

**Valley Center
Municipal Water District
Valley Center, California**

**50 YEARS OF SERVICE
1954 – 2004**



**Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2004**



VCMWD's "Willing Water" logo, first introduced in 1964.

VALLEY CENTER MUNICIPAL WATER DISTRICT
Valley Center, California

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED
JUNE 30, 2004

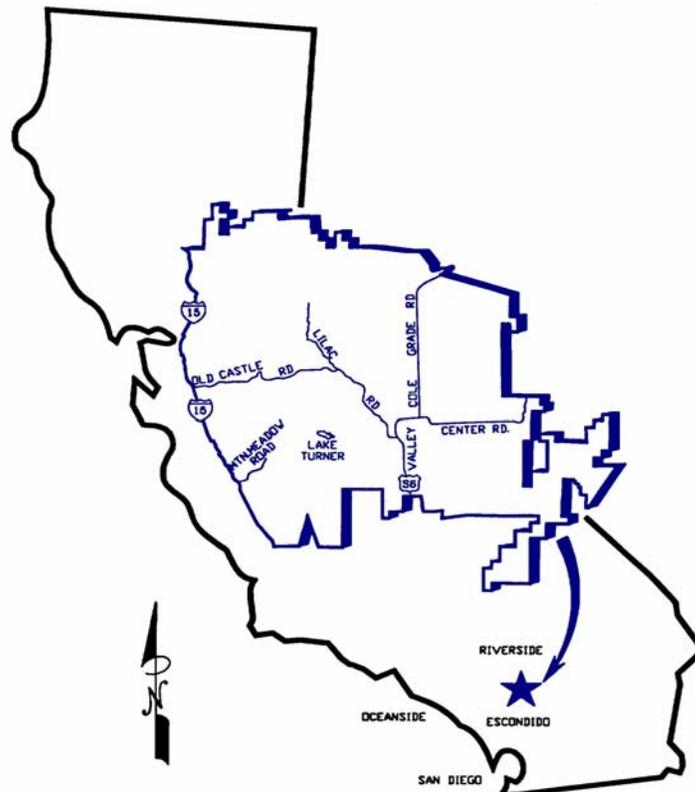
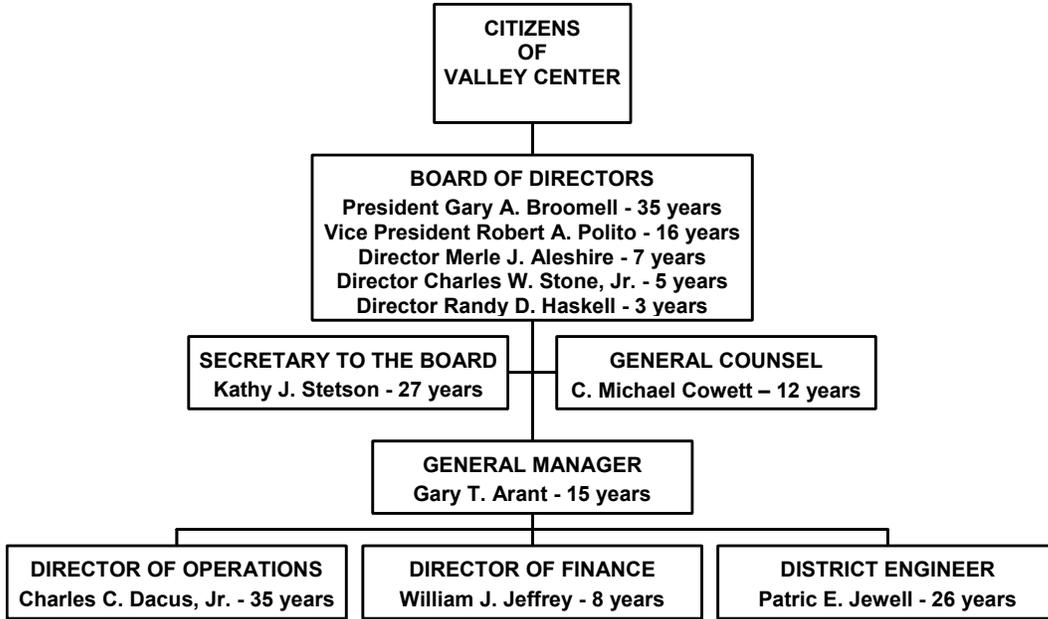


Prepared by:

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

VALLEY CENTER MUNICIPAL WATER DISTRICT

ORGANIZATION CHART With Years of Service



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

Presented to
Valley Center
Municipal Water District,
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

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 6, 2004

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

Celebrating 50 years of service, we are pleased to present the Valley Center Municipal Water District's Comprehensive Annual Financial Report for the year ended June 30, 2004.

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, 2004, 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 in order to enhance internal control and further the attainment of management objectives. The groups of accounts are identified in the District's books and records as General, Lower Moosa Sewer Treatment, Skyline Ranch Sewer, and Woods Valley Ranch Sewer.

General operations account for all activity related to water operations as well as the general operations of the District. Lower Moosa Sewer Treatment, Skyline Ranch Sewer Treatment, and Woods Valley Ranch Sewer Treatment account for the sewer collection and treatment operations for these three facilities which service separate and limited areas of the District. 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 59% 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 75 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 8,537 customers for 49,336 acre feet of water during the year ended June 30, 2004. The cost to purchase this water from the Authority was \$20.5 million or 58% of District water operating expenses.

In its 50 years of existence, the District has constructed a water system consisting of eight aqueduct connections, 41 reservoirs, 26 pumping stations and 283 miles of water main. In 2003-04, the District set a new sales record, selling 49,336 acre feet of water, a quantity sufficient to meet the water usage needs of a city of approximately 200,000 people. The previous record of 48,075 acre feet was set in 1989-90. 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 increased greatly in 2003-04. Residential meters grew 11.0%. The District continues to see a steady demand for new connections, and has service availability letters for about four hundred connections in process, including homes in

Woods Valley Ranch, Islands, Oak Woodlands, and Sherwood Ridge developments. The District’s total active meters increased in 2003-04 by 696 meters to 8,537.

With eleven inches of rain compared to nineteen inches for the previous year, and to a lesser extent, growth in local housing projects, water sales for 2003-04 were 49,336 acre feet, up 7,265 acre feet or 17.3% from sales of 42,071 acre feet in 2002-03. 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.

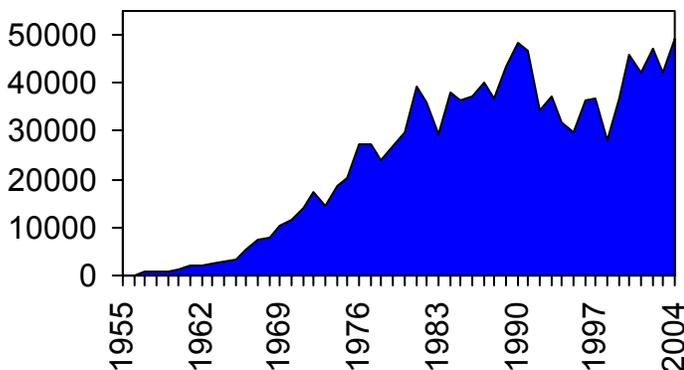
Water delivered to agricultural users represented 81% of the District’s total water sold in fiscal year 2003-04 compared to 86% a decade earlier. Since 1992, wholesale water rates have increased significantly to fund increased capacity for imported water. These increased rates have resulted in improved 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 discount to qualifying agricultural water users. The IAWP discount is currently \$114 per acre foot. In exchange for reduced rates, agricultural customers agree to have their water supply reduced first during droughts and other emergencies. This discount totaled a direct savings to the District’s agricultural customers of \$4.7 million in 2003-04. However, other factors, including fruit price volatility and the continued increase in demands for land for new homes in Southern California, will continue to have an impact on 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. Energy suppliers could be impacted by continued growth in the state coupled with an aging electric power grid. In addition, natural gas prices are still subject to volatility because of continuing low levels of storage and supply problems, including conflicts in the Middle East.

WATER SALES
In Acre Feet



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, with about 80% of the master planned functions and data base expansion completed by the end of the fiscal year. Uses of the GIS continue to be extended to other departments.
- **Supervisory Control And Data Acquisition (SCADA) System** – With the SCADA pilot project successfully completed in 2002-03, work began on developing a SCADA master plan, including a design for the addition of more facilities to the system.
- **Lake Turner Emergency Storage and Recreational Use Options** - The District entered into a 25-year agreement with the Valley Center Parks and Recreation District for the planning, approval, and development of recreational uses at Lake Turner. Actual planning activities are scheduled to begin after January 2005.
- **Corporate Facility Master Plan** – With the facilities needs assessment and conceptual designs completed, efforts have turned to identifying potential options for expanding the existing site to accommodate future needs and

new sites for a clean-slate, ground-up development of a new facility.

- **Capital Financing Plan** – By the end of the 2003-04 fiscal year, the financial consultant had completed development of the District's financial model and was preparing to present it to the Board of Directors at the beginning of 2004-05.
- **Vulnerability Assessment** – The Vulnerability Assessment was completed, presented to the Board, and a copy filed with the Environmental Protection Agency (EPA) as required by federal law. Funds for implementation measures for the ten critical facilities were included in the fiscal year 2004-05 annual budget. Efforts have turned to updating the District Emergency Response Plan to reflect the measures and procedures outlined in the Vulnerability Assessment.
- **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. Proposition 13 funds which had been granted to study the feasibility of the Binational Pipeline were re-directed by the SDCWA Board of Directors to study the feasibility of joint desalination development south of the United States – Mexican Border.



District service vehicle today ...



... and yesterday.

STRATEGIC PLAN PERFORMANCE MEASUREMENT STANDARDS RESULTS FOR YEAR ENDED JUNE 30, 2004

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 96.8% 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 2003 was 4.8%.

3. OPERATING RESERVES - *Operating Reserves shall be equal to six months 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 as low as possible, but at no time will the local rate be more than 13% of total water commodity cost for Municipal and Industrial and 16% for Certified Agricultural.*

The District’s component of the water rate for operating costs is currently 11.4% and 15.2% of Municipal and Industrial and Certified Agricultural total commodity costs, respectively.

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

Our pump efficiency was 98.5%.

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

Two projects were bid with aggregate results 8.6% lower 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 2004, we have gone over six 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 .7% throughout the year.

