

VALLEY CENTER MUNICIPAL WATER DISTRICT
Valley Center, California

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED
JUNE 30, 2003



Prepared by:

The Finance Department
William J. Jeffrey, Director of Finance
James V. Pugh, Accountant

VALLEY CENTER MUNICIPAL WATER DISTRICT COMPREHENSIVE ANNUAL FINANCIAL REPORT TABLE OF CONTENTS

	<u>Schedule/ Table Number</u>	<u>Beginning on Page Number</u>
INTRODUCTORY SECTION		
Transmittal Letter		ii
FINANCIAL SECTION		
Independent Auditor's Report		1
Management's Discussion and Analysis		3
General Purpose Financial Statements		
Statement of Net Assets		12
Statements of Revenues, Expenses, and Changes in Net Assets		14
Statements of Cash Flows		15
Notes to Financial Statements		17
Combining Schedules		
Combining Statement of Net Assets	1	36
Combining Statement of Revenues, Expenses, and Changes in Net Assets	2	38
STATISTICAL SECTION		
Revenues by Source - Last Ten Fiscal Years	I	42
Expenses by Function - Last Ten Fiscal Years	II	42
Property Tax and Assessment Levies and Collections - Last Ten Fiscal Years	III	43
Assessed Value of Taxable Property - Last Ten Fiscal Years	IV	43
Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt per Capita - Last Ten Fiscal Years	V	44
Computation of Direct and Overlapping Bonded Debt	VI	44
Revenue Debt Coverage - Last Ten Fiscal Years	VII	45
Water Sales by Classification - Last Ten Fiscal Years	VIII	45
Principal Water Customers	IX	46
Schedule of Active Meters - Last Ten Fiscal Years	X	46
Demographic Statistics	XI	47

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, 2002

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.



President

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 15, 2003

REPORTING ENTITY

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, 2003.

The report was prepared by the District's Finance Department in accordance with accounting principles generally accepted in the United States of America. 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, is 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, Management's Discussion and Analysis of the Financial Statements, the District's Financial Statements for the Fiscal Year ended June 30, 2003, and explanatory footnotes.
- 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.

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 funds in order to enhance internal control and further the attainment of management objectives. The funds of the reporting entity are identified in the District's books and records as the General, Lower Moosa Sewer Treatment, Skyline Ranch Sewer, and Woods Valley Ranch Sewer funds.

The General fund 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 funds account for the sewer collection and treatment operations for these two facilities which service separate and limited areas of the District. The Woods Valley Ranch Sewer fund presently is used to account for the expansion of the proposed sewer system in the west end of the valley. Activity not included as a part of this report is limited to Assessment District No. 96-1, described in Note 6.

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.

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, 80-90% 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 68 employees working for the District.

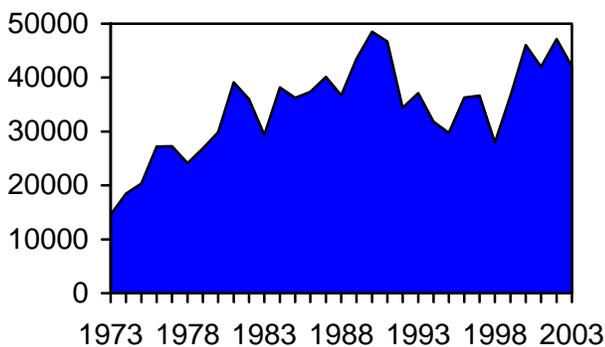
As a member of the San Diego County Water Authority (SDCWA or “Authority”) and the Metropolitan Water District of Southern California (MWD), Valley Center Municipal Water District imports 100% of its water from the Authority for resale to District customers. The District billed 7,841 customers for 42,071 acre feet of water during the year ended June 30, 2003. The cost to purchase this water from the Authority was \$18.2 million or 58% of District water operating expenses.

In its 49 years of existence, the District has constructed a water system consisting of seven aqueduct connections, 41 reservoirs, 26 pumping stations and 273 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. 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 2002-03. Residential meters grew 4.1%. The District continues to see a steady demand for new connections, and has service availability letters for about a thousand connections in process, including 270 homes in the Woods Valley Ranch development. The District’s total active meters increased in 2002-03 by 198 meters to 7,841.

WATER SALES
In Acre Feet - Last 30 Years



With almost nineteen inches of rain for the year, water sales for 2002-03 were 42,071 acre feet, down 5,076 acre feet or 11% from near-record sales of 47,147 acre feet in 2001-02. During the wet year of 1997-98, water sales were only 27,997 acre feet. 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 80% of the District’s total water sold in fiscal year 2002-03 compared to 86% a decade earlier. Since 1992, wholesale water rates have increased significantly to fund increased capacity for imported water. These increased rates have resulted in improved water conservation by agricultural customers. An increase in different agricultural products, including cut flowers and exotic fruits, has also been noted.

In May of 1994, Metropolitan Water District implemented the Interim Agricultural Water Program (IAWP), which provided a \$137 per acre foot discount to qualifying agricultural water users. In addition, on January 1, 1999, the San Diego County Water Authority established a special agricultural rate. (As of January 1, 2003, the IAWP discount is now \$114 per acre foot and the SDCWA discount has been discontinued). In exchange for reduced rates, agricultural customers agree to have their water supply reduced first during droughts and other emergencies. These discounts totaled a direct savings to the District’s agricultural customers of \$4.7 million in 2002-03. However, other factors, including fruit price volatility and the continued increase in demands for new homes in Southern California, will continue to impact the future of farming within the District.

Energy - Power costs have remained high since deregulation began in June of 2000. The District remains 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.

While the energy market has stabilized prices somewhat, there are still uncertainties. We expect energy costs to rise slightly in future years because of several factors. First, until October 2002, the State of California did not issue bonds to reimburse itself for electricity purchased in 2001. Second, while recovery at San Diego Gas and Electric has been offset by other rate reductions, increases are expected. Finally, natural gas prices are still subject to volatility because of continuing low levels of storage and supply problems, including war in the Middle East.

EFFORTS AND ACCOMPLISHMENTS

Strategic Plan Specific Goals - Throughout the year, progress was made on the Strategic Plan Specific Goals, adopted by the Board of Directors, as follows:

- **Full Development of the Geographical Information System (GIS)** - Work continued to complete the GIS system, with about 50% of the master planned functions and data base expansion completed by the end of the fiscal year. Base GIS information has been made available to all staff over the computer network. Water meter locations with data links to the finance data base information is nearly complete. Staff has also begun coordinating the integration of the GIS with the new Hummingbird Document Management System.
- **Supervisory Control And Data Acquisition (SCADA) System** – The pilot project in conjunction with the Lilac Pump Station reconstruction was successfully completed. Funds for programming, development of the control facilities, and the addition of more facilities were approved and secured for fiscal 2003-2004. The additional facilities relate specifically to the seven aqueduct connections and to the other facilities deemed necessary to link to the control center.
- **Lake Turner Emergency Storage and Recreational Use Options** - The District engaged in discussions with the Valley Center Parks and Recreation District about the possibility of that agency committing to a long-term lease and development of Lake Turner for recreational purposes. Discussions were still in the preliminary stages, but ongoing at the end of fiscal year 2002-2003.
- **Corporate Facility Master Plan** - The services of an architect were secured. Extensive conceptual planning work was accomplished during the year, with District staff being presented alternative conceptual designs for review and consideration.
- **Ethics Policy** - The Board developed and approved a “Code of Ethical Practices” for District Board and Staff members.
- **Capital Financing Plan** – A financial advisor was engaged to provide an impartial, third party look at our financial strategies to identify ways to fund the projects recommended in our Water Master Plan. With the financial uncertainties associated with the Mexican Fruit- Fly Infestation and the State Budget crisis, work on the full Capital Financing Plan report was suspended. The consultant, however, was authorized to continue the development of the core financial model. Work on that effort was underway at the end of the fiscal period.
- **Vulnerability Assessment** - Though not due for completion until June 30, 2004, a considerable amount of staff time has been invested. This includes research and attending various training opportunities on Vulnerability Assessments in preparation for the actual work to be undertaken during the fiscal year 2003-2004.
- **Regional Water Supply Alternatives** - In January of 2003, the SDCWA Board of Directors adopted the Regional Facility Master Plan, which selected desalination as the preferred alternative to meet future water supply needs. It also relegated the concept of the Binational Aqueduct to a long-term future project, which is likely to occur well beyond the current planning horizon.



District Office

STRATEGIC PLAN PERFORMANCE MEASUREMENT STANDARDS RESULTS FOR YEAR ENDED JUNE 30, 2003

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 99.0% of the time.

2. WATER LOSS - *Our standard for unaccounted water loss will be less than 5% per calendar year.*

Water loss for calendar year 2002 was approximately 4.2%.

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. DISTRICT SHARE OF TOTAL WATER COMMODITY COSTS - *We will hold the local share of total commodity costs at \$71.62 per acre foot.*

The District’s component of the water rate for operating costs has been \$71.62 since 1999.

5. PUMP EFFICIENCY - *Through ongoing testing, adjusting, and maintenance, we will maintain pump efficiency above 95% of the design criteria.*

Our pump efficiency was 97.7%.

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

Three projects were bid with aggregate results 5.6% higher than estimated.

7. WATER SERVICE RELIABILITY GREATER THAN 99% - *We will strive to maintain water service to all customers at greater than 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%.

8. COMPLIANCE WITH ALL STATE & FEDERAL REGULATIONS.

100%.

9. LOST-TIME ACCIDENTS LESS THAN 1% OF TOTAL HOURS WORKED.

As of June 2003, we have gone over five years with no lost time accidents.

10. 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 Bonds.*

Our yields exceeded the standard by over 1% throughout the year.

Economic Study Group (ESG) and SDCWA Rate Alternatives Analysis - In response to the action taken by the SDCWA Board of Directors, adopting a revised rate structure with a Transportation Component which ignored the basic concepts offered by the ESG and contained in the Authority's own COSAM (Cost Of Service Allocation Model), the ESG filed suit in Superior Court in the fall of 2002. The suit was heard in the spring of 2003, with the lower court finding for the SDCWA. At the end of the fiscal year, the ESG was still considering its options, including the filing of an appeal.

Metropolitan Water District Strategic Planning Process - In the fall of 2002, the MWD Board of Directors took final action to adopt its new rate structure which was effective January 1, 2003. It continued the interruptible agricultural water pricing program, and also relieved agricultural water deliveries from the Readiness to Serve Charge.

Energy Resources Evaluation - Significant progress was made on implementing the recommendation of the Energy Resources Evaluation. It recommended an accelerated pump, motor, and pumping station refurbishment, upgrade, and replacement program to reduce energy consumption and costs. It also recommended that the District operations manual be updated and re-written. Both of those efforts were funded in the 2002-2003 budget and are underway.

Agricultural Water Management Program - Due largely to the efforts of the San Diego County Water Authority Water Conservation staff, with some assistance from District staff, the Agricultural Water Management Plan was completed and submitted to the statewide Agricultural Water Management Council for review, comment and approval. Final approval of the document is anticipated by mid-2003-2004.

PLANNING AND CONSTRUCTION PROJECTS

Water Master Plan - The Master Plan, completed in April 2002, outlined the need for \$64 million in water system improvements, including \$36 million for infrastructure replacement, over the next decade. The District has engaged a financial advisor to complete a long term capital financing plan to determine how to best finance the required improvements. District staff has identified and initiated work on several priority projects.

