Capital

Changes in contributed capital are as follows for the years ended June 30:

	<u>2001</u>	<u>2000</u>
Capital contributions	\$ 501,139	1,134,538
Less depreciation on contributed assets	<u>(688,628)</u>	<u>(683,612)</u>
Net activity closed to contributed capital	(187,489)	450,926
Balance, beginning of year	<u>14,589,162</u>	<u>14,138,236</u>
Balance, end of year	\$ <u>14,401,673</u>	<u>14,589,162</u>

(9) Defined Contribution Retirement Plan

The Valley Center Municipal Water District Retirement Plan 002 (Plan 002) is a single-employer defined contribution plan established July 1, 1979, by the District as sponsor to provide retirement benefits to its employees (excluding members of the Board of Directors) under Water Code Section 71595. Plan 002 is administered by a committee appointed by the District's Board of Directors. The sponsor also appoints Plan 002 trustees. Plan 002 trustees, through the committee, direct investments and accounting.

Generally, all full-time employees are required to participate in Plan 002 upon the date employment commences. Vesting is based on years of service, with 20% vesting for each year of service and 100% vesting after 5 or more years of service. Plan income is allocated to accounts of individual participants at year-end by a formula, which is based on beginning of year balances, plus contributions for the year. The District retains the right to make any amendments to Plan 002 which do not cause any assets to be diverted to any purpose other than the exclusive benefit of Plan 002 participants.

Plan 002 provides for yearly sponsor contributions equal to 19% of eligible employees' base compensation. Participant contributions are not required, but participants may voluntarily contribute up to 10% of their compensation.

The District's contribution to Plan 002 for the years ended June 30, 2001 and 2000, amounted to \$574,160 and \$545,243, respectively. No contributions were made by individual participants in either year.

Plan 002 was terminated effective June 2, 2001, in order for employees to participate in the pension plan described in note 10. All contributions to Plan 002 for periods beginning after June 2, 2001, ceased and the interests of all participants in Plan 002 became 100% vested, with no amount reverting to the District. The first in a series of liquidating distributions was made on June 12, 2001 to participants and the District expects Plan 002 to be completely liquidated no later than June 2, 2002.

VALLEY CENTER MUNICIPAL WATER DISTRICT

Notes to Financial Statements, Continued

(10) Defined Benefit Pension Plan

(a) Plan Description

The District began participation in the pension plan described herein on June 3, 2001. The District's defined benefit pension plan, Miscellaneous Plan for Valley Center Municipal Water District (District's Plan), provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The District's Plan is part of the Public Agency portion of the California Public Employees Retirement System (CalPERS), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements are established by State statutes within the Public Employees' Retirement Law. The District's Plan selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

(b) Funding Policy

The District has elected to make contributions on behalf of its employees at the required amount of 7% of their annual covered salary. The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The initial required employer contribution rate for the year ending June 30, 2001 was 18.889%. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS. The contribution rates were estimated by CalPERS in February 2001, and will remain in effect until June 30, 2002.

(c) Additional Information

For the year ended June 30, 2001, the District's annual pension cost was \$66,363 and the District actually contributed \$66,363. Additional information appropriate for disclosure under Governmental Accounting Standards Board Statement No. 27 will not be available from CalPERS until future years.

(11) Retirees' Health Benefits Plan

The District's Board of Directors adopted the Retirees' Health Benefits Plan (Plan) on January 16, 1995, for the benefit of all individuals (excluding members of the Board of Directors) employed by the District. The Plan is permitted under Government Code Section 53200 et seq. and generally provides that the District will pay all or a portion of the premiums for certain postemployment health insurance coverage for participants. The Plan administrator is the advisory committee for the District's Retirement Plan 002 described in Note 9.

Plan benefits are based upon certain age and service requirements, as well as the particular participation option elected by a retiring eligible employee. After an eligible employee (and a dependent spouse for an electing eligible employee) begins participation in the Plan and until the employee reaches Medicare-eligible age, the District will pay all or a portion of the premium for health insurance coverage under its group plan for current employees. After Medicare-eligible age is reached, the District will pay indefinitely all or a portion of the premium for coverage under the Medicare supplement of its group plan for current employees plus coverage under Medicare Part B. As of June 30, 2001, two retired employees are participating in the Plan.

VALLEY CENTER MUNICIPAL WATER DISTRICT

Notes to Financial Statements, Continued

The Plan provides that the premium cost of benefits is to be paid solely from the general assets of the District and there is no Plan requirement for the District to advance-fund Plan benefits, thus the District accounts for the Plan on a pay-as-you-go basis. The District's Board of Directors, wholly in its discretion and based in part on the nonbinding recommendation of consulting actuaries, periodically resolves to restrict cash and cash equivalents for the payment of Plan benefits. No assets have been transferred to the Plan administrator. The Board presently intends to similarly restrict or to pay to the Plan administrator for all subsequent years an annual amount that is no more than 8% of Retirement Plan 002 covered payroll plus interest on previously accumulated amounts at a rate equivalent to the District's overall actual annual investment yield. If in the future these accumulated amounts appear insufficient to pay for Plan benefits, it is presently the Board's intention that the Plan would be amended to reduce its benefits. The present intentions of the Board are described herein solely for informational purposes and do not bind current and future members of the District's Board of Directors.

The Plan requires that any separately accumulated funds will, upon Plan discontinuance or termination and after payment of necessary expenses, be distributed equitably among the District's then active employees, eligible employees, and Plan participants. As described in Note 7(d), the Board restricted assets of \$1,608,315 and \$1,282,334 as of June 30, 2001 and 2000, respectively, for the payment of benefits under the Plan. Management construes the provisions of the Plan to require that funds so restricted cannot revert to the District. Recorded expense for the Plan for the years ended June 30, 2001 and 2000, amounted to \$330,550 and \$290,998, respectively.

(12) Special Assessment Bonds

On February 5, 1997, Valley Center Municipal Water District Assessment District No. 96-1 (AD 96-1) issued \$1,743,654 of limited obligation improvement bonds pursuant to the provisions of the Municipal Improvement Act of 1913 and the Improvement Bond Act of 1915. Under the Acts, the District is not obligated to repay the AD 96-1 bonds and the District does not intend in any manner to assume responsibility for the repayment of such debt. The bond proceeds were used to establish reserve funds, pay bond issuance costs, refund to certain AD 96-1 property owners previous costs advanced, and expand the Lower Moosa Canyon water reclamation facility. AD 96-1 bonds payable at June 30, 2001 and 2000, amounted to \$1,580,000 and \$1,635,000, respectively.

The bonds and interest are paid from annual special assessments on property within AD 96-1. The annual assessments are billed to and collected from the AD 96-1 property owners, along with other property taxes and assessments, and remitted to the District. The District remits the annual assessments as well as any prepaid assessments received from property owners to the AD 96-1 trustee (a commercial trust company) for eventual payment to the bondholders.

VALLEY CENTER MUNICIPAL WATER DISTRICT

Notes to Financial Statements, Continued

(13) 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; injuries to employees; and natural disasters.