Economic Study Group (ESG) – Though the rate lawsuit filed in 2002 was ultimately unsuccessful at the trial and appellate court levels, the ESG pressed the issue to the California Supreme Court and is awaiting word on its petition. Legislation to reform the governance process of the SDCWA was introduced and is in legislative process.

Energy Resources Evaluation - Significant progress was made on implementing the recommendations of the Energy Resources Evaluation. Through the end of fiscal year 2003-2004, 20 of the 29 pumping units had been either refurbished or replaced with higher efficiency units. To date, estimated savings are in excess of \$210,000. Additional replacements and refurbishments were funded in the fiscal year 2004-2005 annual budget.

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 engaged a financial consultant to complete a long term capital financing plan to determine how to best finance the required improvements. By the end of the 2003-2004 fiscal year, the financial consultant had

completed development of the District's financial model and was preparing to present it to the Board of Directors at the beginning of 2004-2005.

Transmission and Distribution Facilities Improvements - Construction was completed on the VC #2 chlorination building, as well as the Jesmond Dene, Lilac Road Elementary, Hillcrest Drive, and the intersection of Valley Center Road and Cole Grade Road pipeline replacement projects.

Central Valley Sewer - Sewer facilities proposed for the District's central valley area include four small wastewater treatment facilities to be constructed by the developers of the Woods Valley Ranch, Orchard Run, Live Oak Ranch and Village Square developments. The Woods Valley Ranch developers have constructed an interim sewer storage and treatment facility, which is ready for operation when flows reach approximately 10,000 gallons per day. This construction also allowed the issuance of interim sewer permits. These permits allowed the construction of the first homes of the development to be completed, with flow currently being removed by pumper trucks. Progress has been made on the plans for the final treatment plant with scheduled completion 2005-06. Initial planning was also done on the proposed expansion of the plant to serve the southern node of the central valley.



Cool Valley Reservoir, under construction 1974 ...

The Orchard Run development has obtained the required discretionary approvals for a 75,000 gallon per day water reclamation facility to serve the proposed 300 lot subdivision. A schedule for the construction of the development and wastewater treatment facility has not yet been released.

Live Oak Creek development had no substantial progress during the year.

A plan was submitted and conceptual approval was received for a subsurface disposal wastewater treatment facility that will serve a proposed shopping center and condominium project know as Village Square. No other activity occurred for this project during the year.

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.



... and today, with floating cover.

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 Annual Financial 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 investment policy adopted by the Board of Directors. Nearly 100% of the District's inactive funds are invested. The amount of investment income recorded by all funds in the District in 2003-04 was \$220,553, down from the \$557,188 in earnings reported in the prior year. The average yield on the District's investments decreased from 2.6% for 2002-03 to 2.1% for 2003-04.

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.

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, 2004, the plan had assets of \$3,033,868 and 61 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, 2003. 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 twelve consecutive years (fiscal years ended 1992 through 2003). 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



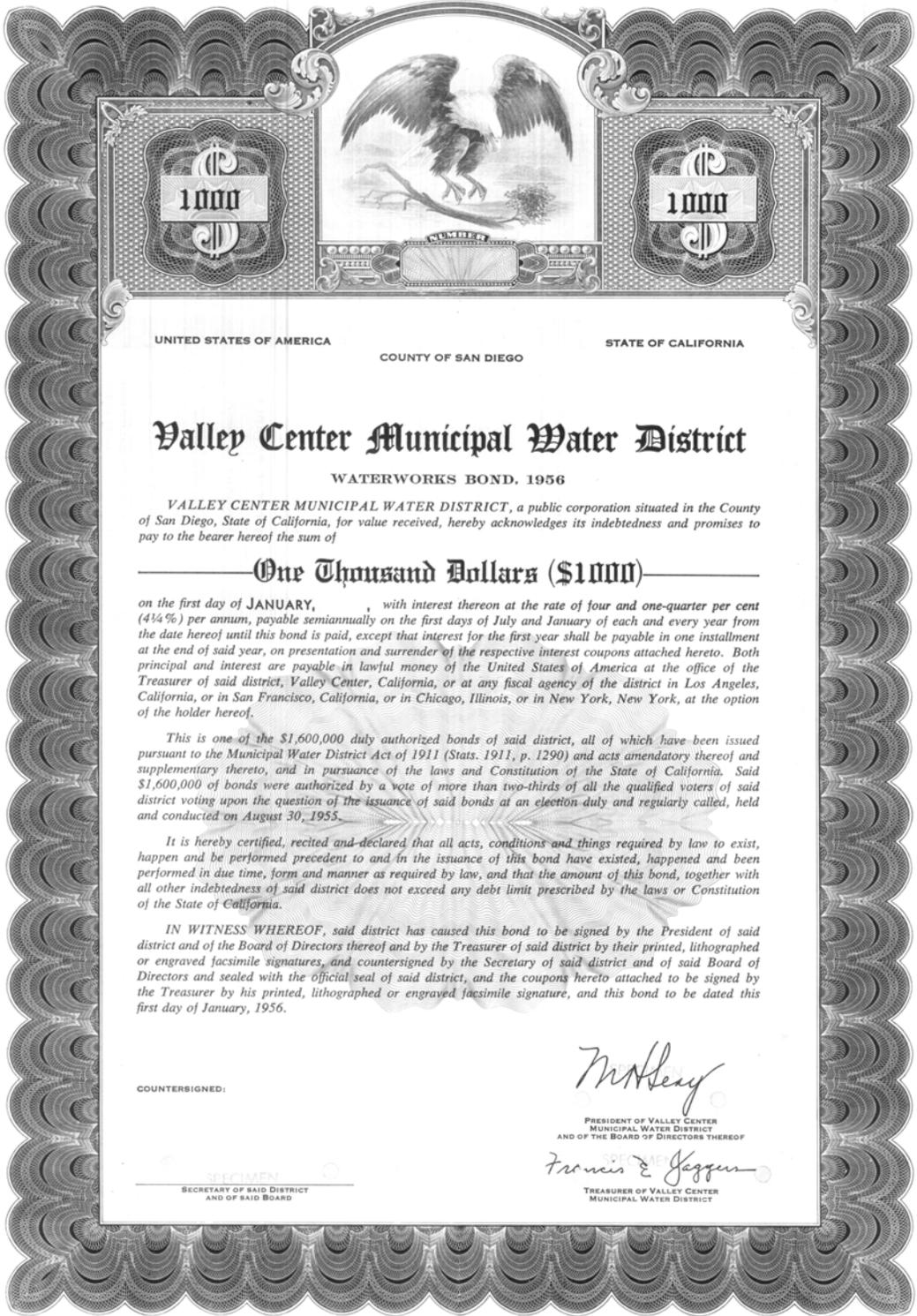
District Office early 60's ...



... late 60's early 70's...



... and today.



UNITED STATES OF AMERICA

COUNTY OF SAN DIEGO

STATE OF CALIFORNIA

Valley Center Municipal Water District

WATERWORKS BOND, 1956

VALLEY CENTER MUNICIPAL WATER DISTRICT, a public corporation situated in the County of San Diego, State of California, for value received, hereby acknowledges its indebtedness and promises to pay to the bearer hereof the sum of

One Thousand Dollars (\$1000)

on the first day of JANUARY, with interest thereon at the rate of four and one-quarter per cent (4¼%) per annum, payable semiannually on the first days of July and January of each and every year from the date hereof until this bond is paid, except that interest for the first year shall be payable in one installment at the end of said year, on presentation and surrender of the respective interest coupons attached hereto. Both principal and interest are payable in lawful money of the United States of America at the office of the Treasurer of said district, Valley Center, California, or at any fiscal agency of the district in Los Angeles, California, or in San Francisco, California, or in Chicago, Illinois, or in New York, New York, at the option of the holder hereof.

This is one of the \$1,600,000 duly authorized bonds of said district, all of which have been issued pursuant to the Municipal Water District Act of 1911 (Stats. 1911, p. 1290) and acts amendatory thereof and supplementary thereto, and in pursuance of the laws and Constitution of the State of California. Said \$1,600,000 of bonds were authorized by a vote of more than two-thirds of all the qualified voters of said district voting upon the question of the issuance of said bonds at an election duly and regularly called, held and conducted on August 30, 1955.

It is hereby certified, recited and declared that all acts, conditions and things required by law to exist, happen and be performed precedent to and in the issuance of this bond have existed, happened and been performed in due time, form and manner as required by law, and that the amount of this bond, together with all other indebtedness of said district does not exceed any debt limit prescribed by the laws or Constitution of the State of California.

IN WITNESS WHEREOF, said district has caused this bond to be signed by the President of said district and of the Board of Directors thereof and by the Treasurer of said district by their printed, lithographed or engraved facsimile signatures, and countersigned by the Secretary of said district and of said Board of Directors and sealed with the official seal of said district, and the coupons hereto attached to be signed by the Treasurer by his printed, lithographed or engraved facsimile signature, and this bond to be dated this first day of January, 1956.

COUNTERSIGNED:

PRESIDENT OF VALLEY CENTER MUNICIPAL WATER DISTRICT AND OF THE BOARD OF DIRECTORS THEREOF

TREASURER OF VALLEY CENTER MUNICIPAL WATER DISTRICT

SECRETARY OF SAID DISTRICT AND OF SAID BOARD

Example of first General Obligation Waterworks Bond, sold January 5, 1956.



FINANCIAL SECTION





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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 balance sheets of Valley Center Municipal Water District as of June 30, 2004 and 2003, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Valley Center Municipal Water District at June 30, 2004 and 2003, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America, as well as the accounting systems prescribed by the State Controller's Office and State Regulations governing Special Districts.

As described in Note 15 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 audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The combining information on pages 38 through 45 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 audits 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 & Cole, LLP.

San Diego, California
October 27, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

The District's financial statements are prepared in accordance with the Governmental Accounting Standards Board Statement Number 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government, which the District adopted as of July 1, 2002. This statement establishes the 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, 2004. 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:

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

The balance sheets include 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 balance sheets provide the basis for evaluating the capital structure of the District and assessing its liquidity and financial flexibility.

The statements of revenues, expenses and changes in net assets present 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 statements of revenues, expenses and changes in net assets measures the success of the District's operations and determines whether the District has recovered its costs through user fees and other charges.