Transmission and Distribution Facilities Improvements - Construction was completed on the Lilac Pump Station reconstruction, VC #8 aqueduct connection, Upper Welk and Meadows PRV's, as well as the Shadow Lake Road pipeline replacement projects.

Central Valley Sewer - Sewer facilities proposed for the District's central valley area include three small wastewater treatment facilities to be constructed by the developers of the Woods Valley Ranch, Orchard Run, and Live Oak Creek developments. Woods Valley Ranch was approved for a phased construction of the 70,000 gpd water reclamation facility needed for the development. The Orchard Run development has the required discretionary approvals for a 70,000 gpd water reclamation facility. The developer has contracted with a design build firm to design, plan, get approval and construct the facility. Efforts were initiated to combine the Orchard Run Plant with Woods Valley Ranch and expand the facility. Live Oak Ranch continues on hold with the developers making no substantial progress on the wastewater treatment facility design or permit.

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 m.g.d. (million gallons per day) and easily accommodates the existing average daily flow rate of approximately 0.30 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.

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 fund 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. Nearly 100% of the District's inactive funds are invested. The amount of investment income recorded by all funds in the District in 2002-03 was \$557,188, down from the \$899,580 in earnings reported in the prior year. The average yield on the District's investments decreased from 4.1% for 2001-02 to 2.6% for 2002-03.

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 deductibles 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 11 to the financial statements.



Montanya Reservoir

COMPENSATION PLANS

Currently, the District does not participate in Social Security. 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.

The District also offers its employees a deferred compensation plan under Internal Revenue Code section 457. At June 30, 2003, the plan had assets of \$2,476,145 and 59 participants.

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, 2002. 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 eleven consecutive years (fiscal years ended 1992 through 2002). We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA.

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. Arant
General Manager



William J. Jeffrey
Director of Finance



FINANCIAL SECTION





Leaf & Cole, LLP
Certified Public Accountants
A Partnership of Professional Corporations

1843 Hotel Circle South
Suite 300
San Diego, California
92108-3397
619.294.7200
619.294.7077 fax
www.leaf-cole.com
leafcole@leaf-cole.com

Steven W. Northcote, C.P.A.
Lawrence P. Baber, C.P.A.
Michael S. Schreiberman, C.P.A.
Michael J. Zizzi, C.P.A.
Julie A. Firl, C.P.A.

Founders

William R. Leaf, C.P.A. (*Retired*)
William E. Cole, C.P.A., A.P.C. (*Consultant*)

Members

American Institute of Certified Public Accountants
California Society of Certified Public Accountants

Independent Auditor's Report

To the Board of Directors
Valley Center Municipal Water District
29300 Valley Center Road
Valley Center, California 92082

We have audited the accompanying statement of net assets of Valley Center Municipal Water District as of June 30, 2003, and the related statements of revenues, expenses and changes in net assets and cash flows for the year 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 audit.

We conducted our audit 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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 audit provides 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, 2003, and the results of their operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America, as well as the accounting systems prescribed by the State Controller's Office and State Regulations governing Special Districts.

As described in Note 12 to the financial statements, the District adopted the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-For State and Local Governments; Statement No. 37, Basic Financial Statements-and Management's Discussions and Analysis-For State and Local Governments; Omnibus; and Statement No. 38 Certain Financial Statement Note Disclosures as of July 1, 2002. This results in a change in the format and content of the financial statements.

The Management's Discussion and Analysis on pages 3 through 11 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The combining information on pages 29 through 32 is presented for purposes of additional analysis and is not a required part of the financial statements. The combining information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Leaf E. Cole, LLP. San Diego, California
October 22, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Governmental Accounting Standards Board has issued a new accounting standard referred to as GASB Number 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. This statement establishes new financial reporting requirements for state and local governments, including Valley Center Municipal Water District.

This section of the Valley Center Municipal Water District's Comprehensive Annual Financial Report presents management's discussion and analysis of the District's financial performance for the fiscal year ended June 30, 2003. Please read it in conjunction with the transmittal letter at the front of this report and the District's financial statements, which follow this section.

FINANCIAL STATEMENTS

This discussion and analysis provides an introduction and a brief description of the District's financial statements, including the relationship of the statements to each other and the significant differences in the information that they provide. The District's financial statements include four components:

- Statement of Net Assets
- Statement of Revenues, Expenses and Changes in Net Assets
- Statement of Cash Flows
- Notes to the Financial Statements

The statement of net assets includes all of the District's assets and liabilities, with the difference between the two reported as net assets. Net assets are displayed in three categories:

- Invested in Capital Assets, Net of Related Debt
- Restricted Net Assets
- Unrestricted Net Assets

The statement of net assets provides the basis for evaluating the capital structure of the District and assessing its liquidity and financial flexibility.

The statement of revenues, expenses and changes in net assets presents information which shows how the District's net assets changed during the year. All of the current year's revenues and expenses are recorded when the underlying transaction occurs, regardless of the timing of the related cash flows. The statement of revenues, expenses and changes in net assets measures the success of the District's operations over the past year and determines whether the District has recovered its costs through user fees and other charges.

The statement of cash flows provides information regarding the District's cash receipts and cash disbursements during the year. This statement reports cash activity in four categories:

- Operating
- Investing
- Capital financing
- Noncapital financing

This statement differs from the statement of revenues, expenses and changes in net assets by only accounting for transactions that result in cash receipts or cash disbursements.

The notes to the financial statements provide a description of the accounting policies used to prepare the financial statements and present material disclosures required by generally accepted accounting principles that are not otherwise present in the financial statements.

FINANCIAL HIGHLIGHTS

During the year ended June 30, 2003, net assets increased by \$3,068,875. Revenues decreased \$2,802,667 from the prior year while expenses decreased \$1,127,518. For the year ended June 30, 2003, operating expenses exceeded operating revenues by \$1,757,258 and nonoperating revenues of \$3,038,857 exceeded nonoperating expenses of \$116,218. Nonoperating revenues consist primarily of property taxes and assessments, investment income, and the proceeds from an energy settlement. Capital contributions of \$1,903,494 account for most of the increase in net assets of \$3,068,875, after adjusting for the loss from operations and the excess of nonoperating revenues over expenses.

FINANCIAL ANALYSIS OF THE DISTRICT

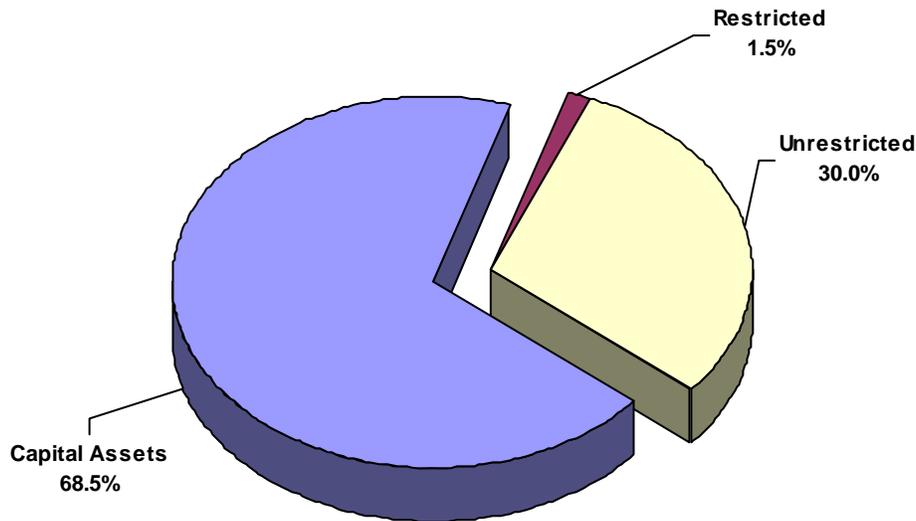
Net Assets - Net assets increased between fiscal years ending 2002 and 2003 from \$69,102,648 to \$72,171,523. Net assets invested in capital assets, net of related debt, increased \$1,439,605, restricted net assets increased \$1,001,539 due to a settlement reached with one of the District's energy providers and the collection of capacity fees, and unrestricted net assets increased \$627,731 primarily due to the District's nonoperating revenues exceeding nonoperating expenses.

NET ASSETS

	2003	2002
Current Assets	\$ 28,206,458	\$ 27,957,972
Noncurrent assets	2,814,684	1,769,432
Capital assets	51,812,579	50,440,068
Total Assets	\$ 82,833,721	\$ 80,167,472
Current liabilities	\$ 7,710,770	\$ 7,048,954
Noncurrent liabilities	2,951,428	4,009,058
Total Liabilities	10,662,198	11,064,824
Net assets:		
Invested in capital assets, net of related debt	49,471,743	48,032,138
Restricted	1,104,843	103,304
Unrestricted	21,594,937	20,967,206
Total Net Assets	72,171,523	69,102,648
Total Liabilities and Net Assets	\$ 82,833,721	\$ 80,167,472

TOTAL NET ASSETS

Fiscal Year 2002-03



Change in Net Assets - The District's operating revenues decreased 10.8% to \$29,510,423 as a result of decreased consumption attributed to a significant increase in rainfall. The infestation of local orchards by the Mediterranean fruit fly and the outbreak of Newcastle disease in the local egg ranches through October 2003 also affected sales to agricultural customers.

The District's operating expenses decreased 3.4% percent to \$31,267,681. Operating expenses decreased primarily due to lower amounts of water purchased in response to the decrease demand noted above. These costs savings were offset somewhat by increases in labor costs, depreciation, and energy costs.

The District's investment income decreased \$342,391 due to the diminishing return offered on investments of like quality. Tax revenues increased 5.7% as a result of increasing property values in the area.

CHANGES IN EQUITY

	<u>2003</u>	<u>2002</u>
Revenues:		
Operating revenues	\$29,510,423	\$33,071,666
Nonoperating revenues (expenses)	2,922,639	2,321,063
Contributed capital	1,903,494	1,746,494
Total Revenues	<u>34,336,556</u>	<u>37,139,223</u>
Expenses:		
Operating expenses	<u>31,267,681</u>	<u>32,395,199</u>
Total Expenses	<u>31,267,681</u>	<u>32,395,199</u>
Increase in Net Assets	<u>\$ 3,068,875</u>	<u>\$ 4,744,358</u>

ANALYSIS OF FUNDS

General Fund

Revenues for the year ended June 30, 2003, totaled \$32,684,479, which is a 10.5% decrease from the prior year. Details of this decrease in revenues are as follows:

➤ Water sales decreased by 11.4%, or \$2,696,871, from the prior year. There was a 10.8% decrease in the volume of water sold. In 2002-03, 42,071 acre feet of water were billed compared to 47,147 acre feet in the prior year. Meter charges increased 1.7% from \$2,142,362 in 2001-02 to \$2,178,884 in 2002-03.

➤ Energy and pumping revenues decreased 18.9%, or \$1,131,203, due to the reduction in the volume of water sold.