The District manages these risks with its participation in the Association of California Water Agencies Joint Powers Insurance Authority (JPIA). The JPIA is a risk-pooling self-insurance authority created under the provisions of the California Government Code for the purpose of providing insurance coverage for its member districts. The JPIA purchases excess insurance from commercial insurance carriers to reduce its exposure to large losses. The JPIA also administers and settles all claims under the various contracts.

The District pays annual premiums for its liability (auto, general, and public officials), property loss, workers' compensation and fidelity bond coverage. They are subject to retrospective adjustments based on claims experience. The nature and amounts of these adjustments cannot be estimated and are charged or credited to expense as invoiced. The District's JPIA insurance expense for the years ending June 30, 2001 and 2000, amounted to \$238,560 and \$181,348, respectively. There were no instances in the past three years where a settlement exceeded the District's coverage.

(14) Economic Dependency

All water sold by the District is purchased from the San Diego County Water Authority. All energy (electricity and natural gas) needed by the District for pumping and other uses is delivered through the transmission facilities of San Diego Gas & Electric Co.

(15) Commitments and Contingencies

(a) Contracts

The District entered into several contracts for engineering and construction of additions to utility plant. Unfulfilled commitments under open contracts as of June 30, 2001, are summarized as follows:

Total open contracts	\$ 1,740,459
Costs incurred as of June 30, 2001	<u>1,371,919</u>
Remaining contractual commitments	\$ <u>368,540</u>

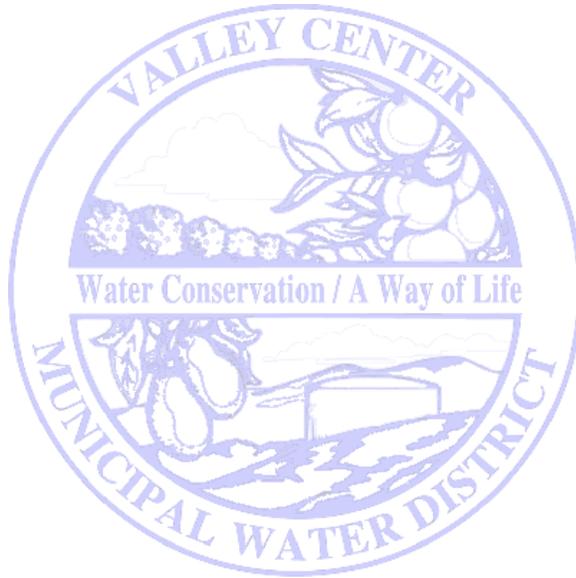
(b) Environmental Liability

The District has been designated as a PRP (potentially responsible party) with respect to the cleanup of hazardous waste and other environmental contamination at the Chatham Brothers Barrel Yard site, which is a site listed on the State Priority List for the State of California, in Escondido, California. The District joined a group of other PRP's and the group is currently investigating the amount of remedial costs necessary to clean up the site. Although the total cost for cleanup cannot be estimated with certainty at this time, estimates have ranged from \$8,000,000 to \$31,000,000. The District's share of the total cost of cleanup has most recently been determined to be .08% (.0008), but its share will increase if other PRP's should fail to participate at their determined level. The District has determined that a future liability of \$37,629 is probable at this time and, accordingly, has accrued this amount as a liability as of June 30, 2001.

(c) Litigation

The District is named as defendant in various pending legal actions. Management is of the opinion that any potential liability which could result, if unfavorable decisions are rendered in these pending legal actions, would not have a material effect on the financial statements.





COMBINING SCHEDULES

VALLEY CENTER MUNICIPAL WATER DISTRICT

Combining Balance Sheet Schedules

June 30, 2001 and 2000

2001

<u>Assets</u>	<u>Total</u>	<u>General subfund</u>	<u>Lower Moosa sewer subfunds</u>	<u>Skyline Ranch sewer subfund</u>	<u>Woods Valley Ranch sewer subfund</u>	<u>Debt service subfunds</u>
Current assets:						
Cash and cash equivalents	\$ 9,484,794	9,490,610	-	9,576	(15,392)	-
Accounts receivable - water and sewer, net	4,193,111	4,193,111	-	-	-	-
Interest receivable	333,207	333,207	-	-	-	-
Other receivables	190,867	190,867	-	-	-	-
Inventories	285,866	285,866	-	-	-	-
Prepaid expenses	122,512	122,512	-	-	-	-
Deposits	59,310	59,310	-	-	-	-
Work in progress for others	230,777	230,777	-	-	-	-
Total current assets	<u>14,900,444</u>	<u>14,906,260</u>	<u>-</u>	<u>9,576</u>	<u>(15,392)</u>	<u>-</u>
Restricted assets:						
Cash and cash equivalents	3,181,826	2,543,600	522,023	99,072	-	17,131
Marketable securities	10,703,337	10,703,337	-	-	-	-
Other receivables	26,371	-	-	-	-	26,371
Total restricted assets	<u>13,911,534</u>	<u>13,246,937</u>	<u>522,023</u>	<u>99,072</u>	<u>-</u>	<u>43,502</u>
Utility plant:						
Total utility plant in service	78,111,291	66,641,643	8,411,389	206,177	-	2,852,082
Less accumulated depreciation	35,297,918	31,189,566	2,541,790	95,458	-	1,471,104
Net utility plant in service	<u>42,813,373</u>	<u>35,452,077</u>	<u>5,869,599</u>	<u>110,719</u>	<u>-</u>	<u>1,380,978</u>
Construction in progress						
Construction in progress	3,520,013	3,265,175	212,797	-	42,041	-
Net utility plant	<u>46,333,386</u>	<u>38,717,252</u>	<u>6,082,396</u>	<u>110,719</u>	<u>42,041</u>	<u>1,380,978</u>
	<u>\$ 75,145,364</u>	<u>66,870,449</u>	<u>6,604,419</u>	<u>219,367</u>	<u>26,649</u>	<u>1,424,480</u>