The statements of cash flows provide information regarding the District's cash receipts and cash disbursements during the year. 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, 2004, net assets increased by \$7,574,345. Revenues increased \$8,252,586 from the prior year while expenses increased \$3,747,116. For the year ended June 30, 2004, operating expenses exceeded operating revenues by \$211,822 and nonoperating revenues of \$2,742,154 exceeded nonoperating expenses of \$63,977. Nonoperating revenues consist primarily of property taxes and assessments, investment income, and the proceeds from litigation. Capital contributions of \$5,107,990 account for most of the increase in net assets, after adjusting for the loss from operations and the excess of nonoperating revenues over expenses.

FINANCIAL ANALYSIS OF THE DISTRICT

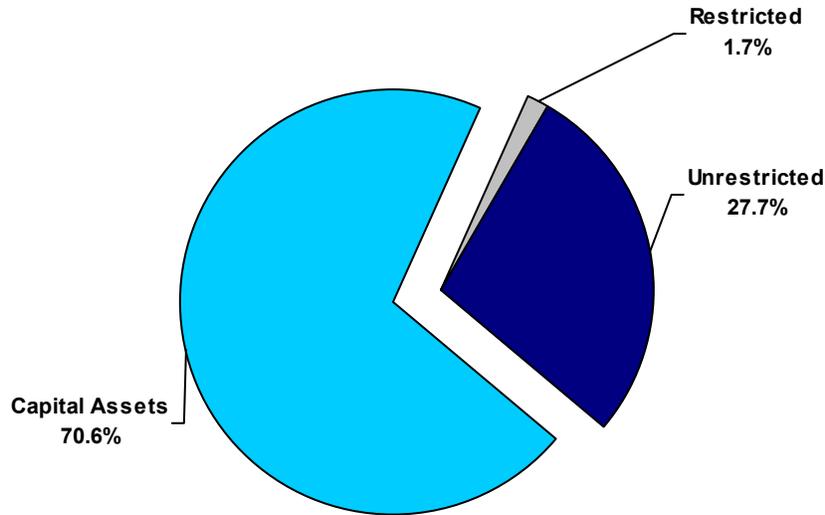
Net Assets - Net assets increased between fiscal years ending 2003 and 2004 from \$72,171,523 to \$79,745,868. Net assets invested in capital assets, net of related debt, increased \$6,853,242, restricted net assets increased \$236,095 due to a settlement reached with one of the District's energy providers and the collection of capacity fees, and unrestricted net assets increased \$485,008 primarily due to the District's nonoperating revenues exceeding nonoperating expenses.

NET ASSETS

	2004	2003
Current Assets	\$ 31,041,401	\$ 28,206,458
Noncurrent assets	3,139,048	2,814,684
Capital assets	57,093,828	51,812,579
Total Assets	\$ 91,274,277	\$ 82,833,721
Current liabilities	\$ 8,459,247	\$ 7,710,770
Noncurrent liabilities	3,069,162	2,951,428
Total Liabilities	11,528,409	10,662,198
Net assets:		
Invested in capital assets, net of related debt	56,324,985	49,471,743
Restricted	1,340,938	1,104,843
Unrestricted	22,079,945	21,594,937
Total Net Assets	79,745,868	72,171,523
Total Liabilities and Net Assets	\$ 91,274,277	\$ 82,833,721

TOTAL NET ASSETS

Fiscal Year 2003-04



Change in Net Assets - The District's operating revenues increased 18.1% to \$34,855,216 as a result of increased consumption attributed to a decrease in rainfall, 11 inches in 2003-04 compared to 19 inches in 2002-03, and to a lesser extent, growth in local housing projects.

The District's operating expenses increased 12.2% to \$35,067,038. Operating expenses increased primarily due to higher amounts of water purchased in response to the increase in demand noted above.

The District's investment income decreased \$336,635 due to the diminishing return offered on investments of like quality. Tax revenues increased 8.1% as a result of increasing property values in the area.

CHANGES IN NET ASSETS

	2004	2003
Operating Revenues:		
Water Operations	\$33,712,974	\$28,513,872
Sewer Operations	1,142,242	996,551
Nonoperating Revenues:		
Property taxes and assessments	1,946,806	1,801,576
Other	795,348	1,237,281
Contributed capital	5,107,990	1,903,494
Total Revenues	42,705,360	34,452,774
Operating Expenses:		
Water Operations	33,828,762	30,153,488
Sewer Operations	1,238,276	1,114,193
Nonoperating Expenses	63,977	116,218
Total Expenses	35,131,015	31,383,899
Increase in Net Assets	\$ 7,574,345	\$ 3,068,875

ANALYSIS OF OPERATIONS

Water Operations

Revenues for the year ended June 30, 2004, totaled \$39,810,883, which is a 21.8% increase from the prior year. Details of this increase in revenues are as follows:

➤ Water sales increased by 20.9%, or \$4,391,722, from the prior year. There was a 17.3% increase in the volume of water sold. In 2003-04, 49,336 acre feet of water were billed compared to 42,071 acre feet in the prior year. Meter charges increased 4.2% from \$2,178,884 in 2002-03 to \$2,269,506 in 2003-04.

➤ Energy and pumping revenues increased 8.0%, or \$387,727, due to the increase in the volume of water sold.

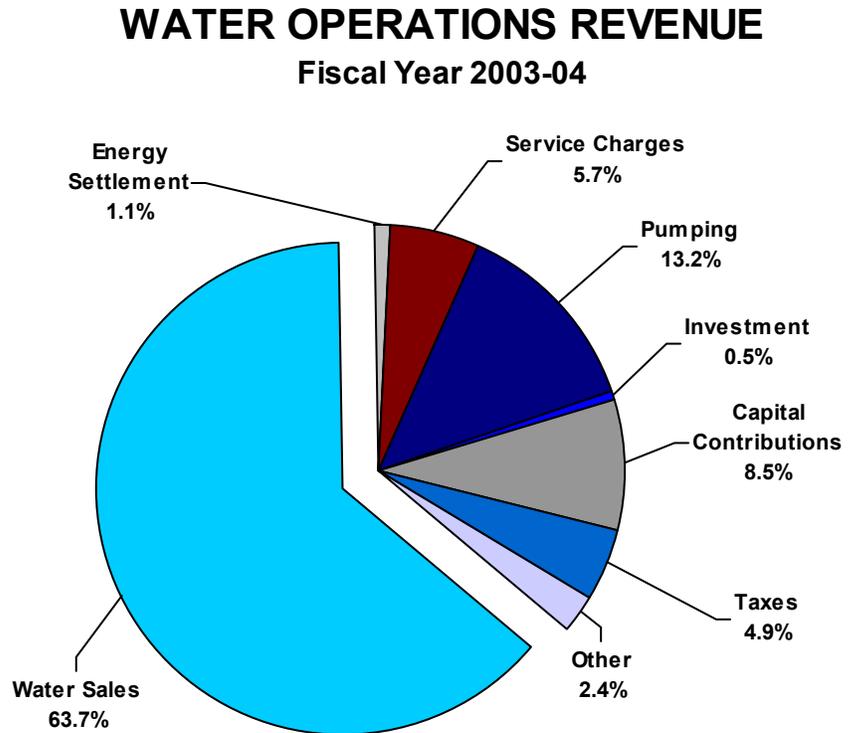
➤ Property taxes and assessments increased by 8.1%, or \$145,230, from 2002-03 to 2003-04. This increase is due to an increase in assessed valuation in the District. The District has adopted San Diego County's alternative method of distribution of tax levies and collections under which the County advances 100% of the secured tax levies due to the District each year without consideration for delinquencies.

➤ Investment income decreased 62.2%, or \$335,062, from the prior year. This decrease is due to market conditions, including unrealized loss on investments. Yields fluctuated between 2.3% and 1.7% during the course of the year, compared to 3.4% and 2.1% the prior year. Interest income includes interest earned by water operations from advances to the sewer operations.

➤ Meter installation fees increased \$305,219, or 126.5% from the prior year. This is a direct result of the increase in local development projects and new housing starts in the District.

➤ Other nonoperating revenues increased \$29,992, or 24.3% in 2003-04. These consist primarily of rents received from leases for telecommunications facilities.

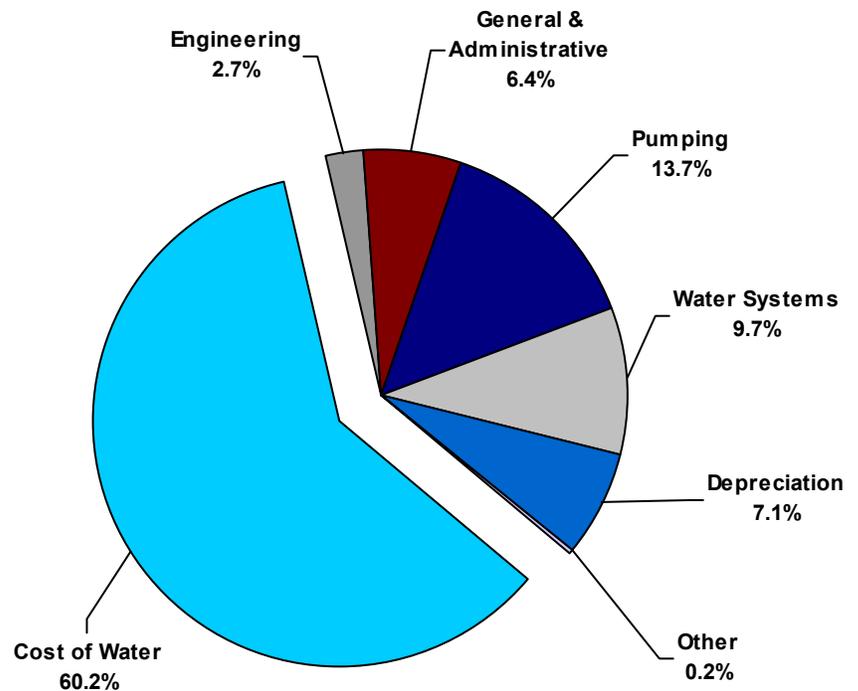
➤ Capital contributions vary based on developer projects. The year saw an increase of \$2,222,432 or 193.2% from the prior year. 2003-04 marks the highest level of developer-contributed infrastructure in the District for at least the last ten years.