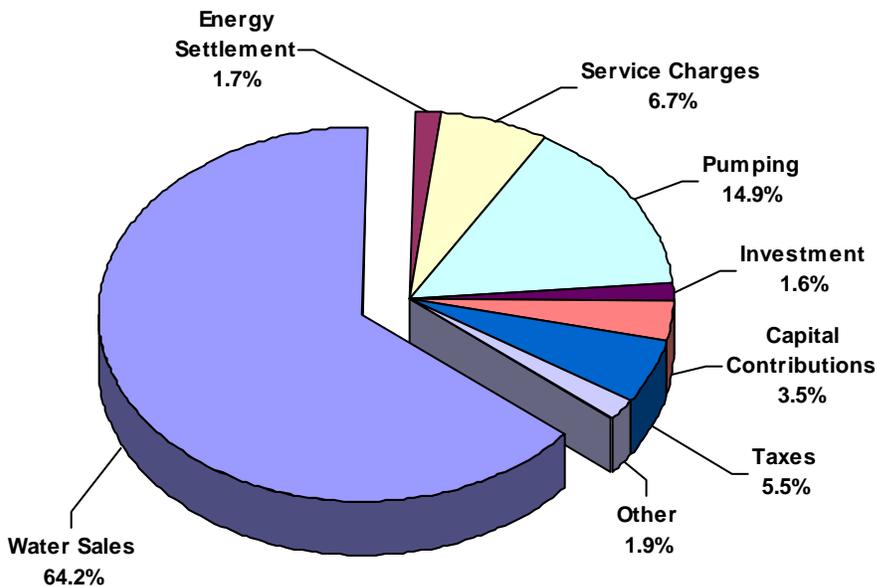
➤ Property taxes and assessments increased by 5.7%, or \$97,795, from 2001-02 to 2002-03. This increase is due to an increase in assessed valuation in the District. The District has adopted San Diego County's alternative method of distribution of tax levies and collections under which the County advances 100% of the secured tax levies due to the District each year without consideration for delinquencies.

➤ Investment income decreased 38.9%, or \$341,489, from the prior year. This decrease is due to market conditions, including unrealized appreciation on investments. Yields decreased from 3.4% to 2.1% during the course of the year. Interest income includes interest earned by the general fund from advances to the sewer funds.

➤ Other nonoperating revenues increased \$11,893, or 10.6% in 2002-03. These consist primarily of rents received from leases for telecommunications facilities.

➤ Capital contributions vary based on developer projects. The year saw a decrease of \$379,499 or 24.8% from the prior year which was the highest level of developer-contributed infrastructure for at least the last ten years.

GENERAL FUND REVENUE Fiscal Year 2002-03

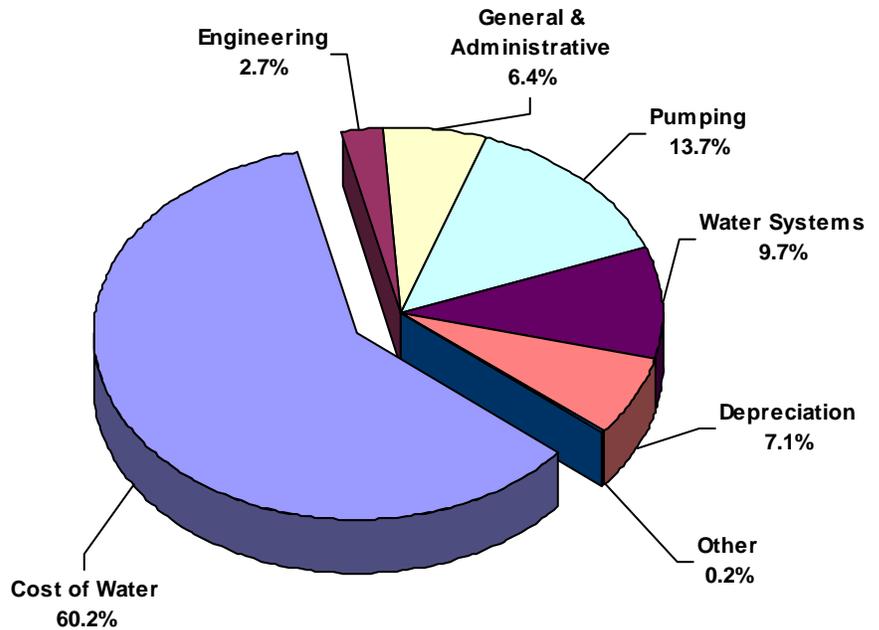


Expenses for the year ended June 30, 2003, totaled \$30,204,925, a decrease of 4.5% or \$1,420,559. Certain significant expenses are as follows:

- The cost of water sold decreased 10.2% due to decreased water deliveries caused by a significant increase in rainfall. In 2001-02, the District purchased 49,524 acre feet of water at an average price of \$409 per acre foot. In the current year, the District purchased 43,675 acre feet of water at an average price of \$416 per acre foot, an increase of 1.7% or \$7 per acre foot. Effective January 1, 2003, the Metropolitan Water District of Southern California (MWD) and San Diego County Water Authority (CWA) implemented new rate structures. These include the addition of several new fixed components: a capacity reservation charge by MWD along with a customer service charge and emergency storage program charge by the CWA. These fixed charges and the readiness to service charge previously in effect totaled \$1,332,600. The cost of water sold is net of a refund of \$635,111 as a result of a reduction in the CWA's reserve requirements.

Agricultural rebates from MWD and CWA were \$4,660,046 for fiscal year 2002-03. This equates to a rebate of \$138 per acre foot. This cost reduction for agricultural water is passed through to the District's qualified agricultural customers.

GENERAL FUND EXPENSES Fiscal Year 2002-03



- Energy and pumping costs associated with the distribution of water for the District increased 3.4%, or \$134,102, from the prior year due to a refund of \$358,274 received in 2002, offset by decreased energy use commensurate with decreased water deliveries.
- Water systems operations expenses increased 8.7%, or \$235,737, from the prior year due to increased maintenance and operating costs..
- Depreciation expense in 2002-03 increased 13.1%, or \$249,459, from the prior year due to plant additions.
- General and administrative expenses increased 4.3% or \$80,642 due to increased maintenance and supply costs.
- Interest expense continued to decline due to the decline in principal balances and lower interest rates.
- Other nonoperating expenses include a loss of \$27,646 compared to the prior year of \$230,863. This represents the undepreciated balance of assets which were replaced during the year. This reduction is due to fewer replacement projects completed as compared to the prior fiscal year.

GENERAL FUND CHANGES IN EQUITY

	2003	2002	Increase (Decrease)	Percent Change
REVENUES:				
Water Sales	\$20,975,565	\$23,672,436	\$ (2,696,871)	(11.4) %
Meter Service Charges	2,178,884	2,142,362	36,522	1.7 %
Pumping and energy charges	4,864,087	5,995,290	(1,131,203)	(18.9) %
Property taxes and assessments	1,801,576	1,703,781	97,795	5.7 %
Investment income	538,741	880,230	(341,489)	(38.9) %
Customer fees and charges	495,336	477,946	17,390	3.6 %
Energy settlement	556,444	0	556,444	-
Other nonoperating revenues	123,649	111,756	11,893	10.6 %
Capital Contributions	1,150,197	1,529,696	(379,499)	(24.8) %
Total revenues	<u>32,684,479</u>	<u>36,513,497</u>	<u>(3,829,018)</u>	<u>(10.5) %</u>
EXPENSES:				
Cost of water sold	18,179,621	20,245,538	(2,065,917)	(10.2) %
Energy and pumping costs	4,120,398	3,986,296	134,102	3.4 %
Water systems operations	2,935,531	2,699,794	235,737	8.7 %
Engineering	828,884	673,468	155,416	23.1 %
General and administrative	1,941,348	1,860,706	80,642	4.3 %
Depreciation	2,147,706	1,898,247	249,459	13.1 %
Interest Expense	23,791	30,572	(6,781)	(22.2) %
Other nonoperating expenses	27,646	230,863	(203,217)	(88.0) %
Total expenses	<u>30,204,925</u>	<u>31,625,484</u>	<u>(1,420,559)</u>	<u>(4.5) %</u>
Change in Net Assets	<u>\$ 2,479,554</u>	<u>\$ 4,888,013</u>	<u>\$ (2,408,459)</u>	<u>(49.3) %</u>

Sewer Treatment Funds

The Lower Moosa Sewer Treatment fund serves 2,341 customers in a limited geographic area on the west side of the District. The revenue from sewer charges was \$739,231 for 2002-03, an increase of \$19,659 from the prior year.

LOWER MOOSA CHANGES IN EQUITY

	<u>2003</u>	<u>2002</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
REVENUES:				
Sewer charges	\$ 739,231	\$ 719,572	\$ 19,659	2.7 %
Investment income	16,201	17,241	(1,040)	(49.3) %
Capital contributions	<u>746,915</u>	<u>210,469</u>	<u>536,446</u>	<u>254.9 %</u>
Total revenues	<u>1,502,347</u>	<u>947,282</u>	<u>555,065</u>	<u>58.6 %</u>
EXPENSES:				
Energy and pumping costs	116,714	72,175	44,539	61.7 %
Sewer collection and treatment	372,602	309,087	63,515	20.5 %
General and administrative	85,733	72,052	13,681	19.0 %
Depreciation	441,112	429,861	11,251	2.6 %
Interest expense	63,750	63,750	0	0.0 %
Other nonoperating expenses	<u>1,031</u>	<u>68,931</u>	<u>(67,900)</u>	<u>(98.5) %</u>
Total expenses	<u>1,080,942</u>	<u>1,015,856</u>	<u>65,086</u>	<u>6.4 %</u>
Change in Net Assets	<u>\$ 421,405</u>	<u>\$ (68,574)</u>	<u>\$ 489,979</u>	<u>714.5 %</u>

Expenses for the year ended June 30, 2003, totaled \$1,080,942, an increase of 6.4% or \$65,086. Certain significant expenses are as follows:

- Energy and pumping costs were \$44,539 higher than the previous year due to a refund of \$29,636 received in 2002.
- Sewer collection and treatment costs were 20.5% higher than last year, or \$63,515, due to increased staffing requirements and maintenance costs.
- Other nonoperating expenses include a loss of \$1,031 compared to the prior year of \$68,931. This represents the undepreciated balance of assets which were replaced during the year. This reduction is due to fewer replacement projects completed as compared to the prior fiscal year.

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 fund 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, while losses are recovered in the subsequent year.

SKYLINE RANCH CHANGES IN EQUITY

	2003	2002	Increase (Decrease)	Percent Change
REVENUES:				
Sewer Charges	\$ 89,321	\$ 64,060	\$ 25,261	39.4 %
Investment	518	992	(474)	(47.8) %
Capital Contribution	4,689	6,663	(1,974)	(29.6) %
Total revenues	<u>94,528</u>	<u>71,715</u>	<u>22,813</u>	<u>31.8 %</u>
EXPENSES:				
Energy and pumping costs	7,728	8,293	(565)	(6.8) %
Sewer collection and treatment	59,668	56,431	3,237	5.7 %
General and administrative	14,638	10,355	4,283	41.4 %
Depreciation	7,848	5,204	2,644	50.8 %
Total expenses	<u>89,882</u>	<u>80,283</u>	<u>9,599</u>	<u>12.0 %</u>
Change in Net Assets	<u>\$ 4,646</u>	<u>\$ (8,568)</u>	<u>\$ 13,214</u>	<u>154.2 %</u>

The Woods Valley Ranch Sewer fund 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.

CAPITAL ASSETS

Capital assets include land, annexation fees, transmission and distribution system, general plant, and construction-in-progress. At June 30, 2003, the District had \$90,365,519 in capital assets with \$38,552,940 of accumulated depreciation. This amount represents a net increase (including additions and deductions) of \$1,372,511, or 2.7% over the prior year. Significant additions include the Lilac Pump Station reconstruction, the Valley Center pump station gas engine replacement, the Meadows and Welks Upper PRV reconstruction and the Shadow Lake Road pipeline replacement. In addition, contributed assets include Courtyard at the Treasures, the Ridge Ranch south line extension, Welks Villas on the Green (phase I), Skyridge #3 subdivision, and the Kensal (Berryman)line extension.