VALLEY CENTER MUNICIPAL WATER DISTRICT

Combining Balance Sheet Schedules, Continued

June 30, 2001 and 2000

2001

<u>Liabilities and Fund Equity</u>	<u>Total</u>	<u>General subfund</u>	<u>Lower Moosa sewer subfunds</u>	<u>Skyline Ranch sewer subfund</u>	<u>Woods Valley Ranch sewer subfund</u>	<u>Debt service subfunds</u>
Current liabilities (payable from current assets):						
Current installments of revenue bonds payable	\$ 60,000	60,000	-	-	-	-
Accounts payable	5,138,215	5,138,215	-	-	-	-
Accrued payroll	142,797	142,797	-	-	-	-
Accrued vacation and sick leave	866,300	866,300	-	-	-	-
Customer deposits	554,737	551,487	3,250	-	-	-
Total current liabilities (payable from current assets)	<u>6,762,049</u>	<u>6,758,799</u>	<u>3,250</u>	<u>-</u>	<u>-</u>	<u>-</u>
Current liabilities (payable from restricted assets):						
Customer deposits	6,812	-	-	-	6,812	-
Total current liabilities (payable from restricted assets)	<u>6,812</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,812</u>	<u>-</u>
Long-term debt, excluding current installments:						
Revenue bonds payable	900,000	900,000	-	-	-	-
Loan payable (payable from restricted assets)	1,500,000	-	1,500,000	-	-	-
Annexation fees payable	9,898	9,898	-	-	-	-
Retirees' health benefits plan liability (payable from restricted assets)	1,608,315	1,608,315	-	-	-	-
Total long-term debt, excluding current installments	<u>4,018,213</u>	<u>2,518,213</u>	<u>1,500,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>10,787,074</u>	<u>9,277,012</u>	<u>1,503,250</u>	<u>-</u>	<u>6,812</u>	<u>-</u>
Fund equity:						
Contributed capital	14,401,673	10,551,198	3,619,663	209,791	21,021	-
Retained earnings (deficit)	49,956,617	47,042,239	1,481,506	9,576	(1,184)	1,424,480
Total fund equity	<u>64,358,290</u>	<u>57,593,437</u>	<u>5,101,169</u>	<u>219,367</u>	<u>19,837</u>	<u>1,424,480</u>
	<u>\$ 75,145,364</u>	<u>66,870,449</u>	<u>6,604,419</u>	<u>219,367</u>	<u>26,649</u>	<u>1,424,480</u>

VALLEY CENTER MUNICIPAL WATER DISTRICT

Combining Balance Sheet Schedules, Continued

June 30, 2001 and 2000

	2000					
	Total	General subfund	Lower Moosa sewer subfunds	Skyline Ranch sewer subfund	Woods Valley Ranch sewer subfund	Debt service subfunds
<u>Assets</u>						
Current assets:						
Cash and cash equivalents	\$ 8,191,621	8,237,814	(29,975)	(3,411)	(12,807)	-
Marketable securities	4,682,421	4,682,421	-	-	-	-
Accounts receivable - water and sewer, net	3,978,113	3,978,113	-	-	-	-
Interest receivable	372,083	372,083	-	-	-	-
Other receivables	53,712	53,712	-	-	-	-
Inventories	260,273	260,273	-	-	-	-
Prepaid expenses	87,215	87,215	-	-	-	-
Deposits	53,610	53,610	-	-	-	-
Work in progress for others	172,341	172,341	-	-	-	-
Total current assets	<u>17,851,389</u>	<u>17,897,582</u>	<u>(29,975)</u>	<u>(3,411)</u>	<u>(12,807)</u>	<u>-</u>
Restricted assets:						
Cash and cash equivalents	764,973	13,569	650,275	90,759	-	10,370
Marketable securities	12,383,414	12,383,414	-	-	-	-
Other receivables	29,946	-	-	-	-	29,946
Total restricted assets	<u>13,178,333</u>	<u>12,396,983</u>	<u>650,275</u>	<u>90,759</u>	<u>-</u>	<u>40,316</u>
Utility plant:						
Total utility plant in service	74,230,018	62,811,065	8,360,694	206,177	-	2,852,082
Less accumulated depreciation	33,088,555	29,424,277	2,170,322	90,544	-	1,403,412
Net utility plant in service	<u>41,141,463</u>	<u>33,386,788</u>	<u>6,190,372</u>	<u>115,633</u>	<u>-</u>	<u>1,448,670</u>
Construction in progress	3,923,003	3,708,753	173,913	-	40,337	-
Net utility plant	<u>45,064,466</u>	<u>37,095,541</u>	<u>6,364,285</u>	<u>115,633</u>	<u>40,337</u>	<u>1,448,670</u>
	<u>\$ 76,094,188</u>	<u>67,390,106</u>	<u>6,984,585</u>	<u>202,981</u>	<u>27,530</u>	<u>1,488,986</u>

VALLEY CENTER MUNICIPAL WATER DISTRICT

Combining Balance Sheet Schedules, Continued

June 30, 2001 and 2000

	2000					
	Total	General subfund	Lower Moosa sewer subfunds	Skyline Ranch sewer subfund	Woods Valley Ranch sewer subfund	Debt service subfunds
<u>Liabilities and Fund Equity</u>						
Current liabilities (payable from current assets):						
Current installments of revenue bonds payable	\$ 50,000	50,000	-	-	-	-
Accounts payable	4,640,764	4,640,764	-	-	-	-
Accrued payroll	137,481	137,481	-	-	-	-
Accrued vacation and sick leave	758,371	758,371	-	-	-	-
Customer deposits	412,955	394,205	18,750	-	-	-
Total current liabilities (payable from current assets)	<u>5,999,571</u>	<u>5,980,821</u>	<u>18,750</u>	<u>-</u>	<u>-</u>	<u>-</u>
Current liabilities (payable from restricted assets):						
Customer deposits	7,665	-	-	-	7,665	-
Total current liabilities (payable from restricted assets)	<u>7,665</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,665</u>	<u>-</u>
Long-term debt, excluding current installments:						
Revenue bonds payable	960,000	960,000	-	-	-	-
Loan payable (payable from restricted assets)	1,500,000	-	1,500,000	-	-	-
Annexation fees payable	11,746	11,746	-	-	-	-
Retirees' health benefits plan liability (payable from restricted assets)	1,282,334	1,282,334	-	-	-	-
Total long-term debt, excluding current installments	<u>3,754,080</u>	<u>2,254,080</u>	<u>1,500,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>9,761,316</u>	<u>8,234,901</u>	<u>1,518,750</u>	<u>-</u>	<u>7,665</u>	<u>-</u>
Fund equity:						
Contributed capital	14,589,162	10,456,322	3,906,280	206,392	20,168	-
Retained earnings (deficit)	51,743,710	48,698,883	1,559,555	(3,411)	(303)	1,488,986
Total fund equity	<u>66,332,872</u>	<u>59,155,205</u>	<u>5,465,835</u>	<u>202,981</u>	<u>19,865</u>	<u>1,488,986</u>
	\$ <u>76,094,188</u>	<u>67,390,106</u>	<u>6,984,585</u>	<u>202,981</u>	<u>27,530</u>	<u>1,488,986</u>