Expenses for the year ended June 30, 2004, totaled \$33,860,864, an increase of 12.1% or \$3,655,939. Certain significant expenses are as follows:

- The cost of water sold increased 12.6% due to increased water deliveries caused by a decrease in rainfall, and to a lesser extent, growth in local housing projects. In 2002-03, the District purchased 43,675 acre feet of water at an average price of \$416 per acre foot. In the current year, the District purchased 52,182 acre feet of water at an average price of \$392 per acre foot, a decrease of 5.8% or \$24 per acre foot. The Metropolitan Water District of Southern California (MWD) and San Diego County Water Authority (SDCWA) implemented new rate structures that were effective January 1, 2003. These included the addition of several new fixed components: a capacity reservation charge by MWD and customer service and emergency storage program charges by the CWA. These are new components with only six months activity in 2002-03. The cost of water sold for 2003-04 is net of refunds of \$561,127 from the MWD for our share of excess water sales revenues during 2002-03 and \$541,005 from CWA for our share of excess operating funds.

WATER OPERATIONS EXPENSES Fiscal Year 2003-04



Agricultural rebates received were \$4,709,605 for fiscal year 2003-04. This equates to a rebate of \$114 per acre foot. This cost reduction for agricultural water is passed through to the District's qualified agricultural customers.

- Energy and pumping costs associated with the distribution of water for the District increased 7.4%, or \$305,617, due to the increase in water deliveries.
- Water systems operations expenses increased 10.2%, or \$300,135, from the prior year due to the increase in water purchased as well as increased maintenance and operating costs.
- Depreciation expense in 2003-04 increased 11.3%, or \$242,834, from the prior year due to plant additions.
- General and administrative expenses increased 21.2% or \$412,294 due to increased maintenance, supply, and payroll costs.
- Interest expense continued to decline due to the decline in principal balances and lower interest rates.
- Other nonoperating expenses include a loss of \$12,404 compared to the prior year of \$27,646. This represents the undepreciated balance of assets which were replaced during the year.

WATER OPERATIONS CHANGES IN NET ASSETS

	2004	2003	Increase (Decrease)	Percent Change
REVENUES:				
Water Sales	\$25,367,287	\$20,975,565	\$ 4,391,722	20.9 %
Meter Service Charges	2,269,506	2,178,884	90,622	4.2 %
Pumping and energy charges	5,251,814	4,864,087	387,727	8.0 %
Meter Installation Fees	546,437	241,218	305,219	126.5 %
Other water operating revenues	277,930	254,118	23,812	9.4 %
Property taxes and assessments	1,946,806	1,801,576	145,230	8.1 %
Energy settlement	421,154	556,444	(135,290)	(24.3) %
Investment income	203,679	538,741	(335,062)	(62.2) %
Other nonoperating revenues	153,641	123,649	29,992	24.3 %
Capital Contributions	3,372,629	1,150,197	2,222,432	193.2 %
Total revenues	<u>39,810,883</u>	<u>32,684,479</u>	<u>7,126,404</u>	<u>21.8 %</u>
EXPENSES:				
Cost of water sold	20,475,081	18,179,621	2,295,460	12.6 %
Energy and pumping costs	4,426,015	4,120,398	305,617	7.4 %
Water systems operations	3,235,666	2,935,531	300,135	10.2 %
Depreciation	2,390,540	2,147,706	242,834	11.3 %
General and administrative	2,353,642	1,941,348	412,294	21.2 %
Engineering	947,818	828,884	118,934	14.3 %
Interest Expense	19,698	23,791	(4,093)	(17.2) %
Other nonoperating expenses	12,404	27,646	(15,242)	(55.1) %
Total expenses	<u>33,860,864</u>	<u>30,204,925</u>	<u>3,655,939</u>	<u>12.1 %</u>
Change in Net Assets	<u>\$ 5,950,019</u>	<u>\$ 2,479,554</u>	<u>\$ 3,470,465</u>	<u>140.0 %</u>

Sewer Treatment Operations

The Lower Moosa Canyon Water Reclamation Facility serves 2,177 customers in a limited geographic area on the west side of the District. The revenue from sewer charges was \$884,682 for 2003-04, an increase of \$145,451 from the prior year. This increase is primarily due to rate increases to fund operations and maintenance.

LOWER MOOSA CHANGES IN NET ASSETS

	<u>2004</u>	<u>2003</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
REVENUES:				
Sewer charges	\$ 884,682	\$ 739,231	\$ 145,451	19.7 %
Investment income	11,856	16,201	(4,345)	(26.8) %
Capital contributions	<u>1,080,992</u>	<u>746,915</u>	<u>334,077</u>	<u>44.7 %</u>
Total revenues	<u>1,977,530</u>	<u>1,502,347</u>	<u>475,183</u>	<u>31.6 %</u>
EXPENSES:				
Energy and pumping costs	77,309	116,714	(39,405)	(33.8) %
Sewer collection and treatment	453,397	372,602	80,795	21.7 %
General and administrative	106,492	85,733	20,759	24.2 %
Depreciation	448,652	441,112	7,540	1.7 %
Interest expense	31,875	63,750	(31,875)	(50.0) %
Other nonoperating expenses	<u>0</u>	<u>1,031</u>	<u>(1,031)</u>	<u>(100.0) %</u>
Total expenses	<u>1,117,725</u>	<u>1,080,942</u>	<u>36,783</u>	<u>3.4 %</u>
Change in Net Assets	<u>\$ 859,805</u>	<u>\$ 421,405</u>	<u>\$ 438,400</u>	<u>104.0 %</u>

Expenses for the year ended June 30, 2004, totaled \$1,117,725, an increase of 3.4% or \$36,783. Certain significant expenses are as follows:

- Energy and pumping costs were \$39,405 lower than the previous year due to efficiencies associated with pump replacements, pumping at off peak hours, and a Department of Water Resources (DWR) credit of \$9,845.
- Sewer collection and treatment costs were 21.7% higher than last year, or \$80,795, due to increased staffing requirements, maintenance costs, and emergency equipment requirements.
- General and administrative expenses were 24.2% higher than last year, or \$20,759. This is due to increased administrative overhead costs associated with the operation of the treatment plant.

The operation had a net loss before capital contributions of \$221,187 and \$325,510 as of June 30, 2004 and 2003, respectively.

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 plant 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 NET ASSETS

	2004	2003	Increase (Decrease)	Percent Change
REVENUES:				
Sewer Charges	\$ 89,587	\$ 89,321	\$ 266	.3 %
Investment Income	512	518	(6)	(1.2) %
Capital Contribution	4,166	4,689	(523)	(11.2) %
Total revenues	<u>94,265</u>	<u>94,528</u>	<u>(263)</u>	<u>(.3) %</u>
EXPENSES:				
Energy and pumping costs	7,111	7,728	(617)	(8.0) %
Sewer collection and treatment	77,159	59,668	17,491	29.3 %
General and administrative	18,965	14,638	4,327	29.6 %
Depreciation	7,107	7,848	(741)	(9.4) %
Total expenses	<u>110,342</u>	<u>89,882</u>	<u>20,460</u>	<u>22.8 %</u>
Change in Net Assets	<u>\$ (16,077)</u>	<u>\$ 4,646</u>	<u>\$ (20,723)</u>	<u>(446.0) %</u>

Sewer treatment costs increased during the year because of increased maintenance.

The Woods Valley Ranch Water Reclamation Facility will serve 270 homes and the golf course of the development. The plant construction is being performed by the developer. Upon completion of the plant, it will be dedicated to the District. Service charges and standby fees for properties not yet connected to the sewer system are collected as a fixed charge special assessment on the property tax roll. The first 12 homes have been constructed and flow is currently being removed by pumper trucks.

WOODS VALLEY RANCH CHANGES IN NET ASSETS

	2004	2003	Increase (Decrease)	Percent Change
REVENUES:				
Sewer Charges	\$ 167,973	\$ 167,999	\$ (26)	.0 %
Investment Income	4,506	1,728	2,778	160.8 %
Capital Contribution	650,203	1,693	648,510	38305.4 %
Total revenues	<u>822,682</u>	<u>171,420</u>	<u>651,262</u>	<u>379.9 %</u>
EXPENSES:				
Sewer collection and treatment	20,529	0	20,529	N/A
General and administrative	18,109	8,150	9,959	122.2 %
Depreciation	3,446	0	3,446	N/A
Total expenses	<u>42,084</u>	<u>8,150</u>	<u>33,934</u>	<u>416.4 %</u>
Change in Net Assets	<u>\$ 780,598</u>	<u>\$ 163,270</u>	<u>\$ 617,328</u>	<u>378.1 %</u>

CAPITAL ASSETS

Capital assets include land, annexation fees, transmission and distribution system, general plant, and construction-in-progress. At June 30, 2004, the District had \$98,288,128 in capital assets with \$41,194,300 of accumulated depreciation. This represents a net increase (including additions and deductions) of \$5,281,249, or 10.2% over the prior year. Significant additions include the Champagne Lakes, Valley Center Road at Cole Grade, and Jesmond Dene pipeline replacements, the Valley Center pump station gas engine replacement, and the Charlan Road PRV reconstruction. In addition, contributed assets include partial acceptances of projects at Woods Valley Ranch, Sherwood Ridge, the Islands, Oak Woodlands, and Skyridge phase #4 subdivisions, and the Essey, Husted Place, and Martin Baker line extensions.

CAPITAL ASSETS

	<u>2004</u>	<u>2003</u>
Land	\$ 1,286,655	\$ 1,286,655
Annexation fees	786,185	786,185
Construction-in-progress	4,149,839	3,580,098
Transmission and distribution system	86,394,542	79,992,739
General plant	<u>5,670,907</u>	<u>4,719,842</u>
Total	<u>\$98,288,128</u>	<u>\$90,365,519</u>

LONG-TERM DEBT

At June 30, 2004, the District had \$765,000 in revenue bonds, compared to \$2,335,000 in revenue bonds and loans payable at June 30, 2003, a decrease of 67.2%. A loan payable of \$1,500,000 to partially finance the Moosa expansion project was paid off on December 28, 2003. 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, 2004. 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 \$4,775,862 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. 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.