CAPITAL ASSETS

	2003	2002
Land	\$ 1,286,655	\$ 1,361,233
Annexation fees	786,185	786,185
Construction-in-progress	3,580,098	4,854,262
Transmission and distribution system	79,992,739	75,573,118
General plant	4,719,842	4,347,719
Total	<u>\$90,365,519</u>	<u>\$86,922,517</u>

LONG-TERM DEBT

At June 30, 2003, the District had \$2,335,000 in revenue bonds and loans payable, a decrease of 2.7% from the prior year. No new debt was issued during the year and the District has no immediate needs to issue additional debt. The District had no general obligation bonded debt at June 30, 2003. As the District has issued no bonded debt for public placement since 1968, it is not rated by any investment rating service. More detailed information about the District's long-term debt is presented in Note 5 to the financial statements.

ECONOMIC FACTORS

The District sets its rates annually based upon anticipated consumption. A significant reduction in consumption could have an adverse effect on the District's financial position. Additionally, the District purchases all of its water from the San Diego County Water Authority. Interruption of this service would have a significant negative effect on the District's financial position. The District has designated \$7,966,919 of its unrestricted net assets as an operating reserve to mitigate the potential of these effects.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the financial resources it manages. A comparative analysis will be provided in future years when prior year information is available. If you have questions about this report or need additional financial information, contact the Valley Center Municipal Water District's Finance Department at 29300 Valley Center Road, Valley Center, California 92082, or call (760) 749-1600.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2003**

ASSETS

Current Assets: (Notes 1 and 2)

Cash and cash equivalents	\$15,489,849
Investments	7,764,958
Accounts receivable - water and sewer, net	3,745,946
Taxes receivable	4,365
Other receivables	67,264
Accrued interest receivable	113,548
Inventory	328,773
Prepaid expenses and deposits	179,900
Work in progress for others	<u>511,855</u>
Total Current Assets	<u>28,206,458</u>

Noncurrent Assets:

Restricted Assets: (Notes 1, 2, 3 and 4)

Cash and cash equivalents	548,399
Investments	<u>2,266,285</u>
Total Restricted Assets	<u>2,814,684</u>

Capital Assets: (Notes 1 and 4)

Nondepreciable capital assets	5,652,938
Depreciable capital assets, net	<u>46,159,641</u>
Total Capital Assets	<u>51,812,579</u>

Total Noncurrent Assets	<u>54,627,263</u>
-------------------------	-------------------

TOTAL ASSETS	<u>\$82,833,721</u>
---------------------	----------------------------

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

LIABILITIES AND NET ASSETS

Current Liabilities: (Note 1)

Accounts payable	\$ 4,089,672
Accrued payroll	167,120
Accrued compensated absences	471,600
Customer deposits	1,412,378
Current portion of long-term debt	<u>1,570,000</u>
Total Current Liabilities	<u>7,710,770</u>

Noncurrent Liabilities: (Notes 1, 3, 5, 7, and 8)

Liabilities Payable From Restricted Assets:

Benefit plan liability	<u>1,709,841</u>
------------------------	------------------

Long-Term Debt:

Revenue bonds	835,000
Loan payable	<u>1,500,000</u>
Subtotal	2,335,000
Less: Current portion above	<u>(1,570,000)</u>
Total Long-Term Debt	<u>765,000</u>

Other Noncurrent Liabilities:

Accrued compensated absences	470,751
Annexation fees payable	<u>5,836</u>
Total Other Noncurrent Liabilities	<u>476,587</u>

Total Noncurrent Liabilities	<u>2,951,428</u>
------------------------------	------------------

Total Liabilities	<u>10,662,198</u>
-------------------	-------------------

Commitments and Contingencies (Notes 10, 11, 12, and 13)

Net Assets:

Invested in capital assets, net of related debt	49,471,743
Restricted for facility expansion	1,104,843
Unrestricted	<u>21,594,937</u>
Total Net Assets	<u>72,171,523</u>

TOTAL LIABILITIES AND NET ASSETS	<u>\$82,833,721</u>
---	----------------------------

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

**VALLEY CENTER MUNICIPAL WATER DISTRICT
STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2003**

Operating Revenues:

Water sales and pumping charges	\$28,018,536
Sewer charges	996,551
Meter installation fees	241,218
Other water operating revenues	<u>254,118</u>
Total Operating Revenues	<u>29,510,423</u>

Operating Expenses:

Cost of water sold	18,179,621
Energy and pumping costs	4,244,840
Water systems operations	2,935,531
Sewer collection and treatment	432,270
Engineering	828,884
General and administrative	2,049,869
Depreciation	<u>2,596,666</u>
Total Operating Expenses	<u>31,267,681</u>

Operating Revenue	<u>(1,757,258)</u>
-------------------	--------------------

Nonoperating Revenues (Expenses):

Property taxes and assessments	1,801,576
Investment income	557,188
Energy settlement	556,444
Other nonoperating revenues	123,649
Interest expense	(87,541)
Loss on disposal of assets	<u>(28,677)</u>
Total Nonoperating Revenues (Expenses)	<u>2,922,639</u>

Income Before Contributions	1,165,381
-----------------------------	-----------

Capital Contributions	<u>1,903,494</u>
-----------------------	------------------

Change in Net Assets	3,068,875
----------------------	-----------

Net Assets at Beginning of Year	<u>69,102,648</u>
---------------------------------	-------------------

NET ASSETS AT END OF YEAR (Notes 1 and 9)	<u>\$72,171,523</u>
--	----------------------------

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

**VALLEY CENTER MUNICIPAL WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2003**

Cash Flows From Operating Activities:

Receipts from customers	\$30,602,470
Payments to suppliers for goods and services	(24,505,432)
Payments to employees for services	(5,026,172)
Change in retirees' health benefits plan expense	43,713
Change in work in progress for others	(184,764)
Change in Customer deposits	<u>451,857</u>
Net Cash Provided by Operating Activities	<u>1,381,672</u>

Cash Flows From Noncapital Financing Activities:

Property taxes received	1,850,564
Proceeds from energy settlement	<u>556,444</u>
Net Cash Provided by Noncapital Financing Activities	<u>2,407,008</u>

Cash Flows From Capital and Related Financing Activities:

Acquisition and construction of capital assets	(3,119,529)
Principal paid on long-term debt	(65,000)
Principal paid on annexation fees payable	(2,094)
Interest paid on bonds and long-term debt	(87,541)
Capital contributions received	909,829
Proceeds from disposition of capital assets	115,340
Other nonoperating revenue	<u>123,649</u>
Net Cash Used by Capital and Related Financing Activities	<u>(2,125,346)</u>

Cash Flows From Investing Activities:

Purchases of investments	(15,293,563)
Proceeds from maturities of investments	14,337,725
Investment income received	<u>652,338</u>
Net Cash Used by Investing Activities	<u>(303,500)</u>

Net Increase in Cash and Cash Equivalents 1,359,834

Cash and Cash Equivalents at Beginning of Year 14,678,414

CASH AND CASH EQUIVALENTS AT END OF YEAR \$16,038,248

(Continued)

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

**VALLEY CENTER MUNICIPAL WATER DISTRICT
STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2003**

Reconciliation of Operating Income to Net

Cash Provided by Operating Activities:

Operating income \$ (1,757,258)

Adjustments to reconcile operating income to net cash provided by operating activities:

Depreciation 2,596,666

Retirees' health benefits plan expense 43,713

Change in assets and liabilities:

Accounts receivable - water and sewer, net 1,070,068

Other receivables (11,837)

Inventory 11,691

Prepaid expenses and deposits (7,362)

Work in progress for others (184,764)

Accounts payable (867,393)

Accrued payroll 18,021

Compensated absences 18,270

Customer deposits 451,857

Net Cash Provided by Operating Activities \$1,381,672

Cash and Cash Equivalents -

Financial Statement Classification

Cash and cash equivalents \$15,489,849

Restricted cash and cash equivalents \$ 548,399

Total Cash and Cash Equivalents \$16,038,248

Noncash Investing, Capital and Financing Activities:

Customer contributions of capital assets \$ 993,665

Noncash Investing Activities:

Discount accretion and net fair value gains \$ 1,735

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

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

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 funds of the reporting entity, are identified in the District's books and records as General, Lower Moosa Sewer Treatment, Skyline Ranch Sewer, and Woods Valley Ranch Sewer. All significant interfund transactions and accounts are eliminated in the combination of the accounts of the funds for the financial statements of the reporting entity.

In addition to the above funds, 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 6. The financial position and results of operations of AD 96-1 are excluded from these financial statements.

(b) Basis of Accounting

The District utilizes accounting principles appropriate for an enterprise fund to record its activities. Accordingly, the statement of net assets and the statement of revenues, expenses and changes in net assets have been prepared using the economic resources measurement focus and the accrual basis of accounting.

(c) Use of Estimates

The financial statements are prepared in conformity with accounting principles generally accepted in the United States of America and, accordingly, include amounts that are based on management's best estimates and judgments.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

1 - Summary of Significant Accounting Policies (Continued)

(d) Revenue Recognition

Revenues from water sales and pumping charges, meter installation fees and sewer charges are recognized as they are earned. Taxes and assessments are recognized as revenue based upon amounts reported to the District by the County of San Diego, net of an allowance for estimated uncollectible taxes. The District first utilizes restricted resources to finance qualifying activities. Operating activities generally result from providing services and producing and delivering goods. As such, the District considers fees received from water sales, sewer service, expansion, connection, and installation fees to be operating revenues.

(e) Property Taxes and Assessments

Property taxes and assessments are billed by the County of San Diego to property owners. The District's property tax calendar for the fiscal year ended June 30, 2003, was as follows:

Lien Date:	January 1
Levy Date:	July 1
Due Date:	First Installment - November 1 Second Installment - February 1
Delinquent Date:	First Installment - December 10 Second Installment - April 10

The County collects the taxes from the property owners and remits the funds to the District periodically 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.

(f) Cash and Cash Equivalents

Cash and cash equivalents include deposits in SEC-registered money market mutual funds, 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.

(g) Investments

Investments are stated at their fair value, which represents the quoted or stated market value.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

1 - Summary of Significant Accounting Policies (Continued)

(h) Accounts Receivable - Water and Sewer

Water and sewer accounts receivable of \$3,745,946 has been reduced by an allowance for estimated uncollectible accounts in the amount of \$21,629 at June 30, 2003.

(i) Inventory

Inventory of materials used in the construction and maintenance of capital assets is valued at the lower of current average cost or market. Water inventory is valued at cost.

Inventory consists of the following as of June 30, 2003:

Water inventory	\$ 84,650
Materials inventory	<u>244,123</u>
	<u>\$328,773</u>

(j) Capital Assets

The acquisition of capital assets and additions, improvements, and other capital outlays that significantly extend the life of an asset are recorded at historical cost. Contributed assets are recorded at their fair market value at the date of donation. Self-constructed assets are recorded in the amount of direct labor, material, and certain overhead.

Depreciation is charged to expense for all capital assets, including assets contributed to the District, and is computed using the straight-line method over the following estimated useful lives:

	<u>Useful Life</u>
Transmission and distribution system	10 - 40 years
General plant	3 - 40 years

Depreciation aggregated \$2,596,666 for the year ended June 30, 2003.