VALLEY CENTER MUNICIPAL WATER DISTRICT

Combining Schedules of Revenues, Expenses, and Changes in Retained Earnings

Years ended June 30, 2001 and 2000

Year ended June 30, 2001

	Total	General subfund	Lower Moosa sewer subfunds	Skyline Ranch sewer subfund	Woods Valley Ranch sewer subfund	Debt service subfunds
Operating revenues:						
Water sales and pumping charges	\$ 26,298,486	26,298,486	-	-	-	-
Meter installation fees	147,515	147,515	-	-	-	-
Sewer charges	637,280	-	560,664	76,616	-	-
Other water operating revenues	235,867	235,867	-	-	-	-
Total operating revenues	<u>27,319,148</u>	<u>26,681,868</u>	<u>560,664</u>	<u>76,616</u>	<u>-</u>	<u>-</u>
Operating expenses:						
Cost of water sold	19,374,345	19,374,345	-	-	-	-
Energy and pumping costs	5,808,455	5,633,409	170,332	4,714	-	-
Water systems operations	2,714,061	2,714,061	-	-	-	-
Sewer collection and treatment	387,476	-	334,644	52,832	-	-
Engineering	673,504	673,504	-	-	-	-
Depreciation	2,273,538	1,812,100	388,832	4,914	-	67,692
General and administrative	1,815,537	1,738,603	67,065	9,869	-	-
Total operating expenses	<u>33,046,916</u>	<u>31,946,022</u>	<u>960,873</u>	<u>72,329</u>	<u>-</u>	<u>67,692</u>
Net operating income (loss)	<u>(5,727,768)</u>	<u>(5,264,154)</u>	<u>(400,209)</u>	<u>4,287</u>	<u>-</u>	<u>(67,692)</u>
Nonoperating revenues (expenses):						
Investment income	1,665,958	1,632,522	31,475	892	(881)	1,950
Property taxes and assessments	1,620,418	1,619,182	-	-	-	1,236
Capital contributions	501,139	459,454	32,519	8,313	853	-
Other nonoperating revenues	93,306	93,306	-	-	-	-
Interest expense	(117,294)	(53,544)	(63,750)	-	-	-
Other nonoperating expenses	(10,341)	(10,341)	-	-	-	-
Net nonoperating revenues	<u>3,753,186</u>	<u>3,740,579</u>	<u>244</u>	<u>9,205</u>	<u>(28)</u>	<u>3,186</u>
Net income (loss)	<u>(1,974,582)</u>	<u>(1,523,575)</u>	<u>(399,965)</u>	<u>13,492</u>	<u>(28)</u>	<u>(64,506)</u>
Adjustment for capital contributions and depreciation on contributed assets closed to contributed capital	<u>187,489</u>	<u>(94,876)</u>	<u>286,617</u>	<u>(3,399)</u>	<u>(853)</u>	<u>-</u>
Net income (loss) closed to retained earnings	<u>(1,787,093)</u>	<u>(1,618,451)</u>	<u>(113,348)</u>	<u>10,093</u>	<u>(881)</u>	<u>(64,506)</u>
Retained earnings transfers	-	(38,193)	35,299	2,894	-	-
Retained earnings (deficit), beginning of year	<u>51,743,710</u>	<u>48,698,883</u>	<u>1,559,555</u>	<u>(3,411)</u>	<u>(303)</u>	<u>1,488,986</u>
Retained earnings (deficit), end of year	\$ <u>49,956,617</u>	<u>47,042,239</u>	<u>1,481,506</u>	<u>9,576</u>	<u>(1,184)</u>	<u>1,424,480</u>

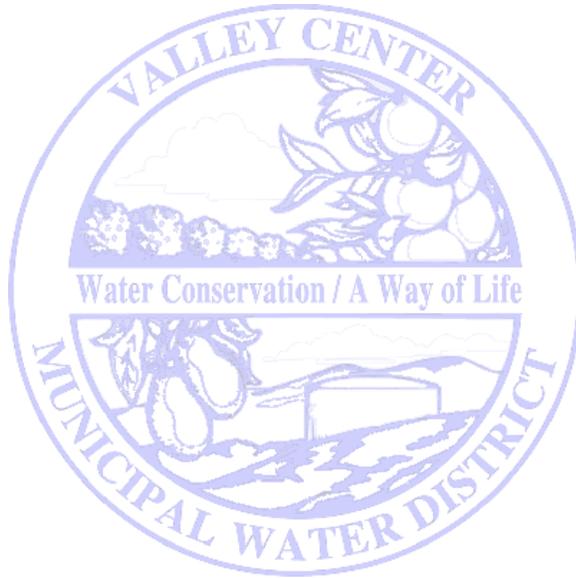
VALLEY CENTER MUNICIPAL WATER DISTRICT

Combining Schedules of Revenues, Expenses, and Changes in Retained Earnings, Continued

Years ended June 30, 2001 and 2000

	Year ended June 30, 2000					
	Total	General subfund	Lower Moosa sewer subfunds	Skyline Ranch sewer subfund	Woods Valley Ranch sewer subfund	Debt service subfunds
Operating revenues:						
Water sales and pumping charges	\$ 28,562,571	28,562,571	-	-	-	-
Meter installation fees	171,129	171,129	-	-	-	-
Sewer charges	522,761	-	478,299	44,462	-	-
Other water operating revenues	210,456	210,456	-	-	-	-
Total operating revenues	29,466,917	28,944,156	478,299	44,462	-	-
Operating expenses:						
Cost of water sold	20,266,611	20,266,611	-	-	-	-
Energy and pumping costs	3,249,934	3,188,445	56,341	5,148	-	-
Water and systems operations	2,353,394	2,353,394	-	-	-	-
Sewer collection and treatment	275,825	-	219,831	55,994	-	-
Engineering	604,677	604,677	-	-	-	-
Depreciation	2,136,247	1,681,754	381,887	4,914	-	67,692
General and administrative	1,594,982	1,532,072	55,098	7,812	-	-
Total operating expenses	30,481,670	29,626,953	713,157	73,868	-	67,692
Net operating loss	(1,014,753)	(682,797)	(234,858)	(29,406)	-	(67,692)
Nonoperating revenues (expenses):						
Investment income	1,276,155	1,245,089	28,355	641	(346)	2,416
Property taxes and assessments	1,644,952	1,554,623	-	-	-	90,329
Capital contributions	1,134,538	919,201	198,121	8,292	8,924	-
Other nonoperating revenues	65,255	65,255	-	-	-	-
Interest expense	(121,885)	(56,496)	(63,750)	-	-	(1,639)
Other nonoperating expenses	(12,281)	(12,109)	-	-	-	(172)
Net nonoperating revenues	3,986,734	3,715,563	162,726	8,933	8,578	90,934
Net income (loss), as restated	2,971,981	3,032,766	(72,132)	(20,473)	8,578	23,242
Adjustment for capital contributions and depreciation on contributed assets closed to contributed capital	(450,926)	(573,931)	117,406	14,523	(8,924)	-
Net income (loss) closed to retained earnings	2,521,055	2,458,835	45,274	(5,950)	(346)	23,242
Retained earnings, beginning of year	49,222,655	46,240,048	1,514,281	2,539	43	1,465,744
Retained earnings (deficit), end of year	\$ 51,743,710	48,698,883	1,559,555	(3,411)	(303)	1,488,986