LIABILITIES AND NET ASSETS

	<u>2004</u>	<u>2003</u>
<u>Current Liabilities:</u> (Note 1)		
Accounts payable	\$ 5,597,373	\$ 4,089,672
Accrued payroll	233,396	167,120
Accrued compensated absences	527,400	471,600
Customer deposits	2,031,078	1,412,378
Current portion of long-term debt	<u>70,000</u>	<u>1,570,000</u>
Total Current Liabilities	<u>8,459,247</u>	<u>7,710,770</u>
 <u>Noncurrent Liabilities:</u> (Notes 1, 3, 5, 7, and 8)		
Liabilities Payable From Restricted Assets:		
Benefit plan liability	<u>1,798,110</u>	<u>1,709,841</u>
 Long-Term Debt:		
Revenue bonds	765,000	835,000
Loan payable	<u>-0-</u>	<u>1,500,000</u>
Subtotal	765,000	2,335,000
Less: Current portion above	<u>(70,000)</u>	<u>(1,570,000)</u>
Total Long-Term Debt	<u>695,000</u>	<u>765,000</u>
 Other Noncurrent Liabilities:		
Accrued compensated absences	572,209	470,751
Annexation fees payable	<u>3,843</u>	<u>5,836</u>
Total Other Noncurrent Liabilities	<u>576,052</u>	<u>476,587</u>
 Total Noncurrent Liabilities	<u>3,069,162</u>	<u>2,951,428</u>
 Total Liabilities	<u>11,528,409</u>	<u>10,662,198</u>
 <u>Commitments and Contingencies</u> (Note 13)		
 <u>Net Assets:</u> (Note 9)		
Invested in capital assets, net of related debt	56,324,985	49,471,743
Restricted for facility expansion	1,340,938	1,104,843
Unrestricted	<u>22,079,945</u>	<u>21,594,937</u>
Total Net Assets	<u>79,745,868</u>	<u>72,171,523</u>
 TOTAL LIABILITIES AND NET ASSETS	<u>\$91,274,277</u>	<u>\$82,833,721</u>

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

**VALLEY CENTER MUNICIPAL WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
<u>Operating Revenues:</u>		
Water sales and pumping charges	\$32,888,607	\$28,018,536
Sewer charges	1,142,242	996,551
Meter installation fees	546,437	241,218
Other water operating revenues	<u>277,930</u>	<u>254,118</u>
Total Operating Revenues	<u>34,855,216</u>	<u>29,510,423</u>
<u>Operating Expenses:</u>		
Cost of water sold	20,475,081	18,179,621
Energy and pumping costs	4,510,435	4,244,840
Water systems operations	3,235,666	2,935,531
Depreciation	2,849,745	2,596,666
General and administrative	2,497,208	2,049,869
Engineering	947,818	828,884
Sewer collection and treatment	<u>551,085</u>	<u>432,270</u>
Total Operating Expenses	<u>35,067,038</u>	<u>31,267,681</u>
Operating Revenue	<u>(211,822)</u>	<u>(1,757,258)</u>
<u>Nonoperating Revenues (Expenses):</u>		
Property taxes and assessments	1,946,806	1,801,576
Energy settlement	421,154	556,444
Investment income	220,553	557,188
Other nonoperating revenues	153,641	123,649
Loss on disposal of assets	(12,404)	(28,677)
Interest expense	<u>(51,573)</u>	<u>(87,541)</u>
Total Nonoperating Revenues (Expenses)	<u>2,678,177</u>	<u>2,922,639</u>
Income Before Contributions	2,466,355	1,165,381
Capital Contributions	<u>5,107,990</u>	<u>1,903,494</u>
Change in Net Assets	7,574,345	3,068,875
Net Assets at Beginning of Year	<u>72,171,523</u>	<u>69,102,648</u>
NET ASSETS AT END OF YEAR (Notes 1 and 9)	<u><u>\$79,745,868</u></u>	<u><u>\$72,171,523</u></u>

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

**VALLEY CENTER MUNICIPAL WATER DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
<u>Cash Flows From Operating Activities:</u>		
Receipts from customers	\$33,274,501	\$30,602,470
Payments to suppliers for goods and services	(24,698,208)	(24,505,432)
Payments to employees for services	(5,458,738)	(5,026,172)
Change in retirees' health benefits plan expense	88,269	43,713
Change in work in progress for others	(425,448)	(184,764)
Change in Customer deposits	618,700	451,857
Proceeds from energy settlement	<u>421,154</u>	<u>556,444</u>
Net Cash Provided by Operating Activities	<u>3,820,230</u>	<u>1,938,116</u>
<u>Cash Flows From Noncapital Financing Activities:</u>		
Property taxes received	<u>1,936,517</u>	<u>1,850,564</u>
Net Cash Provided by Noncapital Financing Activities	<u>1,936,517</u>	<u>1,850,564</u>
<u>Cash Flows From Capital and Related Financing Activities:</u>		
Acquisition and construction of capital assets	(4,696,683)	(3,119,529)
Principal paid on long-term debt	(1,570,000)	(65,000)
Principal paid on annexation fees payable	(1,993)	(2,094)
Interest paid on bonds and long-term debt	(51,573)	(87,541)
Capital contributions received	1,654,903	909,829
Proceeds from disposition of capital assets	6,372	115,340
Other nonoperating revenue	<u>153,641</u>	<u>123,649</u>
Net Cash Used by Capital and Related Financing Activities	<u>(4,505,333)</u>	<u>(2,125,346)</u>
<u>Cash Flows From Investing Activities:</u>		
Purchases of investments	(13,487,428)	(15,293,563)
Proceeds from maturities of investments	8,253,909	14,337,725
Investment income received	<u>202,203</u>	<u>652,338</u>
Net Cash Used by Investing Activities	<u>(5,031,316)</u>	<u>(303,500)</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(3,779,902)	1,359,834
Cash and Cash Equivalents at Beginning of Year	<u>16,038,248</u>	<u>14,678,414</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$12,258,346</u>	<u>\$16,038,248</u>

(Continued)

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

**VALLEY CENTER MUNICIPAL WATER DISTRICT
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
<u>Reconciliation of Operating Income to Net</u>		
<u>Cash Provided by Operating Activities:</u>		
Operating income	\$ (211,822)	\$ (1,757,258)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	2,849,745	2,596,666
Retirees' health benefits plan expense	88,269	43,713
Proceeds from energy settlement	421,154	556,444
Change in assets and liabilities:		
Accounts receivable - water and sewer, net	(1,137,649)	1,070,068
Other receivables	(21,912)	(11,837)
Inventory	(39,122)	11,691
Prepaid expenses and deposits	(52,920)	(7,362)
Work in progress for others	(425,448)	(184,764)
Accounts payable	1,507,701	(867,393)
Accrued payroll	66,276	18,021
Compensated absences	157,258	18,270
Customer deposits	<u>618,700</u>	<u>451,857</u>
Net Cash Provided by Operating Activities	<u>\$ 3,820,230</u>	<u>\$ 1,938,116</u>
<u>Cash and Cash Equivalents -</u>		
<u>Financial Statement Classification</u>		
Cash and cash equivalents	\$12,207,359	\$15,489,849
Restricted cash and cash equivalents	<u>50,987</u>	<u>548,399</u>
Total Cash and Cash Equivalents	<u>\$12,258,346</u>	<u>\$16,038,248</u>
<u>Noncash Investing, Capital and Financing Activities:</u>		
Customer contributions of capital assets	<u>\$ 3,453,087</u>	<u>\$ 993,665</u>

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

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 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 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 inter-group transactions and accounts are eliminated in the combination of the accounts for the financial statements of the reporting entity.

In addition, the District has established the Assessment District No. 96-1 Lower Moosa Canyon (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 balance sheets and the statements 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, 2004 AND 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, 2004, 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, 2004 AND 2003**

1 - Summary of Significant Accounting Policies (Continued)

(h) Accounts Receivable - Water and Sewer

Water and sewer accounts receivable of \$4,883,595 and \$3,745,946 at June 30, 2004 and 2003, have been reduced by an allowance for estimated uncollectible accounts in the amount of \$6,661 and \$21,629, respectively.

(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:

	<u>2004</u>	<u>2003</u>
Water inventory	\$ 89,137	\$ 84,650
Materials inventory	<u>278,758</u>	<u>244,123</u>
	<u>\$367,895</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 \$2,849,745 and \$2,596,666 for the years ended June 30, 2004 and 2003, respectively.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

1 - Summary of Significant Accounting Policies (Continued)

(k) Accrued Compensated Absences

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

(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 years ended June 30, 2004 or 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.

(p) Reclassification

Certain amounts in the 2003 financial statements have been reclassified to compare with the presentation in the current year financial statements. Those reclassifications did not affect previously reported net income or net assets.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 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:

	<u>2004</u>	<u>2003</u>
Cash on Hand	\$ 1,200	\$ 1,200
Cash in the California Local Agency Investment Fund	11,247,487	14,829,609
Investments:		
United States Agency Securities	11,799,236	10,031,243
Certificates of Deposit	3,465,526	-0-
Open Ended Money Market Mutual Funds	169,102	-0-
Deposits:		
Insured	100,000	100,000
Collateralized	<u>740,557</u>	<u>1,107,439</u>
Total Cash and Investments	<u>\$27,523,108</u>	<u>\$26,069,491</u>
Financial Statement Classification:		
Cash and Cash Equivalents	\$12,207,359	\$15,489,849
Investments	12,176,701	7,764,958
Restricted Cash and Cash Equivalents	50,987	548,399
Restricted Investments	<u>3,088,061</u>	<u>2,266,285</u>
Total	<u>\$27,523,108</u>	<u>\$26,069,491</u>

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 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.

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>
Deposits:					
Demand Deposits	<u>\$898,550</u>	<u>\$-0-</u>	<u>\$-0-</u>	<u>\$898,550</u>	\$ 840,557

The following items do not require credit risk classification:

Cash in the Local Agency Investment Fund	11,247,487
Cash on Hand	1,200
Open Ended Money Market Mutual Funds	<u>169,102</u>
Total Cash and Cash Equivalents	<u>\$12,258,346</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, 2004 AND 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	\$11,799,236	\$11,799,236
Certificates of Deposit	<u>3,465,526</u>	<u>3,465,526</u>
	<u>\$15,264,762</u>	<u>\$15,264,762</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, 2004 AND 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>2004</u>	<u>2003</u>
District contributions	Benefit plan liability	\$1,798,110	\$1,709,841
Proceeds of energy settlement	Projects promoting energy efficiency	977,598	556,444
Capital contributions	Replacement of the Skyline Wastewater Treatment Plant	50,987	56,074
Capacity fees	System expansion	<u>312,353</u>	<u>492,325</u>
		<u>\$3,139,048</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:

	<u>Balance at June 30, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2004</u>
Capital Assets Not Being Depreciated:				
Land	\$ 1,286,655	\$	\$	\$ 1,286,655
Annexation fees	786,185			786,185
Construction in progress	<u>3,580,098</u>	<u>4,005,842</u>	<u>(3,436,101)</u>	<u>4,149,839</u>
	<u>5,652,938</u>	<u>4,005,842</u>	<u>(3,436,101)</u>	<u>6,222,679</u>
Capital Assets Being Depreciated:				
Transmission and distribution system	79,992,739	6,547,459	(145,656)	86,394,542
General plant	<u>4,719,842</u>	<u>1,032,570</u>	<u>(81,505)</u>	<u>5,670,907</u>
	84,712,581	7,580,029	(227,161)	92,065,449
Less: Accumulated depreciation	<u>(38,552,940)</u>	<u>(2,849,745)</u>	<u>208,385</u>	<u>(41,194,300)</u>
Net Capital Assets Being Depreciated	<u>46,159,641</u>	<u>4,730,284</u>	<u>(18,776)</u>	<u>50,871,149</u>
Net Capital Assets	<u>\$51,812,579</u>	<u>\$8,736,126</u>	<u>\$(3,454,877)</u>	<u>\$57,093,828</u>

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 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, 2004 and 2003, total \$765,000 and \$835,000, respectively. 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.