(k) Accrued Compensated Absences

Vested or accumulated vacation and sick leave is recorded as an expense and liability as benefits accrue to employees.

VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

1 - Summary of Significant Accounting Policies (Continued)

(l) Interest

Interest costs, less interest earned on related tax-exempt borrowings, are capitalized during the period of major capital asset 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 year ended June 30, 2003.

(m) Classification of Liabilities

Certain liabilities which are currently payable have been classified as noncurrent because they will be funded from restricted assets.

(n) Unrestricted Net Assets

The unrestricted net assets of the District are restricted by state law for sole use by the District for its operations. They are reported as unrestricted net assets in the accompanying financial statements because this restriction corresponds to the general purpose for which the District has been established. They are unavailable for other government uses and are committed to the ongoing operations of the District, including amounts necessary to cover contingencies, unanticipated expenditures, revenue shortfalls, and weather and economic fluctuations.

(o) Pronouncements of GASB and FASB

The District applies all relevant pronouncements of the Governmental Accounting Standards Board (GASB) as well as those pronouncements of the Financial Accounting Standards Board issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

2 - Cash and Investments

(a) Authorized Investments

The District's Ordinances authorize the District to invest in obligations of the United States Treasury, 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; bonds issued by the District; and shares of beneficial interest issued by a diversified management company as authorized by California Government Code Section 53601(k). These authorized investments are more restrictive than those permitted by the California Government Code.

All pooled cash and certificates of deposit are entirely insured or collateralized. The California Government Code requires California banks and savings and loan associations to secure a local governmental agency's (agency) deposits by pledging governmental securities as collateral. The market value of pledging securities must equal at least 110% of an agency's deposits. California law also allows financial institutions to secure an agency's deposits by pledging first trust deed mortgage notes having a value of 150% of an agency's total deposits. The agency may waive collateral requirements for deposits, which are fully insured up to \$100,000 by the Federal Deposit Insurance Corporation (FDIC).

Cash and investments held by the District were comprised of the following at June 30, 2003:

Cash on Hand	\$ 1,200
Cash in the California Local Agency Investment Fund	14,829,609
Investments:	
United States Agency Securities	10,031,243
Deposits:	
Insured	100,000
Collateralized	<u>1,107,439</u>
Total Cash and Investments	<u>\$26,069,491</u>
Financial Statement Classification:	
Cash and Cash Equivalents	\$15,489,849
Investments	7,764,958
Restricted Cash and Cash Equivalents	548,399
Restricted Investments	<u>2,266,285</u>
Total	<u>\$26,069,491</u>

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

2 - Cash and Investments

(b) Deposits

The Governmental Accounting Standards Board (GASB) Statement No. 3 requires that deposits be classified into three categories of credit risk. These categories are as follows:

Category 1 - Deposits that are insured or collateralized with securities held by the District or by its agent in the District's name.

Category 2 - Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

Category 3 - Deposits that are uncollateralized or collateralized with securities held by the pledging financial institution or by its trust department or agent, but not in the District's name.

	Category 1	Category 2	Category 3	Bank Balance	Carrying Amount
Deposits:					
Demand Deposits	<u>\$1,256,472</u>	<u>\$-0-</u>	<u>\$-0-</u>	<u>\$1,256,472</u>	\$ 1,207,439

The following items do not require credit risk classification:

Cash in the Local Agency Investment Fund	14,829,609
Cash on Hand	<u>1,200</u>
Total Cash and Cash Equivalents	<u>\$16,038,248</u>

(c) Investments

The California Government Code authorizes the District to invest in obligations of the United States Treasury agencies, and instrumentalities; prime commercial paper record; bankers' acceptances, repurchase and reverse repurchase agreements; financial futures or financial option contracts; negotiable certificates of deposit; obligations of the State of California; and obligations of local agencies within California.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

2 - Cash and Investments

(c) **Investments** (Continued)

The Government Accounting Standards Board (GASB) Statement No. 3 requires that investments be classified into three categories of credit risk. These categories are as follows:

- Category 1 - Investments that are insured or registered or securities held by the District or its agent in the District's name.
- Category 2 - Investments that include uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name.
- Category 3 - Investments that include uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent.

	<u>Category 1</u>	<u>Fair Value</u>
Investments:		
United States Agency Securities	<u>\$10,031,243</u>	<u>\$10,031,243</u>

Investment categorization gives an indication of the level of custodial credit risk assumed by the District. For purposes of applying GASB Statement No. 3 custodial credit risk is the risk that the District will not be able to (a) recover deposits if the depository financial institution fails, or (b) recover the value of investments or collateral securities that are in the possession of an outside party if the counterparty to the investment or deposit transaction fails. Exemption from inclusion in the GASB Statement No. 3 categories of credit risk above does not mean that such investments are without credit risk. Instead it means these funds are not directly exposed to custodial credit risk.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

3 - Restricted Assets

Restricted assets were provided by, and are to be used for, the following:

<u>Funding Source</u>	<u>Use</u>	<u>Amount</u>
District contributions	Benefit plan liability	\$1,709,841
Proceeds of energy settlement	Projects promoting energy efficiency	556,444
Capital contributions	Replacement of the Skyline Wastewater Treatment Plant	56,074
Capital contributions	Debt service	<u>492,325</u>
		<u>\$2,814,684</u>

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

4 - Capital Assets

Capital assets consist of the following at June 30, 2003:

	<u>Balance at June 30, 2002</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2003</u>
Capital Assets Not Being Depreciated:				
Land	\$ 1,361,233	\$ 25,422	\$ 100,000	\$ 1,286,655
Annexation fees	786,185			786,185
Construction in progress	<u>4,854,262</u>	<u>2,687,236</u>	<u>3,961,400</u>	<u>3,580,098</u>
	<u>7,001,680</u>	<u>2,712,658</u>	<u>4,061,400</u>	<u>5,652,938</u>
Capital Assets Being Depreciated:				
Transmission and distribution system	75,573,118	4,801,505	381,884	79,992,739
General plant	<u>4,347,719</u>	<u>548,161</u>	<u>176,038</u>	<u>4,719,842</u>
	79,920,837	5,349,666	557,922	84,712,581
Less: Accumulated depreciation	<u>36,482,449</u>	<u>2,596,666</u>	<u>526,175</u>	<u>38,552,940</u>
Net Capital Assets Being Depreciated	<u>43,438,388</u>	<u>2,753,000</u>	<u>31,747</u>	<u>46,159,641</u>
Net Capital Assets	<u>\$ 50,440,068</u>	<u>\$5,465,658</u>	<u>\$4,093,147</u>	<u>\$51,812,579</u>

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

5 - Long-Term Debt

(a) Revenue Bonds

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, 2003, total \$835,000. Varying amounts of principal plus interest currently at 2.48% are payable semiannually. The final maturity date for the current 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.

Following is a detail of the revenue bonds outstanding during the year ended June 30, 2003.

	<u>Balance June 30, 2002</u>	<u>Deletions</u>	<u>Balance June 30, 2003</u>	<u>Current Portion</u>
Revenue Bonds	<u>\$900,000</u>	<u>\$65,000</u>	<u>\$835,000</u>	<u>\$70,000</u>

Aggregate maturities of the revenue bond for fiscal years subsequent to June 30, 2003, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 70,000	\$ 20,274	\$ 90,274
2005	70,000	18,538	88,538
2006	80,000	16,740	96,740
2007	80,000	14,756	94,756
2008	85,000	12,772	97,772
2009 - 2013	<u>450,000</u>	<u>29,016</u>	<u>479,016</u>
	<u>\$835,000</u>	<u>\$112,096</u>	<u>\$947,096</u>

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

5 - Long-Term Debt (Continued)

(b) Loan Payable

On December 28, 1998, the District entered into a loan agreement with Municipal Finance Corporation to partially finance the Moosa expansion project. Interest is payable semiannually, at 4.25% from assets restricted for that purpose and secured by capacity charges collected for the Moosa expansion project. The final principal payment is due on December 28, 2003. Following is a detail of the loan payable outstanding during the year ended June 30, 2003:

	<u>Balance June 30, 2002</u>	<u>Deletions</u>	<u>Balance June 30, 2003</u>	<u>Current Portion</u>
Loan Payable	<u>\$1,500,000</u>	<u>\$-0-</u>	<u>\$1,500,000</u>	<u>\$1,500,000</u>

Aggregate maturities of the loan payable for fiscal years subsequent to June 30, 2003 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	<u>\$1,500,000</u>	<u>\$31,875</u>	<u>\$1,531,875</u>

6 - 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 bonds 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, 2003 totaled \$1,445,000.

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
JUNE 30, 2003**

7 - 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 balance of such charges to MWD at June 30, 2003, is \$5,836. 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.

8 - Benefit Plan Liability

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 a committee appointed by the District's Board of Directors.

Plan benefits are based upon certain age and service requirements, as well as the particular participant's 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.

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 paid \$15,642 of post retirement healthcare benefits during the year ended June 30,2003. As of June 30, 2003, five retired employees are receiving post-retirement healthcare benefits from the District.

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 assets 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 future years an annual amount that is not more than 8% of eligible 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.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

8 - Benefit Plan Liability (Continued)

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. Under the terms of the Plan, the District's liability, payable from assets restricted for the purpose, to employees or for the benefit of Plan participants at June 30, 2003, was \$1,709,841. The liability will become payable upon the sooner of Plan termination or as the payment of participants' health insurance premiums become due.

9 - Unrestricted Net Assets

In addition to the restricted net assets (See Note 3) unrestricted net assets have been designated by the board of directors for the following purposes as of June 30, 2003:

Operating reserve	\$ 7,966,919
Continuing capital projects	4,905,000
Master plan system improvements	3,240,083
Rate stabilization reserve	2,454,400
Pumping rate stabilization	1,765,296
Vehicle replacement	424,237
Agricultural rebate	234,202
Continuing capital projects - Woods Valley	152,572
Unrestricted and undesignated net assets	<u>452,228</u>
Unrestricted Net Assets	<u>\$21,594,937</u>

10 - Defined Benefit Pension Plan

(a) Plan Description

The District began participation in a defined benefit pension plan, (the "Plan") on June 30, 2001, which provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The 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 Plan selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through District resolution. 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, California 95814.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

10 - Defined Benefit Pension Plan (Continued)

(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 required employer contribution rate for the fiscal year ended June 30, 2003, 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.

(c) Annual Pension Costs

For the fiscal year ended June 30, 2003, the District's annual pension cost and actual contribution was \$934,568. The required contribution for the fiscal year ended June 30, 2003, was determined as part of the June 30, 2000, actuarial valuation.

The following is a summary of the actuarial assumptions and methods:

Valuation Date	June 30, 2001
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	9999 Years as of the Valuation Date
Asset Valuation Method	3 Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	8.25% (net of administrative expenses)
Projected Salary Increases	3.75% to 14.20% depending on age, service, and type of employment
Inflation	3.50%
Payroll Growth	3.75%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation component of 3.50% and an annual production growth of 0.25%.

Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a rolling period, which results in an amortization of 10% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30-year amortization period.

The three-year trend information for PERS and the schedule of funding progress for PERS are not available due to the establishment of the Plan on June 30, 2001.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

11 - 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 is a member of the Association of California Water Agencies Joint Powers Insurance Authority (JPIA). The JPIA is a risk-pooling self-insurance authority, created under provisions of California Government Code Sections 6500 et. seq. The purpose of the JPIA is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage from commercial insurance carriers to reduce its exposure to large losses.