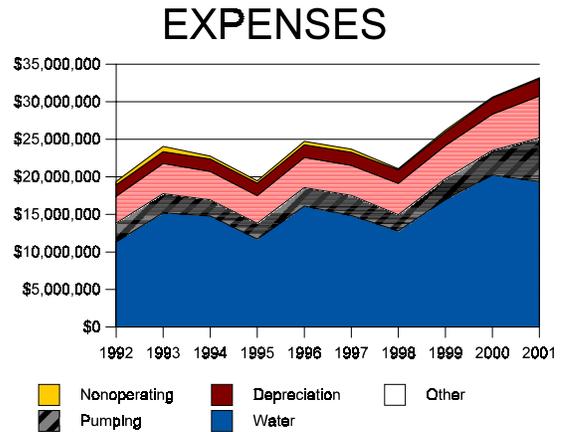
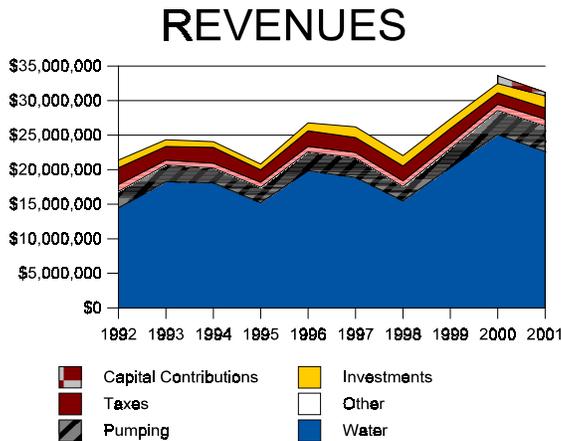
STATISTICAL SECTION

**Table I
REVENUES BY SOURCE
Last Ten Fiscal Years**

FISCAL YEAR ENDED	OPERATING REVENUES						NON-OPERATING REVENUES					TOTAL REVENUES
	WATER SALES (1)	PUMPING (2)	METER INSTALLS	SEWER	OTHER	TOTAL OPERATING REVENUES	PROPERTY TAXES	INVESTMENT INCOME (4)	CAPITAL CONTRIBUTIONS(5)	OTHER		
2001	\$ 22,618,159	(2)\$3,680,327	\$ 147,515	\$637,280	\$ 235,867	\$ 27,319,148	\$ 1,620,418	\$ 1,665,958	\$ 501,139	\$93,306	\$ 31,199,969	
2000	25,108,504	3,454,067	171,129	522,761	210,456	29,466,917	1,644,952	1,276,155	1,134,538	65,255	33,587,817	
1999	20,316,890	2,721,762	161,875	449,749	195,906	23,846,182	2,085,844	1,144,186	N/A	255,394	27,331,606	
1998	15,482,401	2,089,971	132,914	437,531	247,353	18,390,170	2,140,125	1,451,859	N/A	61,986	22,044,140	
1997	18,869,070	(2) 2,804,603	77,175	449,362	289,167	22,489,377	2,161,410	1,515,412	N/A	43,746	26,209,945	
1996	19,863,773	2,736,839	84,676	391,710	305,971	23,382,969	2,243,932	1,092,160	N/A	68,702	26,787,763	
1995	15,213,425	2,242,800	83,749	369,111	267,265	18,176,350	1,802,471	836,812	N/A	7,392	20,823,025	
1994	18,080,490	2,140,070	80,835	360,177	297,989	20,959,561	2,266,810	680,189	N/A	149,065	24,055,625	
1993	18,275,847	2,422,302	57,587	316,754	326,753	21,399,243	1,958,086	905,531	N/A	67,744	24,330,604	
1992	14,475,487	2,382,045	25,520	326,075	659,961	(3) 17,869,088	2,413,787	1,096,086	N/A	13,400	21,392,361	

- (1) A detailed schedule of water sales is presented on Table VIII.
- (2) Net of credits for Metropolitan Water District refunds of \$544,111 in 2001 and \$954,799 in 1997.
- (3) Includes \$455,161 of penalties on excessive use.
- (4) Restated for unrealized gain and losses pursuant to GASB Statement No. 31, which was effective in 1998.
- (5) Capital contributions reported as additions to contributed equity until GASB Statement No. 33 in 2000.

Source: Valley Center Municipal Water District



**Table II
EXPENSES BY FUNCTION
Last Ten Fiscal Years**

FISCAL YEAR ENDED	OPERATING EXPENSES						NON-OPERATING EXPENSES		TOTAL EXPENSES		
	COST OF WATER SOLD	ENERGY AND PUMPING	WATER SYSTEMS OPERATIONS	SEWER COLLECTION & TREATMENT	GENERAL ADMIN. & FINANCE	DEPRECIATION	TOTAL OPERATING EXPENSES	INTEREST ON DEBT		OTHER (2)	
2001	\$19,374,345	\$ 5,808,455	\$ 2,714,061	\$ 387,476	\$ 673,504	\$ 1,815,537	\$ 2,273,538	\$ 33,046,916	\$ 117,294	\$ 10,341	\$33,174,551
2000	20,266,611	3,249,934	2,353,394	275,825	604,677	1,594,982	2,136,247	30,481,670	121,885	12,281	30,615,836
1999	16,995,191	2,757,191	2,051,169	279,198	531,482	1,560,855	1,803,750	25,978,836	94,362	141,638	26,214,836
1998	12,795,462	2,164,899	2,075,988	203,910	502,083	1,399,502	1,783,522	20,925,366	145,547	11,313	21,082,226
1997	14,859,285	(1) 2,667,979	2,033,254	196,233	463,948	1,311,340	1,745,892	23,277,931	188,735	219,040	23,685,706
1996	16,119,824	2,444,408	2,106,420	206,380	478,911	1,232,549	1,681,968	24,270,460	238,584	229,142	24,738,186
1995	11,718,702	2,109,596	2,046,825	175,439	428,032	1,037,960	1,639,702	19,156,256	298,539	16,797	19,471,592
1994	14,792,381	2,155,369	1,981,680	140,135	464,610	1,184,095	1,660,998	22,379,268	306,365	65,747	22,751,380
1993	15,225,334	2,518,634	1,996,973	141,328	447,985	1,455,395	1,572,821	23,358,470	674,571	10,101	24,043,142
1992	11,353,994	2,487,535	1,980,542	115,864	406,602	1,076,265	1,529,614	18,950,416	427,421	11,535	19,389,372

- (1) Net of \$1,333,039 rate credit for Metropolitan Water District.
- (2) Includes loss on termination of projects and disposition of assets.