	<u>Balance June 30, 2003</u>	<u>Deletions</u>	<u>Balance June 30, 2004</u>	<u>Current Portion</u>
Revenue Bonds	<u>\$835,000</u>	<u>\$70,000</u>	<u>\$765,000</u>	<u>\$70,000</u>

Aggregate maturities of the revenue bond for fiscal years subsequent to June 30, 2004, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$765,000</u>	<u>\$91,822</u>	<u>\$856,822</u>

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 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 was due on December 28, 2003. Following is a detail of the loan payable outstanding during the year ended June 30, 2004:

	<u>Balance</u> <u>June 30, 2003</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2004</u>	<u>Current</u> <u>Portion</u>
Loan Payable	<u>\$1,500,000</u>	<u>\$1,500,000</u>	<u>\$-0-</u>	<u>\$-0-</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, 2004 and 2003, totaled \$1,390,000 and \$1,455,000, respectively.

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

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 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, 2004 and 2003, is \$3,843 and \$5,836, respectively. The charges are paid by property tax owners through property tax levies collected by the County of San Diego and remitted directly to MWD. The District accounts for the periodic reduction in the recorded annexation fee liability as a capital contribution.

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 \$24,803 and \$15,642 for post retirement healthcare benefits during the years ended June 30, 2004 and 2003, respectively. As of June 30, 2004, 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, 2004 AND 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, 2004 and 2003, was \$1,798,110 and \$1,709,841, respectively. 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:

	<u>2004</u>	<u>2003</u>
Master plan system improvements	\$ 5,798,747	\$ 3,240,083
Continuing capital projects	5,280,000	4,905,000
Operating reserve	4,775,862	7,966,919
Rate stabilization reserve	2,708,705	2,454,400
Pumping rate stabilization	2,324,075	1,765,296
Vehicle replacement	389,542	424,237
Agricultural rebate	215,905	234,202
Continuing capital projects - Woods Valley	150,142	152,572
Unrestricted and undesignated net assets	<u>436,967</u>	<u>452,228</u>
Unrestricted Net Assets	<u>\$22,079,945</u>	<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.

JUNE 30, 2004 AND 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, 2004, was 17.4%. 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, 2004, the District's annual pension cost and actual contribution was \$986,696. The required contribution for the fiscal year ended June 30, 2004, was determined as part of the June 30, 2001, 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	13 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 trend information for PERS and the schedule of funding progress for PERS is only available for the following period due to the establishment of the Plan on June 30, 2001.

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

10 - Defined Benefit Pension Plan (Continued)

(d) Three-Year Trend Information for PERS

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2002	\$887,112	100%	\$-0-
June 30, 2003	\$934,568	100%	\$-0-
June 30, 2004	\$986,696	100%	\$-0-

(e) Schedule of Funding Progress for PERS

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (A)</u>	<u>Actuarial Accrued Liability (B)</u>	<u>Unfunded Liability (UAAL) (B-A)</u>	<u>Funded Status (A/B)</u>	<u>Annual Covered Payroll (C)</u>	<u>UAAL as a Percentage of Covered Payroll [(B-A)/C]</u>
June 30, 2001	\$ 62,605	\$ 2,604,136	\$2,541,531	2.4%	\$3,223,463	78.8%
June 30, 2002	\$3,165,623	\$10,241,843	\$7,076,220	30.9%	\$3,308,920	213.9%

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, 2004 and 2003, was \$171,368 and \$126,404, respectively. 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, 2004 AND 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, 2004 and 2003, the total unpaid amounts on these contracts was \$289,083 and \$819,632, respectively.

(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 announced the settlement of litigation 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 received \$421,154 and \$556,444 during the years ended June 30, 2004 and 2003, respectively, and anticipates receiving approximately another \$275,000 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, 2004 AND 2003**

14 - Segment Information

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

CONDENSED BALANCE SHEET

	<u>Water</u>	<u>2004</u> <u>Sewer</u>	<u>Total</u>
<u>Assets:</u>			
Current assets	\$30,384,854	\$ 656,547	\$31,041,401
Restricted assets	3,088,061	50,987	3,139,048
Capital assets	<u>50,255,216</u>	<u>6,838,612</u>	<u>57,093,828</u>
Total Assets	<u>\$83,728,131</u>	<u>\$7,546,146</u>	<u>\$91,274,277</u>
<u>Liabilities:</u>			
Current liabilities	8,389,343	69,904	8,459,247
Noncurrent liabilities	<u>3,069,162</u>	<u>-0-</u>	<u>3,069,162</u>
Total Liabilities	<u>11,458,505</u>	<u>69,904</u>	<u>11,528,409</u>
<u>Net Assets:</u>			
Invested in capital assets, net of related debt	49,486,372	6,838,613	56,324,985
Restricted for facility expansion	1,289,951	50,987	1,340,938
Unrestricted	<u>21,493,303</u>	<u>586,642</u>	<u>22,079,945</u>
Total Net Assets	<u>72,269,626</u>	<u>7,476,242</u>	<u>79,745,868</u>
Total Liabilities and Net Assets	<u>\$83,728,131</u>	<u>\$7,546,146</u>	<u>\$91,274,277</u>

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003

14 - Segment Information (Continued)

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

	2004		
	Water	Sewer	Total
Operating revenues	\$33,712,974	\$ 1,142,242	\$34,855,216
Depreciation expense	(2,390,540)	(459,205)	(2,849,745)
Other operating expenses	(31,438,222)	(779,071)	(32,217,293)
Operating Income (Loss)	<u>(115,788)</u>	<u>(96,034)</u>	<u>(211,822)</u>
<u>Nonoperating Revenues (Expenses):</u>			
Property taxes	1,946,806	-0-	1,946,806
Investment income	203,679	16,874	220,553
Other nonoperating revenues (expenses)	<u>542,693</u>	<u>(31,875)</u>	<u>510,818</u>
Total Nonoperating Revenues (Expenses)	<u>2,693,178</u>	<u>(15,001)</u>	<u>2,678,177</u>
Income Before Contributions	2,577,390	(111,035)	2,466,355
<u>Capital Contributions</u>	<u>3,372,629</u>	<u>1,735,361</u>	<u>5,107,990</u>
Change in Net Assets	5,950,019	1,624,326	7,574,345
Beginning Net Assets	<u>66,319,607</u>	<u>5,851,916</u>	<u>72,171,523</u>
ENDING NET ASSETS	<u>\$72,269,626</u>	<u>\$7,476,242</u>	<u>\$79,745,868</u>

CONDENSED STATEMENT OF CASH FLOWS

	2004		
	Water	Sewer	Total
<u>Net Cash Provided (Used) By:</u>			
Operating activities	\$ 3,406,774	\$ 413,456	\$ 3,820,230
Noncapital financing activities	1,936,517		1,936,517
Capital and related financing activities	(3,609,717)	(895,616)	(4,505,333)
Investing activities	<u>(5,048,190)</u>	<u>16,874</u>	<u>(5,031,316)</u>
Net Cash Used	<u>(3,314,616)</u>	<u>(465,286)</u>	<u>(3,779,902)</u>
Beginning Cash and Cash Equivalents	<u>14,865,428</u>	<u>1,172,820</u>	<u>16,038,248</u>
ENDING CASH AND CASH EQUIVALENTS	<u>\$11,550,812</u>	<u>\$ 707,534</u>	<u>\$12,258,346</u>

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

14 - Segment Information (Continued)

CONDENSED BALANCE SHEET

	2003		
	<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, 2004 AND 2003**

14 - Segment Information (Continued)

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

	2003		
	Water	Sewer	Total
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><u>\$66,319,607</u></u>	<u><u>\$5,851,916</u></u>	<u><u>\$72,171,523</u></u>

CONDENSED STATEMENT OF CASH FLOWS

	2003		
	Water	Sewer	Total
<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><u>\$14,865,428</u></u>	<u><u>\$1,172,820</u></u>	<u><u>\$16,038,248</u></u>

**VALLEY CENTER MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 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 SCHEDULE OF BALANCE SHEETS
JUNE 30, 2004**

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	\$12,207,359	\$11,550,812	\$ 388,757	\$ (5,782)	\$273,572
Investments	12,176,701	12,176,701			
Accounts receivable - water and sewer, net	4,883,595	4,883,595			
Accrued interest receivable	131,898	131,898			
Taxes receivable	14,654	14,654			
Other receivables	89,176	89,176			
Inventory	367,895	367,895			
Prepaid expenses and deposits	232,820	232,820			
Work-in-progress for others	<u>937,303</u>	<u>937,303</u>			
Total Current Assets	<u>31,041,401</u>	<u>30,384,854</u>	<u>388,757</u>	<u>(5,782)</u>	<u>273,572</u>
<u>Noncurrent Assets:</u>					
 <u>Restricted Assets:</u>					
Cash and cash equivalents	50,987			50,987	
Investments	<u>3,088,061</u>	<u>3,088,061</u>			
Total Restricted Assets	<u>3,139,048</u>	<u>3,088,061</u>	<u>-0-</u>	<u>50,987</u>	<u>-0-</u>
 <u>Capital Assets:</u>					
Nondepreciable capital assets	6,222,679	6,073,169	22,804	78,848	47,858
Depreciable capital assets, net	<u>50,871,149</u>	<u>44,182,047</u>	<u>5,968,244</u>	<u>75,315</u>	<u>645,543</u>
Total Capital Assets	<u>57,093,828</u>	<u>50,255,216</u>	<u>5,991,048</u>	<u>154,163</u>	<u>693,401</u>
Total Noncurrent Assets	<u>60,232,876</u>	<u>53,343,277</u>	<u>5,991,048</u>	<u>205,150</u>	<u>693,401</u>
TOTAL ASSETS	<u>\$91,274,277</u>	<u>\$83,728,131</u>	<u>\$6,379,805</u>	<u>\$199,368</u>	<u>\$966,973</u>