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 insurance expense for the year ended June 30, 2003, was \$126,404. There were no instances in the past three years where a settlement exceeded the District's coverage.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

12 - Economic Dependency

All water sold by the District is purchased from the San Diego County Water Authority. All electricity and natural gas used by the District for pumping and operations is purchased from San Diego Gas and Electric.

13 - Commitments and Contingencies

(a) Contracts

The District has entered into various contracts for the purchase of material, and construction of facilities. The amounts contracted for are based on the contractors' estimated cost of construction. At June 30, 2003, the total unpaid amounts on these contracts was \$819,632.

(b) Litigation

There are pending lawsuits in which the District is involved. The District's management and legal counsel estimate that the potential claims against the District, not covered by insurance, if unfavorable decisions are rendered in these pending legal actions, would not materially affect the operations or financial condition of the District.

In November 2003, the California State Attorney General announces the settlement of two lawsuits against Williams Energy Marketing & Trading (Williams). In addition to other provisions, the settlement calls for Williams to provide roughly \$80 million to fund alternative energy and energy efficiency retrofitting of schools and other public buildings in California. Under this settlement, the District has received \$556,444 at June 30, 2003, and anticipates receiving approximately another \$700,000 through 2005. Due to the collapse of several energy providers recently, the District has elected to record revenues from this settlement when received.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

14 - Segment Information

Condensed financial statement information for the District's Water and Sewer Divisions is provided below:

CONDENSED STATEMENT OF NET ASSETS

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<u>Assets:</u>			
Current assets	\$27,582,037	\$ 624,421	\$28,206,456
Restricted assets	2,266,285	548,399	2,814,684
Capital assets	<u>45,613,864</u>	<u>6,198,715</u>	<u>51,812,579</u>
Total Assets	<u>\$75,462,186</u>	<u>\$7,371,535</u>	<u>\$82,833,721</u>
<u>Liabilities:</u>			
Current liabilities	\$ 6,191,151	\$1,519,619	\$ 7,710,770
Noncurrent liabilities	<u>2,951,428</u>	<u>-0-</u>	<u>2,951,428</u>
Total Liabilities	<u>9,142,579</u>	<u>1,519,619</u>	<u>10,662,198</u>
<u>Net Assets:</u>			
Invested in capital assets, net of related debt	44,773,028	4,698,715	49,471,743
Restricted for facility expansion	556,444	548,399	1,104,843
Unrestricted	<u>20,990,135</u>	<u>604,802</u>	<u>21,594,937</u>
Total Net Assets	<u>66,319,607</u>	<u>5,851,916</u>	<u>72,171,523</u>
 Total Liabilities and Net Assets	 <u>\$75,462,186</u>	 <u>\$7,371,535</u>	 <u>\$82,833,721</u>

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

14 - Segment Information (Continued)

**CONDENSED STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS**

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating revenues	\$28,513,872	\$ 996,551	\$29,510,423
Depreciation expense	(2,147,706)	(448,960)	(2,596,666)
Other operating expenses	<u>(28,005,782)</u>	<u>(665,233)</u>	<u>(28,671,015)</u>
Operating Income (Loss)	<u>(1,639,616)</u>	<u>(117,642)</u>	<u>(1,757,258)</u>
<u>Nonoperating Revenues (Expenses):</u>			
Property taxes	1,801,576	-0-	1,801,576
Investment income	538,741	18,447	557,188
Other nonoperating revenues (expenses)	<u>628,656</u>	<u>(64,781)</u>	<u>563,875</u>
Total Nonoperating Revenues (Expenses)	<u>2,968,973</u>	<u>2,922,639</u>	<u>46,334</u>
Income Before Contributions	1,329,357	163,976	1,165,381
<u>Capital Contributions</u>	<u>1,150,197</u>	<u>753,297</u>	<u>1,903,494</u>
Change in Net Assets	2,479,554	589,321	3,068,875
Beginning Net Assets	<u>63,840,053</u>	<u>5,262,595</u>	<u>69,105,648</u>
ENDING NET ASSETS	<u>\$66,319,607</u>	<u>\$5,851,916</u>	<u>\$72,171,523</u>

CONDENSED STATEMENT OF CASH FLOWS

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<u>Net Cash Provided (Used) By:</u>			
Operating activities	\$ 1,051,047	\$ 330,625	\$1,381,672
Noncapital financing activities	2,407,008	-0-	2,407,008
Capital and related financing activities	(2,610,654)	485,308	2,125,346
Investing activities	<u>(321,947)</u>	<u>18,447</u>	<u>(303,500)</u>
Net Cash (Used) Provided	525,454	834,380	1,359,834
Beginning Cash and Cash Equivalents	<u>14,339,974</u>	<u>338,440</u>	<u>14,678,414</u>
ENDING CASH AND CASH EQUIVALENTS	<u>\$14,865,428</u>	<u>\$1,172,820</u>	<u>\$16,038,248</u>

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

15 - New Governmental Accounting Standards

During the year ended June 30, 2003, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 34 “Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments”; Statement No. 37 “Basic Financial Statements – and Management’s Discussions and Analysis – for State and Local Governments; Omnibus; and Statement No. 38 “Certain Financial Statement Note Disclosures”.

These three statements establish a new reporting model requiring the District to present certain basic financial statements as well as management’s discussion and analysis and certain other required supplementary information and note disclosures. The District’s net assets are now recorded as invested in capital assets, net of related debt; restricted and unrestricted, and the statement of cash flows is presented using the direct method.



COMBINING SCHEDULES

**VALLEY CENTER MUNICIPAL WATER DISTRICT
COMBINING STATEMENT OF NET ASSETS
JUNE 30, 2003**

ASSETS

	<u>Total</u>	<u>General</u>	<u>Lower Moosa Sewer</u>	<u>Skyline Ranch Sewer</u>	<u>Woods Valley Ranch Sewer</u>
<u>Current Assets:</u>					
Cash and cash equivalents	\$15,489,849	\$14,865,428	\$ 474,906	\$ 7,353	\$142,162
Investments	7,764,958	7,764,958			
Accounts receivable - water and sewer, net	3,745,946	3,745,946			
Accrued interest receivable	113,548	113,548			
Taxes receivable	4,365	4,365			
Other receivables	67,264	67,264			
Inventory	328,773	328,773			
Prepaid expenses and deposits	179,900	179,900			
Work-in-progress for others	<u>511,855</u>	<u>511,855</u>			
Total Current Assets	<u>28,206,458</u>	<u>27,582,037</u>	<u>474,906</u>	<u>7,353</u>	<u>142,162</u>
<u>Noncurrent Assets:</u>					
Restricted Assets:					
Cash and cash equivalents	548,399		492,325	56,074	
Investments	<u>2,266,285</u>	<u>2,266,285</u>			
Total Restricted Assets	<u>2,814,684</u>	<u>2,266,285</u>	<u>492,325</u>	<u>56,074</u>	<u>-0-</u>
Capital Assets:					
Nondepreciable capital assets	5,652,938	5,515,110	22,804	69,596	45,428
Depreciable capital assets, net	<u>46,159,641</u>	<u>40,098,754</u>	<u>5,978,465</u>	<u>82,422</u>	<u>45,428</u>
Total Capital Assets	<u>51,812,579</u>	<u>45,613,864</u>	<u>6,001,269</u>	<u>152,018</u>	<u>45,428</u>
Total Noncurrent Assets	<u>54,627,263</u>	<u>47,880,149</u>	<u>6,493,594</u>	<u>208,092</u>	<u>45,428</u>
TOTAL ASSETS	<u>\$82,833,721</u>	<u>\$75,462,186</u>	<u>\$6,968,500</u>	<u>\$215,445</u>	<u>\$187,590</u>

**VALLEY CENTER MUNICIPAL WATER DISTRICT
COMBINING STATEMENT OF NET ASSETS CONTINUED
JUNE 30, 2003**

LIABILITIES AND NET ASSETS

	<u>Total</u>	<u>General</u>	<u>Lower Moosa Sewer</u>	<u>Skyline Ranch Sewer</u>	<u>Woods Valley Ranch Sewer</u>
<u>Current Liabilities:</u>					
Accounts payable	\$ 4,089,672	\$ 4,089,672	\$	\$	\$
Accrued payroll	167,120	167,120			
Compensated absences	471,600	471,600			
Customer deposits	1,412,378	1,392,759	14,500		5,119
Current portion of long-term debt	<u>1,570,000</u>	<u>70,000</u>	<u>1,500,000</u>		
Total Current Liabilities	<u>7,710,770</u>	<u>6,191,151</u>	<u>1,514,500</u>	<u>-0-</u>	<u>5,119</u>
<u>Noncurrent Liabilities:</u>					
Liabilities Payable From Restricted Assets:					
Benefit plan liability (Payable from restricted assets)	<u>1,709,841</u>	<u>1,709,841</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Long-Term Debt:					
Revenue bonds	835,000	835,000			
Loan payable (From restricted assets)	<u>1,500,000</u>	<u> </u>	<u>1,500,000</u>		
Subtotal	2,335,000	835,000	1,500,000	-0-	-0-
Less: Current portion above	<u>(1,570,000)</u>	<u>(70,000)</u>	<u>(1,500,000)</u>		
Total Long-Term Debt	<u>765,000</u>	<u>765,000</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Other Noncurrent Liabilities:					
Compensated absences	470,751	470,751			
Annexation fees payable	<u>5,836</u>	<u>5,836</u>			
Total Other Noncurrent Liabilities	<u>476,587</u>	<u>476,587</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total Noncurrent Liabilities	<u>2,951,428</u>	<u>2,951,428</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total Liabilities	<u>10,662,198</u>	<u>9,142,579</u>	<u>1,514,500</u>	<u>-0-</u>	<u>5,119</u>
<u>Net Assets:</u>					
Investment in capital assets, net of related debt	49,471,743	44,773,028	4,501,269	152,018	45,428
Restricted for facility expansion	1,104,843	556,444	492,325	56,074	
Unrestricted	<u>21,594,937</u>	<u>20,990,135</u>	<u>460,406</u>	<u>7,353</u>	<u>137,043</u>
Total Net Assets	<u>72,171,523</u>	<u>66,319,607</u>	<u>5,454,000</u>	<u>215,445</u>	<u>182,471</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$82,833,721</u>	<u>\$75,462,186</u>	<u>\$6,968,500</u>	<u>\$215,445</u>	<u>\$187,590</u>