Source: Valley Center Municipal Water District

Table III
PROPERTY TAX AND ASSESSMENT LEVIES AND COLLECTIONS ⁽¹⁾
Last Ten Fiscal Years

FISCAL YEAR ENDED	LEVY			TOTAL COLLECTIONS (2)	NET DELINQUENT (3)	PERCENT DELINQUENT (4)
	PROPERTY TAXES	SPECIAL ASSESSMENTS	TOTAL LEVY			
2001	\$ 1,078,238	\$ 742,248	1,820,486	\$ 1,803,398	17,088	0.0%
2000	1,078,652	759,020	1,837,672	1,820,215	17,457	0.0%
1999	1,436,622	863,270	2,299,892	2,275,044	24,848	0.0%
1998	1,477,490	787,469	2,264,959	2,243,518	21,441	0.0%
1997	1,492,188	760,836	2,253,024	2,233,312	19,712	0.0%
1996	1,558,108	807,542	2,365,650	2,350,680	14,970	0.0%
1995	1,393,566	490,099	1,883,665	1,867,564	16,101	0.0%
1994	1,894,997	412,778	2,307,775	2,296,992	10,783	0.0%
1993	1,833,691	454,146	2,287,837	1,966,807	321,030	7.0%
1992	2,266,968	454,588	2,721,556	2,436,690	284,866	6.4%

- (1) Percent delinquencies for assessments and property taxes are the same since they are both collected on one tax bill.
- (2) Collections do not include miscellaneous adjustments.
- (3) Net Delinquent includes uncollectible portion.
- (4) Percent delinquent represents current secured only. Beginning in fiscal year 1993-94, the County of San Diego remitted to the District 100% of the secured property taxes and special assessments assessed. The County of San Diego then pursued collection of any remaining delinquencies through the Teeter Plan.

Source: Valley Center Municipal Water District and the Office of the Auditor Controller, County of San Diego

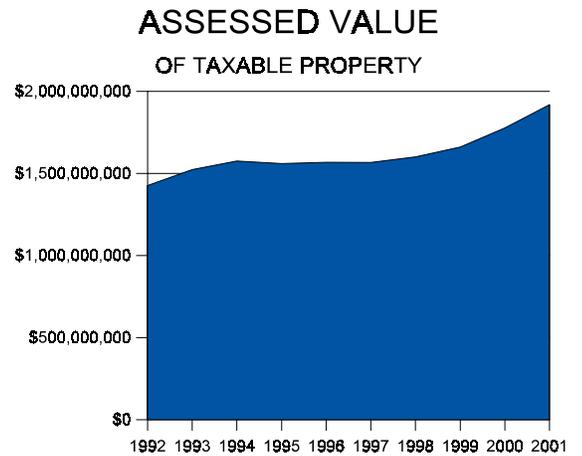
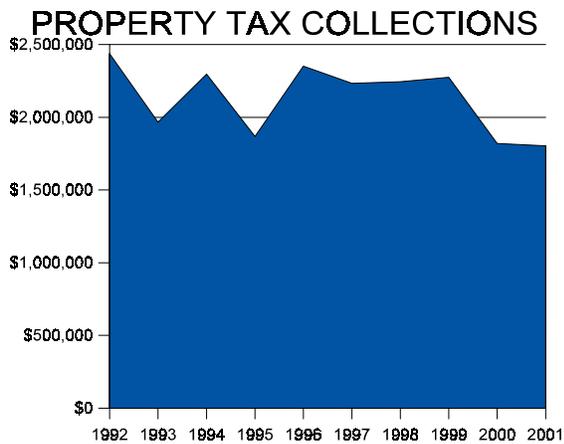


Table IV
ASSESSED VALUE OF TAXABLE PROPERTY
Last Ten Fiscal Years

FISCAL YEAR ENDED	SECURED			NET ASSESSED VALUE	ASSESSED UNSECURED VALUE	TOTAL ASSESSED VALUE	TAX RATE
	REAL PROPERTY	PERSONAL PROPERTY	EXEMPTIONS				
2001	\$ 1,916,554,247	\$ 525,794	\$ 10,881,145	\$ 1,906,198,896	\$ 12,541,411	\$ 1,918,740,307	0.00000
2000	1,774,453,328	594,351	10,722,016	1,764,325,663	12,474,511	1,776,800,174	0.00000
1999	1,656,826,114	1,218,439	9,627,329	1,648,417,224	12,888,452	1,661,305,676	0.02462
1998	1,598,769,552	774,021	9,087,383	1,590,456,190	10,068,791	1,580,387,399	0.02922
1997	1,566,898,632	759,275	8,973,430	1,558,684,477	8,670,874	1,550,013,603	0.03408
1996	1,565,745,748	926,532	7,991,451	1,558,680,829	9,393,715	1,549,287,114	0.03636
1995	1,558,964,694	1,381,257	8,246,150	1,552,099,801	8,551,863	1,543,547,938	0.02771
1994	1,573,962,375	993,745	7,735,487	1,567,220,633	8,534,298	1,558,686,335	0.03567
1993	1,520,737,362	814,176	7,052,946	1,514,498,592	9,382,465	1,505,116,127	0.03276
1992	1,425,047,725	3,300,749	7,069,797	1,421,278,677	5,738,951	1,415,539,726	0.03433

Source: Office of the Auditor Controller, County of San Diego

TABLE V
RATIO OF NET GENERAL BONDED DEBT TO ASSESSED VALUE
AND NET BONDED DEBT PER CAPITA
Last Ten Fiscal Years

FISCAL YEAR ENDED	POPULATION ESTIMATE	ASSESSED VALUATION	GROSS BONDED DEBT (1)	LESS DEBT SERVICE FUNDS (2)	NET BONDED DEBT	NET BONDED DEBT TO ASSESSED VALUATION	NET BONDED DEBT PER CAPITA
2001	22,785	\$ 1,918,740,307	\$ 0	\$ 0	\$ 0	0.00%	\$ 0.00
2000	22,347	1,776,800,174	0	0	0	0.00%	0.00
1999	21,838	1,661,305,676	291,606	216,044	75,562	0.00%	3.46
1998	21,374	1,600,524,981	1,044,004	380,667	663,337	0.04%	31.03
1997	20,826	1,567,355,351	1,739,973	423,686	1,316,287	0.08%	63.20
1996	20,547	1,568,074,544	2,443,413	437,699	2,005,714	0.13%	97.62
1995	20,324	1,560,651,664	3,215,415	522,498	2,692,917	0.17%	132.50
1994	20,014	1,575,754,931	3,999,074	725,683	3,273,391	0.21%	163.56
1993	19,734	1,523,881,057	4,699,353	609,238	4,090,115	0.27%	207.26
1992	19,169	1,427,017,628	5,361,547	473,934	4,887,613	0.34%	254.97

- (1) Includes general obligation bonds and loans; excludes revenue bonds. All general obligation bonds were paid in full by June 30, 2000.
(2) Comprised of cash and cash equivalents restricted by the Board of Directors for debt service.