**VALLEY CENTER MUNICIPAL WATER DISTRICT
COMBINING SCHEDULE OF BALANCE SHEETS (CONTINUED)
JUNE 30, 2004**

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	\$ 5,597,373	\$ 5,597,373	\$	\$	\$
Accrued payroll	233,396	233,396			
Compensated absences	527,400	527,400			
Customer deposits	2,031,078	1,961,174	66,000		3,904
Current portion of long-term debt	<u>70,000</u>	<u>70,000</u>			
Total Current Liabilities	<u>8,459,247</u>	<u>8,389,343</u>	<u>66,000</u>	<u>-0-</u>	<u>3,904</u>
<u>Noncurrent Liabilities:</u>					
Liabilities Payable From Restricted Assets:					
Benefit plan liability (Payable from restricted assets)	<u>1,798,110</u>	<u>1,798,110</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Long-Term Debt:					
Revenue bonds	765,000	765,000			
Loan payable (From restricted assets)	<u>-0-</u>	<u>-0-</u>			
Subtotal	765,000	765,000	-0-	-0-	-0-
Less: Current portion above	<u>(70,000)</u>	<u>(70,000)</u>			
Total Long-Term Debt	<u>695,000</u>	<u>695,000</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Other Noncurrent Liabilities:					
Compensated absences	572,209	572,209			
Annexation fees payable	<u>3,843</u>	<u>3,843</u>			
Total Other Noncurrent Liabilities	<u>576,052</u>	<u>576,052</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total Noncurrent Liabilities	<u>3,069,162</u>	<u>3,069,162</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total Liabilities	<u>11,528,409</u>	<u>11,458,505</u>	<u>66,000</u>	<u>-0-</u>	<u>3,904</u>
<u>Net Assets:</u>					
Investment in capital assets, net of related debt	56,324,985	49,486,372	5,991,049	154,163	693,401
Restricted for facility expansion	1,340,938	1,289,951		50,987	
Unrestricted	<u>22,079,945</u>	<u>21,493,303</u>	<u>322,756</u>	<u>(5,782)</u>	<u>269,668</u>
Total Net Assets	<u>79,745,868</u>	<u>72,269,626</u>	<u>6,313,805</u>	<u>199,368</u>	<u>963,069</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$91,274,277</u>	<u>\$83,728,131</u>	<u>\$6,379,805</u>	<u>\$199,368</u>	<u>\$966,973</u>

**VALLEY CENTER MUNICIPAL WATER DISTRICT
COMBINING SCHEDULE OF BALANCE SHEETS (CONTINUED)
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>
Current Assets:					
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>
Noncurrent Assets:					
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 SCHEDULE OF BALANCE SHEETS (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>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 SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2004**

	<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	\$32,888,607	\$32,888,607	\$	\$	\$
Sewer charges	1,142,242		884,682	89,587	167,973
Meter installation fees	546,437	546,437			
Other water operating revenues	<u>277,930</u>	<u>277,930</u>			
Total Operating Revenues	<u>34,855,216</u>	<u>33,712,974</u>	<u>884,682</u>	<u>89,587</u>	<u>167,973</u>
<u>Operating Expenses:</u>					
Cost of water sold	20,475,081	20,475,081			
Energy and pumping costs	4,510,435	4,426,015	77,309	7,111	
Water systems operations	3,235,666	3,235,666			
Depreciation	2,849,745	2,390,540	448,652	7,107	3,446
General and administrative	2,497,208	2,353,642	106,492	18,965	18,109
Engineering	947,818	947,818			
Sewer collection and treatment	<u>551,085</u>	<u>551,085</u>	<u>453,397</u>	<u>77,159</u>	<u>20,529</u>
Total Operating Expenses	<u>35,067,038</u>	<u>33,828,762</u>	<u>1,085,850</u>	<u>110,342</u>	<u>42,084</u>
Operating Revenue	<u>(211,822)</u>	<u>(115,788)</u>	<u>(201,168)</u>	<u>(20,755)</u>	<u>125,889</u>
<u>Nonoperating Revenues and (Expenses):</u>					
Property taxes and assessments	1,946,806	1,946,806			
Energy settlement	421,154	421,154			
Investment income	220,553	203,679	11,856	512	4,506
Other nonoperating revenues	153,641	153,641			
Other nonoperating expenses	(12,404)	(12,404)			
Interest expense	<u>(51,573)</u>	<u>(19,698)</u>	<u>(31,875)</u>		
Total Nonoperating Revenues and (Expenses)	<u>2,678,177</u>	<u>2,693,178</u>	<u>(20,019)</u>	<u>512</u>	<u>4,506</u>

(Continued)

**VALLEY CENTER MUNICIPAL WATER DISTRICT
COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2004**

	<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	\$ 2,466,355	\$ 2,577,390	\$ (221,187)	\$ (20,243)	\$130,395
Capital Contributions	<u>5,107,990</u>	<u>3,372,629</u>	<u>1,080,992</u>	<u>4,166</u>	<u>650,203</u>
Change in Net Assets	7,574,345	5,950,019	859,805	(16,077)	780,598
Net Assets at Beginning 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>
NET ASSETS AT END OF YEAR	<u>\$79,745,868</u>	<u>\$72,269,626</u>	<u>\$6,313,805</u>	<u>\$199,368</u>	<u>\$963,069</u>

VALLEY CENTER MUNICIPAL WATER DISTRICT
COMBINING SCHEDULE 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>
<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 SCHEDULE 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>





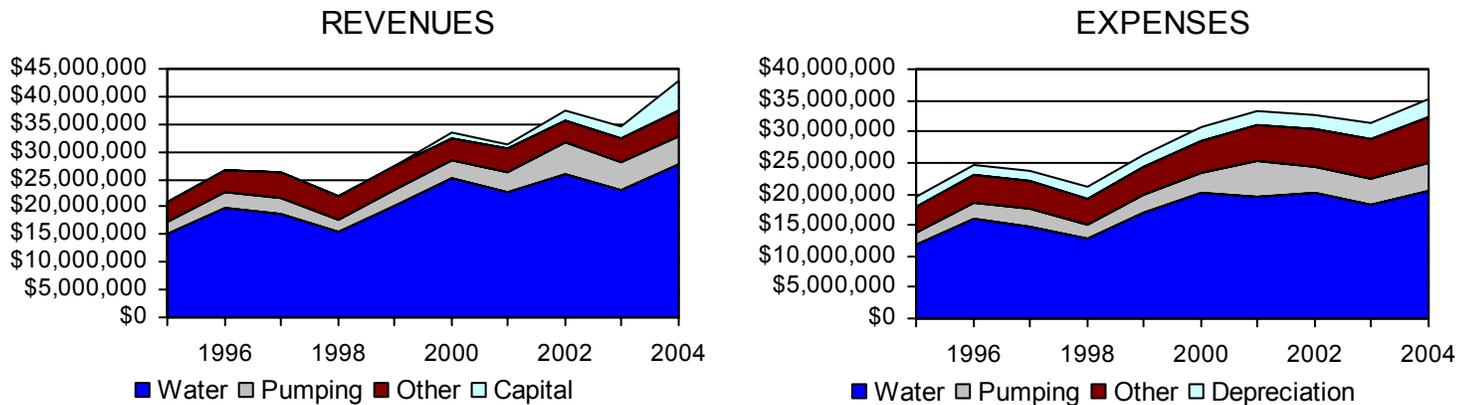
STATISTICAL SECTION

**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		
2004	\$27,636,793	\$5,251,814	\$546,437	\$1,142,242	\$277,930	\$34,855,216	\$1,946,806	\$220,553	\$5,107,990	\$574,795 (5)	\$42,705,360	
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	

- (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 \$421,154 in 2004 and \$556,444 in 2003.

Source: Valley Center Municipal Water District



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

FISCAL YEAR ENDED	OPERATING EXPENSES						NON-OPERATING EXPENSES				TOTAL EXPENSES
	COST OF WATER SOLD	ENERGY AND PUMPING	WATER SYSTEMS OPERATIONS	SEWER COLLECTION TREATMENT	GENERAL ADMIN. & FINANCE	DEPRECIATION	TOTAL OPERATING EXPENSES	INTEREST ON DEBT	OTHER (2)		
2004	\$20,475,081 (1)	\$4,510,435	\$3,235,666	\$551,085	\$947,818	\$2,497,208	\$2,849,745	\$36,067,038	\$51,573	\$12,404	\$35,131,015
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

- (1) Net of rate credits of \$541,005 and \$635,111 from San Diego County Water Authority in 2004 and 2003 and \$561,127 and \$1,333,039 from Metropolitan Water District in 2004 and 1997.
- (2) Includes loss on termination of projects and disposition of assets.