**VALLEY CENTER MUNICIPAL WATER DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2003**

	<u>Total</u>	<u>General</u>	<u>Lower Moosa Sewer</u>	<u>Skyline Ranch Sewer</u>	<u>Woods Valley Ranch Sewer</u>
<u>Operating Revenues:</u>					
Water sales and pumping charges	\$28,018,536	\$28,018,536	\$	\$	\$
Sewer charges	996,551		739,231	89,321	167,999
Meter installation fees	241,218	241,218			
Other water operating revenues	<u>254,118</u>	<u>254,118</u>			
Total Operating Revenues	<u>29,510,423</u>	<u>28,513,872</u>	<u>739,231</u>	<u>89,321</u>	<u>167,999</u>
<u>Operating Expenses:</u>					
Cost of water sold	18,179,621	18,179,621			
Energy and pumping costs	4,244,840	4,120,398	116,714	7,728	
Water systems operations	2,935,531	2,935,531			
Sewer collection and treatment	432,270		372,602	59,668	
Engineering	828,884	828,884			
General and administrative	2,049,869	1,941,348	85,733	14,638	8,150
Depreciation	<u>2,596,666</u>	<u>2,147,706</u>	<u>441,112</u>	<u>7,848</u>	
Total Operating Expenses	<u>31,267,681</u>	<u>30,153,488</u>	<u>1,016,161</u>	<u>89,882</u>	<u>8,150</u>
Operating Revenue	<u>(1,757,258)</u>	<u>(1,639,616)</u>	<u>(276,930)</u>	<u>(561)</u>	<u>159,849</u>
<u>Nonoperating Revenues and (Expenses):</u>					
Property taxes and assessments	1,801,576	1,801,576			
Investment income	557,188	538,741	16,201	518	1,728
Energy settlement	556,444	556,444			
Other nonoperating revenues	123,649	123,649			
Interest expense	(87,541)	(23,791)	(63,750)		
Other nonoperating expenses	<u>(28,677)</u>	<u>(27,646)</u>	<u>(1,031)</u>		
Total Nonoperating Revenues and (Expenses)	<u>2,922,639</u>	<u>2,968,973</u>	<u>(48,580)</u>	<u>518</u>	<u>1,728</u>

(Continued)

**VALLEY CENTER MUNICIPAL WATER DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2003**

	<u>Total</u>	<u>General</u>	<u>Lower Moosa Sewer</u>	<u>Skyline Ranch Sewer</u>	<u>Woods Valley Ranch Sewer</u>
Income Before Contributions	\$ 1,165,381	\$ 1,329,357	\$ (325,510)	\$ (43)	\$161,577
Capital Contributions	<u>1,903,494</u>	<u>1,150,197</u>	<u>746,915</u>	<u>4,689</u>	<u>1,693</u>
Change in Net Assets	3,068,875	2,479,554	421,405	4,646	163,270
Net Assets at Beginning of Year	<u>69,102,648</u>	<u>63,840,053</u>	<u>5,032,595</u>	<u>210,799</u>	<u>19,201</u>
NET ASSETS AT END OF YEAR	<u>\$72,171,523</u>	<u>\$66,319,607</u>	<u>\$5,454,000</u>	<u>\$215,445</u>	<u>\$182,471</u>



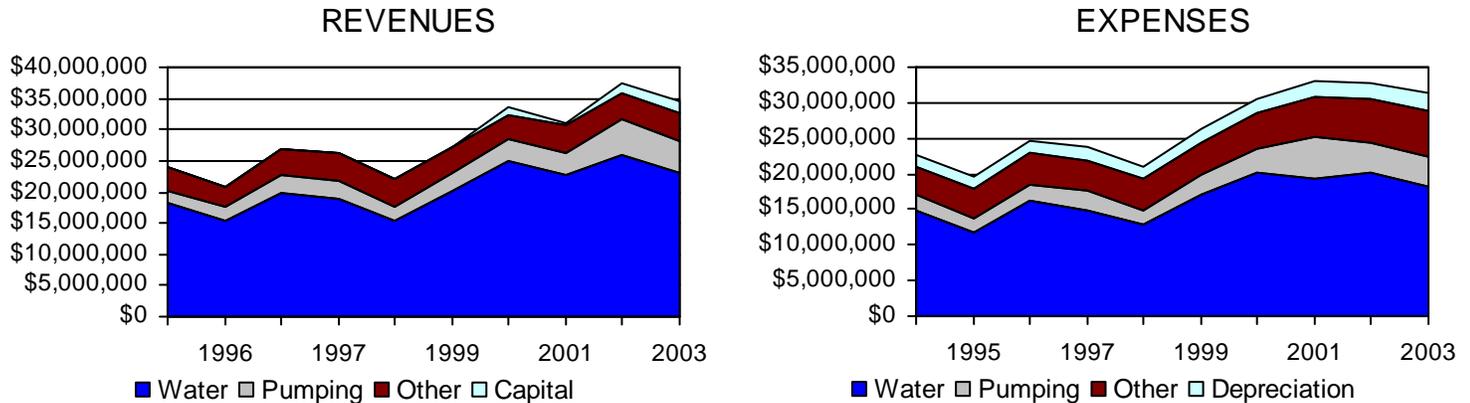
STATISTICAL SECTION

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

FISCAL YEAR ENDED	OPERATING REVENUES					TOTAL OPERATING REVENUES	NON-OPERATING REVENUES					TOTAL REVENUES
	WATER SALES (1)	PUMPING	METER INSTALLS	SEWER	OTHER		PROPERTY TAXES	INVESTMENT INCOME (3)	CAPITAL CONTRIBUTIONS (4)	OTHER		
2003	\$23,154,449	\$4,864,087	\$241,218	\$996,551	\$254,118	\$29,510,423	\$1,801,576	\$557,188	\$ 1,903,494	\$680,093(5)	\$34,452,774	
2002	25,814,798	5,995,290	176,456	783,632	301,490	33,071,666	1,703,844	899,579	1,746,828	111,756	37,533,673	
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	77,715	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	149,0652	24,055,625	

- (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) Restated for unrealized gain and losses pursuant to GASB Statement No. 31, which was effective in 1998.
- (4) Capital contributions reported as additions to contributed equity until GASB Statement No. 33 in 2000.
- (5) Includes energy settlement of \$556,444.

Source: Valley Center Municipal Water District



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

FISCAL YEAR ENDED	OPERATING EXPENSES						TOTAL OPERATING EXPENSES	NON-OPERATING EXPENSES		TOTAL EXPENSES	
	COST OF WATER SOLD	ENERGY AND PUMPING	WATER SYSTEMS OPERATIONS	SEWER COLLECTION TREATMENT	GENERAL ADMIN. & FINANCE	DEPRECIATION		INTEREST ON DEBT	OTHER (2)		
2003	\$18,179,621 (1)	\$4,244,840	\$2,935,531	\$432,270	\$828,884	\$2,049,869	\$2,596,666	\$31,267,681	\$87,541	\$ 28,677	\$31,383,899
2002	20,245,538	4,066,764	2,699,794	365,518	673,468	1,943,113	2,401,004	32,395,199	94,322	299,794	32,789,315
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	12,295,462	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	306,3659	65,747	22,751,380

- (1) Net of rate credits of \$635,111 from San Diego County Water Authority in 2003 and \$1,333,039 from Metropolitan Water District in 1997.
- (2) Includes loss on termination of projects and disposition of assets.

Source: Valley Center Municipal Water District

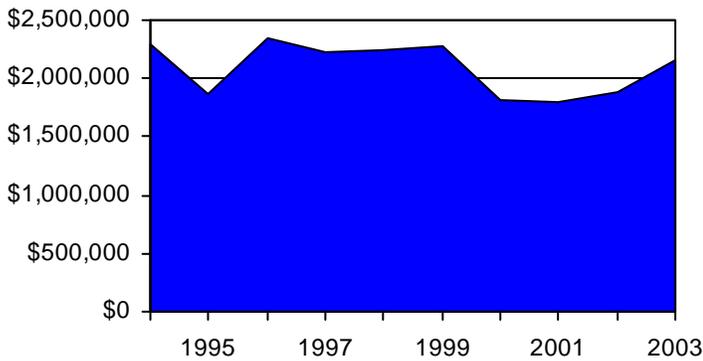
**Table III
PROPERTY TAX AND ASSESSMENT LEVIES AND COLLECTIONS ⁽¹⁾
Last Ten Fiscal Years**

FISCAL YEAR ENDED	LEVY			TOTAL COLLECTIONS(2)	NET DELINQUENT(3)	PERCENT DELINQUENT(4)
	PROPERTY TAXES	SPECIAL ASSESSMENTS	TOTAL LEVY			
2003	\$1,249,793	\$917,002	\$2,166,795	\$2,149,111	\$17,684	0.0 %
2002	1,153,893	743,418	1,897,311	1,883,406	13,905	0.0 %
2001	1,078,238	759,020	1,820,486	1,803,398	17,088	0.0 %
2000	1,078,652	863,270	1,837,672	1,820,215	17,457	0.0 %
1999	1,436,622	787,469	2,299,892	2,275,044	24,848	0.0 %
1998	1,477,490	760,836	2,264,959	2,243,518	21,441	0.0 %
1997	1,492,188	807,542	2,253,024	2,233,312	19,712	0.0 %
1996	1,558,108	490,099	2,365,650	2,350,680	14,970	0.0 %
1995	1,393,566	412,778	1,883,665	1,867,564	16,101	0.0 %
1994	1,894,997	454,146	2,307,775	2,296,992	10,783	0.0 %

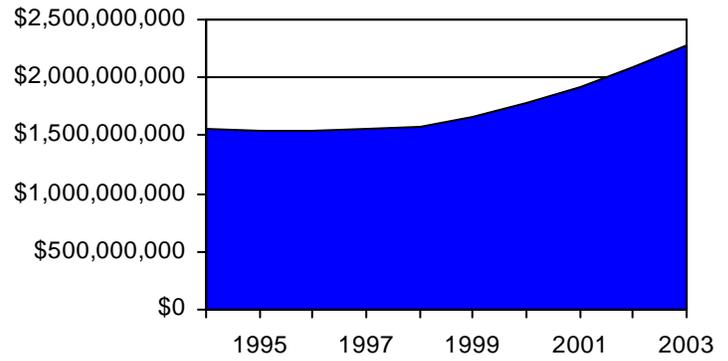
- (1) Percent delinquencies for assessments and property taxes are the same since they are both collected on one tax bill.
- (2) Collections do not include miscellaneous adjustments.
- (3) Net Delinquent includes uncollectible portion.
- (4) Percent delinquent represents current secured only. Beginning 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

PROPERTY TAX COLLECTIONS



ASSESSED VALUE OF TAXABLE PROPERTY



**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				
2003	\$2,273,104,717	\$643,148	\$11,170,321	\$2,262,577,544	\$12,498,775	\$2,275,076,319	0.00000
2002	2,093,743,877	437,106	10,936,903	2,083,244,080	13,674,153	2,096,918,233	0.00000
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	814,176	7,735,487	1,567,220,633	8,534,298	1,558,686,335	0.03567

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
2003	22,781	\$2,275,076,319	0	0	0	0.00 %	0.00
2002	21,949	2,096,918,233	0	0	0	0.00 %	0.00
2001	21,776	1,918,740,307	0	0	0	0.00 %	0.00
2000	21,108	1,776,800,174	0	0	0	0.00 %	0.00
1999	20,551	1,661,305,676	291,606	216,044	75,562	0.00 %	3.68
1998	19,960	1,600,524,981	1,044,004	380,667	663,337	0.04 %	33.23
1997	19,721	1,567,355,351	1,739,973	423,686	1,316,287	0.08 %	66.75
1996	19,539	1,568,074,544	2,443,413	437,699	2,005,714	0.13 %	102.65
1995	19,511	1,560,651,664	3,215,415	522,498	2,692,917	0.17 %	138.02
1994	19,338	1,575,754,931	3,999,074	725,683	3,273,391	0.21 %	169.27

- (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

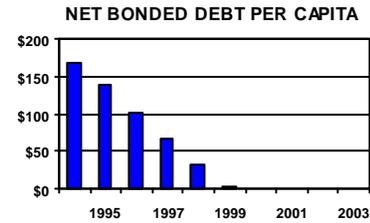
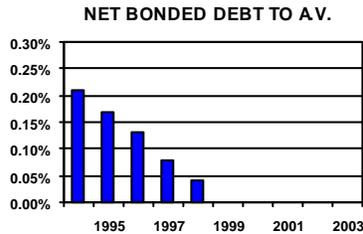