Source: Valley Center Municipal Water District and the Office of the Auditor Controller, County of San Diego, and State of California Department of Finance

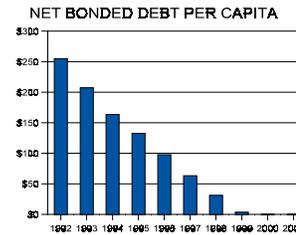
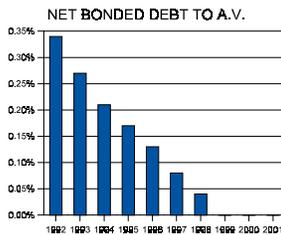


Table VI
DIRECT AND
OVERLAPPING BONDED DEBT
June 30, 2001

2000-01 Assessed Valuation	\$1,918,740,307	Percent Applicable	Debt June 30, 2000
<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>			
Metropolitan Water District		0.20	\$ 1,033,861
San Diego County Water Authority		1.12	52,778
Valley Center Municipal Water District - Assessment District No. 96-1		100.00	1,580,000
Escondido Union High School District		6.61	2,888,554
Fallbrook Union High School District		1.72	427,517
Escondido Union School District		6.90	1,485,050
Valley Center Union School District		80.17	3,972,003
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT			11,439,763
<u>OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u>			
San Diego County General Fund Obligations		1.08	5,952,432
San Diego County Pension Obligations		1.08	3,424,153
San Diego County Superintendent of Schools Certificates of Participation		1.08	23,468
Palomar Community College District Certificates of Participation		4.84	335,620
Escondido Union School District Certificates of Participation		6.90	597,541
City of Escondido Certificates of Participation		0.05	44,689
TOTAL OVERLAPPING GENERAL FUND OBLIGATION DEBT			10,377,903
COMBINED TOTAL DEBT			\$ 21,817,666
<u>Ratios to Assessed Valuation:</u>			
Direct Debt		0.00%	
Total Direct and Overlapping Tax and Assessment Debt		0.60%	
Combined Total Debt		1.14%	
STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/01			\$ 0

Note: Bonded debt for Valley Center Municipal Water District includes all debt for which taxes are levied.

Source: California Municipal Statistics, Inc., and Valley Center Municipal Water District

TABLE VII
REVENUE DEBT COVERAGE
Last Ten Fiscal Years

FISCAL YEAR ENDED	GROSS REVENUE (1)	OPERATING EXPENSE (2)	NET REVENUE AVAILABLE FOR DEBT SERVICE	DEBT SERVICE REQUIREMENTS			COVERAGE FACTOR
				PRINCIPAL	INTEREST	TOTAL	
2001	\$ 30,698,830	\$ 30,773,378	\$ (74,548)	\$ 50,000	\$ 117,294	\$ 167,294	(45)% (6)
2000	32,453,279	28,345,423	4,107,856	50,000	119,150	169,150	2,429%
1999	27,331,606	24,175,086	3,156,520	170,000	88,052	258,052	1,223%
1998	22,044,140	19,141,844	2,902,296	40,000	67,889	107,889	2,690%
1997	26,209,945	21,532,039	4,677,906	40,000	70,591	110,591	4,230%
1996	26,787,763	22,588,492	4,199,271	40,000	75,574	115,574	3,633%
1995	20,823,025	17,516,554	3,306,471	35,000	87,981	122,981	2,689%
1994	24,055,625	20,718,270	3,337,355	15,000	69,741	84,741	3,938%
1993	25,730,604 (3)	21,785,649	3,944,955	1,390,880 (4)	367,520 (5)	1,758,400	224%
1992	21,392,361	17,420,802	3,971,559	20,971	90,754	111,725	3,555%

(1) Gross revenues exclude capital contributions.

(2) Operating expenses exclude depreciation.

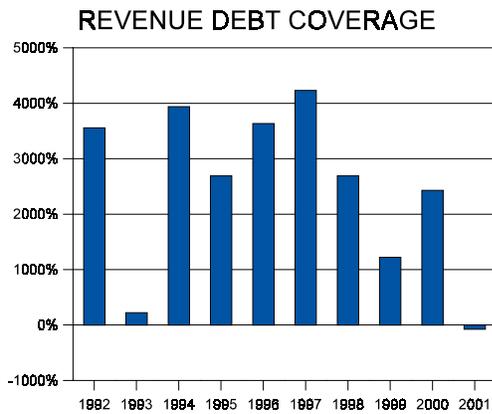
(3) Gross revenues include \$1,400,000 of funds received to refinance Safe Drinking Water loan.

(4) Amount includes payoff of \$1,390,880 due to refinancing of Safe Drinking Water loan.

(5) Amount includes \$278,510 of retroactive interest on Safe Drinking Water loan.

(6) Deficit resulted from increased energy costs which were met by using rate stabilization reserves of \$965,695. Coverage factor including the use of reserves as revenue is 533%.

Source: Valley Center Municipal Water District.



WATER SALES BY CLASSIFICATION

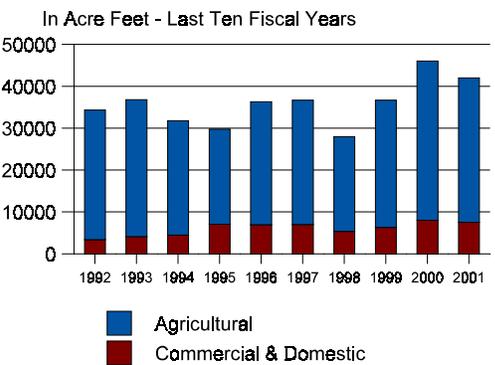


Table VIII
WATER SALES BY CLASSIFICATION (1)
Last Ten Fiscal Years

FISCAL YEAR	DOMESTIC		COMMERCIAL		AGRICULTURAL (2)		TOTAL	
	VALUE	ACRE FEET	VALUE	ACRE FEET	VALUE	ACRE FEET	VALUE	ACRE FEET
2001	\$ 4,534,067	5,991.8	\$ 1,079,219	1,563.4	\$ 17,004,873	34,447.5	\$ 22,618,159 (3)	42,002.7
2000	5,266,215	6,431.8	1,126,417	1,617.3	18,715,871	37,967.5	25,108,504	46,016.6
1999	4,590,299	5,131.5	805,696	1,228.9	14,920,895	30,321.7	20,316,890	36,682.1
1998	3,575,546	4,350.6	695,353	1,032.3	11,211,503	22,614.0	15,482,402	27,996.9
1997	3,356,730	5,484.2	1,046,339	1,538.9	14,466,001	29,633.5	18,869,070 (3)	36,656.6
1996	4,584,382	5,360.2	1,084,017	1,612.0	14,195,374	29,322.7	19,863,773	36,294.9
1995	3,700,340	5,071.0	1,251,672	2,031.7	10,261,413	22,661.1	15,213,425	29,763.8
1994	3,237,932	4,061.8	313,668	481.6	14,528,890	27,261.0	18,080,490	31,804.4
1993	2,386,214	3,505.8	348,879	637.2	15,540,754	32,651.1	18,275,847	36,794.1
1992	1,840,709	2,856.2	279,887	583.2	12,177,741	30,885.8	14,298,337 (4)	34,325.2

(1) Water sales include monthly meter charges but exclude pumping charges. Amounts in acre feet are water billed.

(2) Beginning in fiscal year ended 1995, includes only certified MWD IAWP agricultural water sales.

(3) Net of credits for Metropolitan Water District refunds of \$544,111 in 2001 and \$954,799 in 1997.

(4) Water sales through 1992 do not include revenues from the sale of filtered water. Filter charge revenue is not available by user type prior to 1993.