Source: Valley Center Municipal Water District

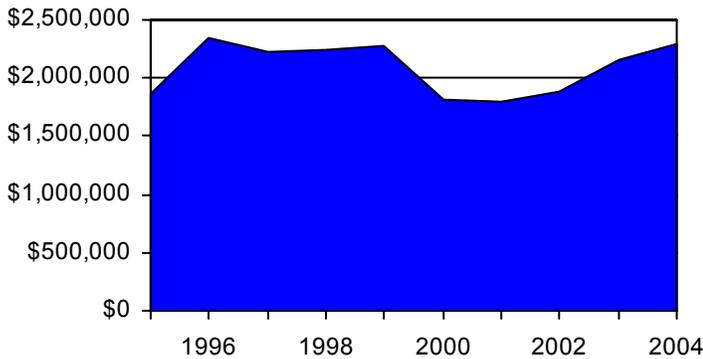
Table III
PROPERTY TAX AND ASSESSMENT LEVIES AND COLLECTIONS ⁽¹⁾
Last Ten Fiscal Years

FISCAL YEAR ENDED	LEVY			TOTAL COLLECTIONS(2)	NET DELINQUENT(3)	PERCENT DELINQUENT(4)
	PROPERTY TAXES	SPECIAL ASSESSMENTS	TOTAL LEVY			
2004	\$1,407,933	\$913,113	\$2,321,046	\$2,296,641	\$24,405	0.0 %
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 %

- (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

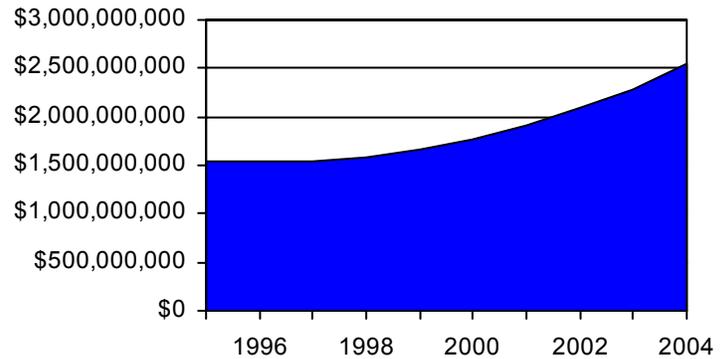


Table IV
ASSESSED VALUE OF TAXABLE PROPERTY
Last Ten Fiscal Years

FISCAL YEAR ENDED	SECURED			NET ASSESSED VALUE	ASSESSED UNSECURED VALUE	TOTAL ASSESSED VALUE	TAX RATE
	REAL PROPERTY	PERSONAL PROPERTY	EXEMPTIONS				
2004	\$2,541,385,638	\$628,340	\$15,279,056	\$2,526,734,922	\$16,092,740	\$2,542,827,662	0.00000
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

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
2004	23,814	\$2,542,827,662	0	0	0	0.00 %	0.00
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

- (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

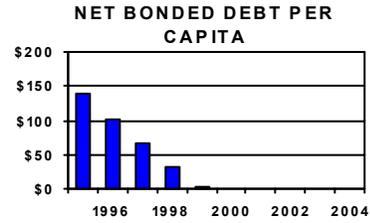
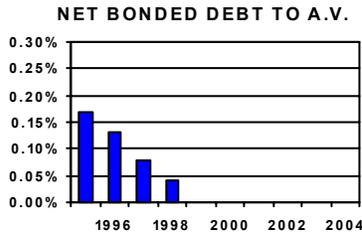


Table VI
DIRECT AND OVERLAPPING BONDED DEBT
June 30, 2004

<u>2002-03 Assessed Valuation</u>	\$2,542,827,662	Percent	Debt
		<u>Applicable</u>	<u>June 30, 2004</u>
<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>			
Metropolitan Water District		0.21	\$ 930,748
Valley Center Municipal Water District – Assessment District No. 96-1		100.00	1,410,000
Escondido Union High School District		6.74	2,808,005
Fallbrook Union High School District		1.69	387,336
Escondido Union School District		7.03	4,490,960
Valley Center –Pauma Unified School District		81.24	3,154,673
Valley Center –Pauma Unified School District Community Facilities District No. 2003-1		100.00	10,440,000
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT			23,621,722
<u>OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u>			
San Diego County General Fund Obligations		1.10	4,766,133
San Diego County Pension Obligations		1.10	14,008,412
San Diego County Superintendent of Schools Certificates of Participation		1.10	22,936
Palomar Community College District Certificates of Participation		4.93	448,668
Escondido Union School District Certificates of Participation		7.03	972,174
City of Escondido Certificates of Participation		0.05	42,278
TOTAL OVERLAPPING GENERAL FUND OBLIGATION DEBT			20,260,601
COMBINED TOTAL DEBT			\$43,882,323
<u>Ratios to Assessed Valuation:</u>			
Direct Debt		0.00 %	
Total Direct and Overlapping Tax and Assessment Debt		0.60 %	
Combined Total Debt		1.73 %	
<u>STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/04</u>			\$ 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	
2004	\$37,597,370	\$32,217,293	\$5,380,077	\$70,000	\$51,573	\$121,573	4,425 %
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 %
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 %

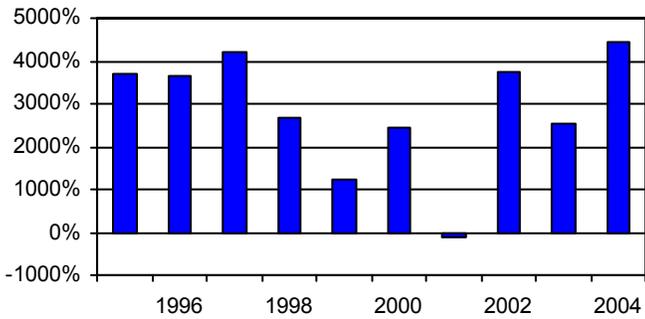
(1) Gross revenues exclude capital contributions.

(2) Operating expenses exclude depreciation.

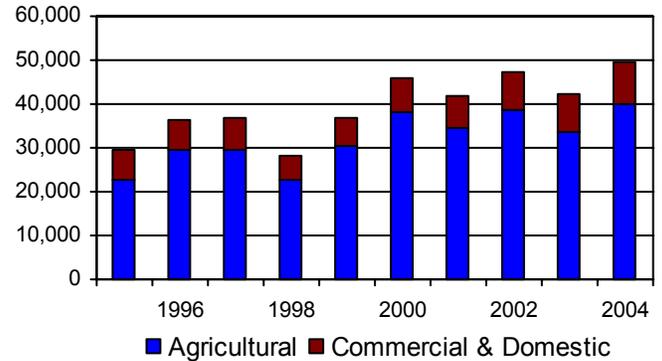
(3) Deficit resulted from increased energy costs which were met by using rate stabilization reserves of \$965,695. Coverage factor including the use of reserves as revenue is 533 %.

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
2004	\$6,071,451	7,080.9	\$1,631,612	2,352.8	\$19,933,733	39,902.3	\$27,636,796	49,336.0
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	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	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

(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.

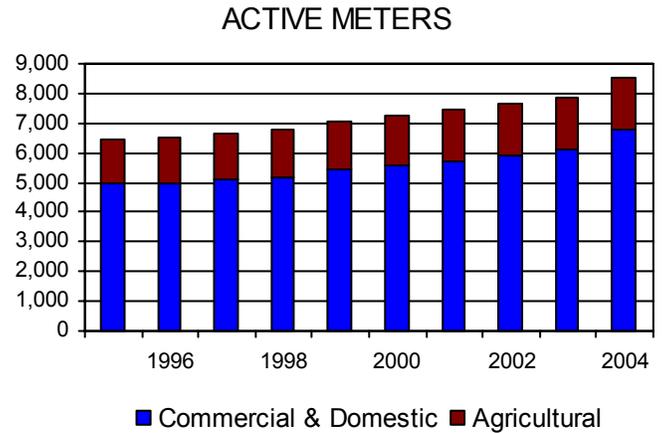
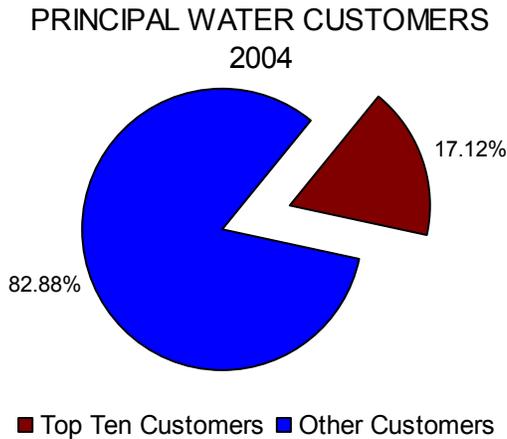
Source: Valley Center Municipal Water District

**Table IX
Principal Water Customers**

FISCAL YEAR ENDED 2004		
CUSTOMER	USAGE IN ACRE FEET	PERCENT OF WATER SOLD
Stehly, N. J. C.	1,382.9	2.80 %
Sierra Pacific Farms	1,361.0	2.76 %
BSTCO	1,228.6	2.49 %
Harlan Beck & Associates	988.6	2.00 %
DeJong, John	706.5	1.43 %
Grandon Ranch Corp.	695.1	1.41 %
Coykendall, H. C. J.	589.5	1.19 %
Rancho Sereno	526.3	1.07 %
Clayes, Dr. Joseph	491.2	1.00 %
Rancho Trio	475.5	.96 %
Total Top Ten Customers	8,445.2	17.12 %
Other Customers	40,890.8	82.88 %
Total Water Sales	49,336.0	100.0 %

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 %

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		TOTAL
		DOMESTIC	AGRICULTURAL	COMMERCIAL		CLASSES		
2004	23,814	6,479	1,732	326	8,537	638	9,175	
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	

Source: Valley Center Municipal Water District

Table XI
DEMOGRAPHIC STATISTICS
June 30, 2004

WATER SYSTEM

Service Area	64,253 acres
Miles of Water Main (8 inches and larger)	283 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	9,175
Number of Meters in Service	8,537
Production Peak, Fiscal Year 2003-04 (Aug. 15, 2003)	81.43 m.g.d.
Average Production, Fiscal Year 2003-04	46.58 m.g.d.

SEWER SYSTEM

Miles of Sewer Lines	52 miles
Number of Treatment Plants	2
Maximum Capacity of Treatment Plants	0.54 m.g.d.
Number of Sewer Connections	2,599

GENERAL INFORMATION

Estimated Population	23,814
Number of Authorized Employee Positions	78
Average Years of Service of Employees	11.56 years

Source: Valley Center Municipal Water District

VALLEY CENTER MUNICIPAL WATER DISTRICT EMPLOYEES 2003-04

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

WALLY GRABBE
SA HATLAVONGSA
CLARENCE HICKS
ALBERT HOYLE
TONY JACQUEZ
WILLIAM JEFFREY
PATRIC JEWELL
CHRISTINE JOHNSON
DOUGLAS JOHNSON
ROBERT JONES
MICHAEL KELLY
CHRISTOPHER KRATZ
THAD KLIMAS
ERIC LAVENTURE
RICHARD LEARUE
ANTHONY LOPRESTI
BRIAN LOVELADY
DAVID MANCINO
JOHN MARTINEAU
ANNE MASLEY
ESTHER MAY
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
ROBERT TRUESDALE
GERARD VILLALPANDO
JOHN VON BORSTEL
JESSICA WAGEMAN
KATHERINE WILSON
DENNIS WILLIAMS



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