Table VI
DIRECT AND OVERLAPPING BONDED DEBT
June 30, 2003

<u>2002-03 Assessed Valuation</u>	\$2,275,076,319	Percent	Debt
		<u>Applicable</u>	<u>June 30, 2003</u>
<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>			
Metropolitan Water District		0.20	\$ 893,033
San Diego County Water Authority		1.12	18,342
Valley Center Municipal Water District – Assessment District No. 96-1		100.00	1,475,000
Escondido Union High School District		6.77	2,883,129
Fallbrook Union High School District		1.60	377,857
Escondido Union School District		7.10	4,661,371
Valley Center Unified School District		80.41	3,433,284
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT			13,742,016
<u>OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u>			
San Diego County General Fund Obligations		1.08	5,129,650
San Diego County Pension Obligations		1.08	8,886,978
San Diego County Superintendent of Schools Certificates of Participation		1.08	22,288
Palomar Community College District Certificates of Participation		4.84	456,318
Escondido Union School District Certificates of Participation		7.10	999,607
City of Escondido Certificates of Participation		0.05	46,458
TOTAL OVERLAPPING GENERAL FUND OBLIGATION DEBT			15,541,299
COMBINED TOTAL DEBT			\$29,283,315
<u>Ratios to Assessed Valuation:</u>			
Direct Debt		0.00 %	
Total Direct and Overlapping Tax and Assessment Debt		0.60 %	
Combined Total Debt		1.29 %	
STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/03			\$ 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	
2003	\$32,549,280	\$28,671,015	\$3,878,265	\$65,000	\$87,541	\$152,541	2,542 %
2002	35,786,845	29,994,195	5,792,650	60,000	94,322	154,322	3,754 %
2001	30,698,830	30,773,378	-74,548	50,000	117,294	167,294	-45 % (3)
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	94,741	3,938 %

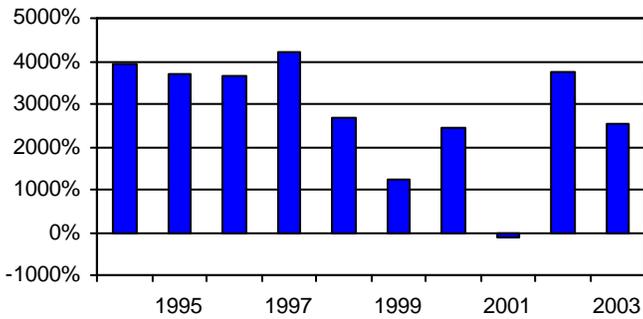
(1) Gross revenues exclude capital contributions.

(2) Operating expenses exclude depreciation.

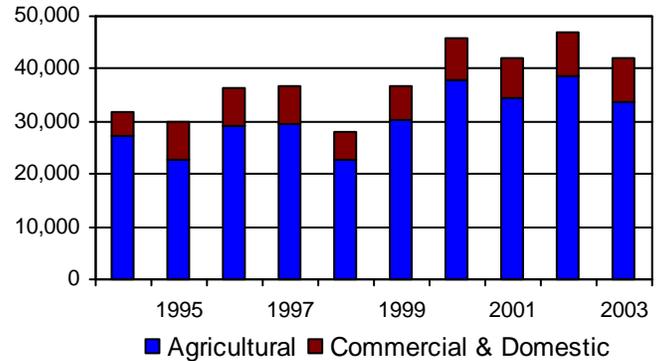
(3) Deficit resulted from increased energy costs which were met by using rate stabilization reserves of \$965,695. Coverage factor including the use of reserves as revenue is 533 %.

Source: Valley Center Municipal Water District

REVENUE DEBT COVERAGE FACTOR



WATER SALES BY CLASSIFICATION
Acre Feet



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

FISCAL YEAR ENDED	DOMESTIC		COMMERCIAL		AGRICULTURAL (2)		TOTAL	
	VALUE	ACRE FEET	VALUE	ACRE FEET	VALUE	ACRE FEET	VALUE	ACRE FEET
2003	\$5,111,357	6,352.4	\$1,405,995	2,049.1	\$16,637,097	33,669.1	\$23,154,449	42,070.6
2002	5,475,800	6,527.7	1,349,913	1,964.1	18,989,085	38,655.6	25,814,798	47,147.4
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

(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 sales.

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

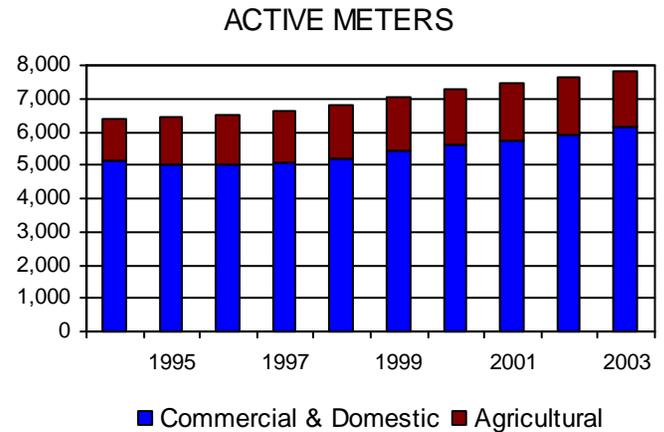
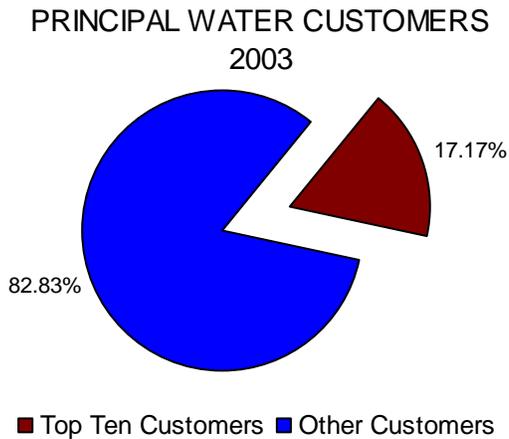
Source: Valley Center Municipal Water District

**Table IX
Principal Water Customers**

FISCAL YEAR ENDED 2003		
CUSTOMER	USAGE IN ACRE FEET	PERCENT OF WATER SOLD
Stehly, N. J. C.	1,207.0	2.87 %
Sierra Pacific Farms	1,143.6	2.72 %
BSTCO	998.7	2.37 %
Harlan Beck & Associates	753.3	1.79 %
Grandon Ranch Corp.	664.8	1.58 %
DeJong, John	591.8	1.41 %
Paradise Leased	550.2	1.31 %
Rancho Sereno	441.7	1.05 %
Coykendall, H. C. J.	438.2	1.04 %
Clayes, Dr. Joseph	434.4	1.03 %
Total Top Ten Customers	7,223.7	17.17 %
Other Customers	34,846.9	82.83 %
Total Water Sales	42,070.6	100.0 %

FISCAL YEAR ENDED 2002		
CUSTOMER	USAGE IN ACRE FEET	PERCENT OF WATER SOLD
Sierra Pacific Farms	1,245.9	2.64 %
BSTCO	1,173.6	2.49 %
Stehly, N. J. C.	996.0	2.11 %
Harlan Beck & Associates	964.9	2.05 %
DeJong, John	679.6	1.44 %
Paradise Leased	676.9	1.44 %
Coykendall, H. C. J.	558.0	1.18 %
Segal, G.	535.1	1.14 %
Rancho Sereno	524.4	1.11 %
Rancho Trio	488.1	1.04 %
Total Top Ten Customers	7,842.5	16.64 %
Other Customers	39,304.9	83.36 %
Total Water Sales	47,147.4	100.0 %

Source: Valley Center Municipal Water District



**Table X
ACTIVE METERS
Last Ten Fiscal Years**

FISCAL YEAR ENDED	POPULATION	ACTIVE METERS			TOTAL ACTIVE	INACTIVE METERS ALL CLASSES	
		DOMESTIC	AGRICULTURAL	COMMERCIAL		CLASSES	TOTAL
2003	22,781	5,835	1,699	307	7,841	641	8,482
2002	21,949	5,603	1,734	306	7,643	656	8,299
2001	21,776	5,423	1,732	303	7,458	662	8,120
2000	21,108	5,244	1,696	345	7,285	675	7,960
1999	20,551	5,055	1,640	356	7,051	734	7,785
1998	19,660	4,824	1,610	353	6,787	778	7,565
1997	19,721	4,723	1,576	354	6,653	790	7,443
1996	19,539	4,640	1,530	357	6,527	807	7,334
1995	19,511	4,633	1,489	357	6,479	800	7,279
1994	19,338	4,649	1,240	488	6,377	794	7,171

Source: Valley Center Municipal Water District

**Table IX
DEMOGRAPHIC STATISTICS
June 30, 2003**

WATER SYSTEM

Service Area	62,100 acres
Miles of Water Main (8 inches and larger)	273 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 Reservoirs	1,612 acre feet
Number of Pump Stations	26
Number of Pumps	96
Total Pump Capacity	19,940 horsepower
Number of Service Connections	8,482
Number of Meters in Service	7,841
Production Peak, Fiscal Year 2002-03 (Sep. 4, 2002)	82.59 m.g.d.
Average Production, Fiscal Year 2002-03	38.99 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 Connections	2,563

GENERAL INFORMATION

Estimated Population	22,781
Number of Authorized Employee Positions	70
Average Years of Service of Employees	11.75 years

Source: Valley Center Municipal Water District

**VALLEY CENTER MUNICIPAL WATER DISTRICT EMPLOYEES
2002-03**

GARY ARANT
BARBARA BAKER
DAVID BEAN
RICHARD BEATH
VELMA BLAKE
TOMAS BORROEL
MICHAEL BULL
JEFFREY BURTON
CRISTI BUSH
SCOTT BUTLER
CHRISTIAN CASTAING
ROBERT CATERINO
CHARLES DACUS
RAMIRO DE ALBA-JIMENEZ
ROMAN DE MANRIQUEZ
NICHOLAS DEILE
DANIEL DENTINO
LAURIE DOERR
TIFFANY DOOLAY
BRIAN FOWLER
IRENE FRANTZ
PATRICIA GARCIA
DALE GERTZEN
CHRISTINE GOOTEE
TROY GOSWICK

WALLY GRABBE
LINDA HALE
DEREK HANSEN
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
HECTOR MENDEZ
WILLIAM MORRIS
ISMAEL NAVARRO

EDWARD OLSON
GABRIELA OLSON
ROBERT PANEK
LEON PENNA-CONTRERAS
TIMOTHY PETER
THANG PHAM
JAMES PUGH
MIKE PUMAR
BETTY RANDOLPH
CLIFFORD REEH
THOMAS REGAN
ERIC RIVARD
ROY RUTHERFORD
NICHOLAS SERINIS
YVETTE SERRATO
FRANCESCA SHOUGH
MOSES SHUBIN
JOHN STETSON
KATHY STETSON
JAMES SULLINS
DEBORAH TILLEY
JAMES TURNER
GERARD VILLALPANDO
JOHN VON BORSTEL
DENNIS WILLIAMS

For additional copies contact:

Valley Center Municipal Water District
Post Office Box 67
Valley Center, California 92082
Telephone (760) 749-1600
Facsimile (760) 749-6478

Visit us on the Internet at:

www.vcmwd.org
vcwater@vcmwd.org