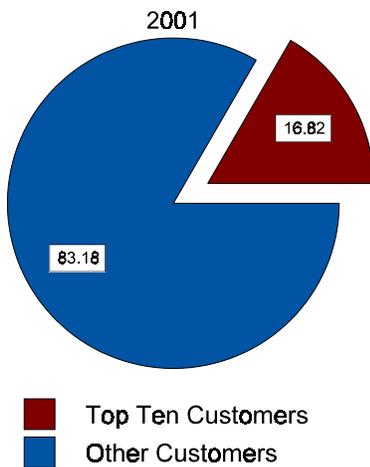
Source: Valley Center Municipal Water District.

**Table IX
PRINCIPAL WATER CUSTOMERS**

Fiscal Year Ended 2001			Fiscal Year Ended 2000		
CUSTOMER NAME	USAGE IN PERCENT OF		CUSTOMER NAME	USAGE IN PERCENT OF	
	ACRE FEET	WATER SOLD		ACRE FEET	WATER SOLD
Sierra Pacific Farms	1,196.8	2.85%	Sierra Pacific Farms	1,243.7	2.70%
BSTCO	997.5	2.37	Stehly, N. J. C.	1,187.0	2.58
Stehly, N. J. C.	966.6	2.30	BSTCO	1,068.2	2.32
Harlan Beck & Associates	870.4	2.07	Harlan Beck & Associates	941.5	2.05
DeJong, John	615.0	1.46	P-K-B Farms	631.6	1.37
P-K-B Farms	557.0	1.33	Paradise Leased	582.2	1.27
Paradise Leased	543.0	1.29	DeJong, John	570.8	1.24
Segal, G.	462.1	1.10	Segal, G.	558.8	1.21
Rancho Trio	431.6	1.03	Coykendall, H. C. J.	513.4	1.12
Rancho Sereno	430.3	1.02	Rancho Sereno	504.0	1.10
Total top ten customers	7,070.3	16.82	Total top ten customers	7,801.2	16.96
Other customers	34,932.4	83.18	Other customers	38,215.4	83.04
Total water sales	42,002.7	100.00%	Total water sales	46,016.6	100.00%

Source: Valley Center Municipal Water District.

Principal Water Customers



ACTIVE METERS

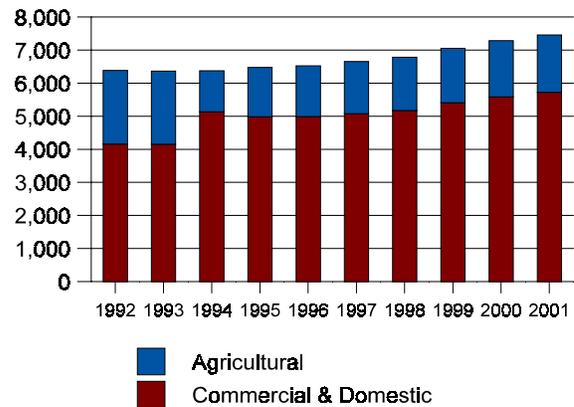


Table X

**ACTIVE METERS
Last Ten Fiscal Years**

FISCAL YEAR ENDED	ACTIVE METERS					INACTIVE METERS	
	POPULATION	DOMESTIC	AGRICULTURAL	COMMERCIAL	TOTAL ACTIVE	ALL CLASSES	TOTAL
2001	22,785	5,423	1,732	303	7,458	662	8,120
2000	22,347	5,244	1,696	345	7,285	675	7,960
1999	21,838	5,055	1,640	356	7,051	734	7,785
1998	21,374	4,824	1,610	353	6,787	778	7,565
1997	20,826	4,723	1,576	354	6,653	790	7,443
1996	20,547	4,640	1,530	357	6,527	807	7,334
1995	20,324	4,633	1,489	357	6,479	800	7,279
1994	20,014	4,649	1,240	488	6,377	794	7,171
1993	19,734	3,986	2,211	170	6,367	775	7,142
1992	19,169	3,994	2,220	171	6,385	709	7,094

Source: Valley Center Municipal Water District.

**Table XI
DEMOGRAPHIC STATISTICS
June 30, 2001**

WATER SYSTEM

Service Area	62,100 acres
Miles of Water Main (8 inches and larger)	264 miles
Number of Enclosed Reservoirs	41
Maximum Capacity of Enclosed Reservoirs	415 acre feet
Number of Open Reservoirs (non-potable)	1
Maximum Capacity of Open Reservoir	1,612 acre feet
Number of Pump Stations	26
Number of Pumps	97
Total Pump Capacity	20,040 horsepower
Number of Service Connections	8,120
Number of Meters in Service	7,458
Production Peak, Fiscal Year 2000-01 (Sept. 13, 2000)	80.01 m.g.d.
Average Production, Fiscal Year 2000-01	39.81 m.g.d.

SEWER SYSTEM

Miles of Sewer Lines	46 miles
Number of Treatment Plants	2
Maximum Capacity of Treatment Plants	0.54 m.g.d.
Number of Sewer Connection	2,271

GENERAL INFORMATION

Estimated Population	22,785
Number of Authorized Employee Positions	64
Average Years of Service of Employees	12.96 years

Source: Valley Center Municipal Water District.

**VALLEY CENTER MUNICIPAL WATER DISTRICT EMPLOYEES
2000-01**

GARY ARANT
BARBARA BAKER
DAVID BEAN
VELMA BLAKE
TOMAS BORROEL
MICHAEL BULL
CRISTI BUSH
SCOTT BUTLER
CHRISTIAN CASTAING
RAND CHRISTENSEN
RICHARD CUNNINGHAM
CHARLES DACUS
RAMIRO DE ALBA JIMENEZ
ROMAN DE MANRIQUEZ
DANIEL DENTINO
LAURIE DOERR
WILLIAM FINTON
BRIAN FOWLER
PATRICIA GARCIA
DALE GERTZEN
RONALD GILBERT

CHRISTINE GOOTEE
TROY GOSWICK
WALLY GRABBE
LINDA HALE
SA HATLAVONGSA
CLARENCE HICKS
ALBERT HOYLE
TONY JACQUEZ
JERE JARRELL
WILLIAM JEFFREY
PATRIC JEWELL
CHRISTINE JOHNSON
DOUGLAS JOHNSON
ROBERT JONES
THAD KLIMAS
ERIC LAVENTURE
RICHARD LEARUE
ANTHONY LOPRESTI
BRIAN LOVELADY
DAVID MANCINO

JOHN MARTINEAU
ANNE MASLEY
WILLIAM MORRIS
ISMAEL NAVAROO
EDWARD OLSON
GABRIELA OLSON
ROBERT PANEK
LEON PENA-CONTRERAS
THANG PHAM
MIKE PUMAR
THOMAS REGAN
YVETTE SERRATO
FRAN SHOUGH
KENNETH SIMON
JOHN STETSON
KATHY STETSON
WILLIAM SUMPTER
DEBORAH TILLEY
JAMES TURNER
JOHN VON BORSTEL
LAWRENCE WATSON

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